



December 21, 2005

Memorandum

To: Members of the Board

From: Melissa L. Loughan, Assistant Director

Ross Simms, Assistant Director

Through: Wendy M. Comes, Executive Director

Subj: Conceptual Project--Objectives Phase TAB **A**¹

Staff has completed the final roundtable meeting pertaining to the four objectives of federal financial reporting-- Budget Integrity, Operating Performance, Stewardship, and Systems and Control. As part of the first phase of the conceptual framework project, the Board planned to evaluate these objectives to (1) clarify their broad characteristics (by determining if they are still valid and appropriate and whether additional ones are necessary) and (2) define the Board's role in achieving the objectives as the nature of the Board's involvement may vary.

In September 2005, staff began conducting separate roundtable meetings on each objective. The primary purpose of the discussions was to determine how the objective might be improved to facilitate its use as a means for guiding the board in developing standards of financial accounting and reporting and in developing solutions to financial accounting and reporting issues.

For each roundtable meeting, staff arranged for transcripts and started preparing meeting summaries that include the main topics discussed, an analysis of those topics, and recommendations for the Board. Based on discussions at the last Board meeting, staff did not include the transcripts (which are over 100 pages each) in the Binder materials. However, the transcripts for the roundtables are available in electronic or hard copy format upon request.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Staff has completed summaries and analysis for the Budgetary Integrity (see Tab 1) and Operating Performance (see Tab 2) objectives and those are included in the January binder materials.² The staff summary and analysis for the Budgetary Integrity and Operating Performance objectives were provided to the roundtable participants for a courtesy review for comment and to ensure major points were included. There were no major comments identified by the participants.

In summary, the participants at the Budgetary Integrity roundtable discussed the importance of the Budgetary Integrity objective in federal financial reporting and they discussed methods that could enhance achievement of the objective. Also, while the participants noted the comparative advantage of financial reporting, they did discuss concerns with the financial statements used to achieve the objective. In addition, the participants noted specific concern with the third sub-objective.

In summary, the participants at the Operating Performance roundtable confirmed that performance reporting is an important initiative in the federal government and they discussed challenges associated with reporting on program performance. While they did not determine a need for FASAB to consider changes to the Operating Performance objective of financial reporting, the participants did discuss issues and methods that could enhance achievement of the objective.

Most of the participants at both roundtables agreed that the objectives in SFFAC 1 were very broad, but believed that was the intent. The participants did not expect FASAB or financial statement reporting to cover or meet all the objectives alone. Based on the discussions and the analysis of the first two roundtables, it appears that a feasible approach³ for the Board to consider (as it moves forward) is to develop a strategic plan or strategic objectives for FASAB (versus amending the objectives). The strategic plan or objectives would identify the objectives from SFFAC 1 that most influence FASAB's direction for the next 3-5 years. The strategic plan could be refreshed periodically and updated based on the changes in the environment. Additionally, the Board could explore the possibilities of other guidance vehicles during its strategic planning process. As part of strategic planning, Board members can examine issues such as what the Board does and why it does it. Going through the process and resolving these issues may help identify the types of guidance vehicles that will help the Board achieve its goals and objectives.

The objective for the January Board meeting is to discuss the staff summaries for the Budgetary Integrity and Operating Performance Roundtables and determine whether the Board: (1) has any questions regarding these meetings; and (2) agrees with staff

² The staff team plans to complete the summaries for the Stewardship and Systems and Control objectives for the next Board meeting.

³ Although the summary and analysis of the last two roundtable meetings--Stewardship and Systems and Control--will impact the final approach taken by the Board, staff did want to discuss the strategic plan approach as many of the staff recommendations in the summary and analysis are consistent with this approach.

recommendations. To assist with accomplishing these objectives, staff has attached a list of the recommendations to guide the discussion.

Please feel free to contact us (Melissa at 202-512-5976 or by email at loughanm@fasab.gov and Ross at 202-512-2512 or by email at simmsr@fasab.gov) to discuss any questions you may have.

Listing of Staff Recommendations

Budgetary Integrity Roundtable

1) Benefits from Financial Reporting & Audit

- a) There are no specific recommendations for this issue. The Board has acknowledged that financial reporting can lead to improved internal reporting and analysis.

2) Statement of Budgetary Resources - Materiality and Presentation Detail and Ability to Convey Accountability

- a) Given the flexibility in current standards and OMB's ability to enhance the statements, staff does not believe there is a need to enhance the reporting objective or to immediately address standards regarding this issue.
- b) OMB participants in the roundtable indicated that OMB may research this issue further and determine if the Statement of Budgetary Resources could be expanded to include a more detailed level of presentation as well as a comparison of budgeted to actual amounts. If so, OMB could prescribe a more detailed level of presentation through its OMB Circular A-136, Financial Reporting Requirements guidance. When the Board considers the individual financial statements in a later phase of the conceptual framework, the concerns regarding the statement may be addressed by the Board.

3) Statement of Financing and Sub-objective 3

- a) Although an important tool for internal preparers and auditors, the Statement of Financing may need enhancements to be a meaningful statement for readers or users of the financial statements. SFFAC 2 states that OMB could provide more prescriptive guidance for the Statement of Financing. Thus, the Board could monitor OMB's progress on this topic as OMB considers annual revisions to its guidance on financial reporting.
- b) Regarding sub-objective 3, explaining the complimentary nature of budgetary and accrual accounting information helps the user understand and identify key information included in the federal government's financial statements. However, the information does not necessarily need to be presented as a basic financial statement. SFFAC 2 states that OMB could determine whether it shall be presented as a basic financial statement or as a schedule in the notes to the basic financial statements. Because this determination is a responsibility of OMB, there are no specific staff recommendations.

4) Internal versus External Users

- a) Based on the discussion at the December 2003 meeting, the Board appeared comfortable with maintaining the internal/external dual focus. However, staff believes discussions from the other roundtable meetings may be helpful in determining if this is a prevalent issue that should be revisited and a recommendation should be delayed until after those meetings have occurred.

5) Other Report Formats and Other Guidance Vehicles

- a) It appears there would be value in ensuring that agencies are consistent in preparing the summary level reports and ensuring that links or narratives are included that would direct users to more detailed information. However, the Board should consider that the MD&A could be used to provide concise information to a broad audience. FASAB could explore the possibilities of other guidance vehicles during its strategic planning process.
- b) In addition, staff believes discussions from the other roundtable meetings may be helpful in determining if this is a prevalent issue that should be considered further and a final decision should be delayed until after those meetings have occurred.

6) General Comments about the Objectives

- a) There are no specific staff recommendations for this issue. The discussion at the roundtable was consistent with the Board's position that the objective appears broad, but there are other documents such as the President's Budget that accomplishes the objective.

Operating Performance Roundtable

1) Challenges in Achievement of the Operating Performance Objective

- a) Staff does not believe there is a need to enhance the reporting objective or to immediately address standards regarding the issues identified. FASAB could explore the possibilities of other guidance vehicles during its strategic planning process. As part of strategic planning, Board members can examine issues such as what the Board does and why it does it. Going through the process and resolving these issues may help identify the types of guidance vehicles that will help the Board achieve its goals and objectives. In addition, staff believes discussions from the other roundtable meetings may be helpful in determining if this is a prevalent issue that should be considered further and a final decision should be delayed until after those meetings have occurred.

- b) Also, in later phases of the Conceptual Framework project, the Board could consider updating SFFAC 1 for recent developments in the relationship between financial reporting and performance reporting.

2) Cost Accounting Issues and SFFAS 4, *Managerial Cost Accounting Concepts and Standards*

- a) While there has been significant progress in improving federal financial management, challenges such as establishing financial management systems that provide reliable, timely, and useful information to support day-to-day decision-making and oversight and for the systematic measurement of performance remain. Given the time that has elapsed since SFFAS 4 was issued, and the flexibility afforded in its implementation, more progress in achieving the standard may have been expected. The Board may want to reconsider a project devoted to assessing the effectiveness of SFFAS 4 during the next agenda setting process.
- b) As part of the strategic planning process, the Board should consider whether additional vehicles and the types of vehicles that may be needed to enhance the progress in implementation. The Board would need to remain aware that others such as OMB have initiatives on-going and are able to provide more prescriptive guidance. However, staff does not believe there is a need to enhance the reporting objective or to immediately address standards regarding the issues identified.

3) Sub-Objective 3

- a) During its deliberations in 1999, the Board considered a cost of capital project, including the issue of implementing a capital charge. However, the Board determined that other financial reporting issues warranted higher priority and that this may be an area that the budget needed to go first to ensure changes in behavior and realized consequences. Given that the Board has made a determination on this issue, there are no specific staff recommendations unless the Board decides that this is an area that should be revisited. Therefore, staff does not believe there is a need to enhance the reporting objective or to immediately address standards regarding the issues identified.

4) General Comments about the Objectives

- a) There are no specific staff recommendations for this issue. The discussion at the roundtable was consistent with the Board's position that the objective appears broad, but there are other documents and requirements that assist in accomplishing the objective.

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TAB 1
SUMMARY OF THE BUDGETARY INTEGRITY ROUNDTABLE MEETING¹
SEPTEMBER 19, 2005
9:00 a.m. – 12 p.m.

PARTICIPANTS

Chris Bonham	Government Accountability Office
Bing Bradshaw	Office of Management and Budget
Teresa Tancre	Office of Management and Budget
Diane Dudley	KPMG
Robin Landauer	U. S. Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management, Government Information, and International Security
Kathy Gramp	Congressional Budget Office
Joe Kull	PricewaterhouseCoopers LLP
Terry Patton	Governmental Accounting Standards Board

FASAB

Wendy Comes	Executive Director
Melissa Loughan	Assistant Director
Ross Simms	Assistant Director

PURPOSE OF ROUNDTABLE AND DISCUSSION TOPICS

FASAB's conceptual framework ensures that federal financial accounting standards are based on a sound framework of objectives and concepts. During its initial years of operation, FASAB developed a core set of accounting standards and concepts statements. Now, after 12 years of substantial progress, the Board believes that it is time to revisit the concepts given the changes in the federal financial reporting environment since the first concepts statement was issued.

The Board relies on Statement of Federal Financial Accounting Concepts 1 (SFFAC 1) – *Objectives of Federal Financial Reporting*, issued September 2, 1993, to support its deliberations on financial reporting issues. The first phase of the conceptual framework project involves reviewing the four objectives of financial reporting as described in SFFAC 1. The four objectives of financial reporting are Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. The Board is evaluating these

¹ Complete transcripts for the Roundtable Meeting are available upon request.

1 objectives with a focus on (1) clarifying their broad characteristics (by determining if they
2 are still valid and appropriate and whether additional ones are necessary) and (2)
3 defining the Board's role in achieving the objectives as the nature of the Board's
4 involvement may vary.

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6 This was the first of four roundtable meetings and it focused on the Budgetary Integrity
7 objective. The primary purpose of the meeting was to discuss how the objective might
8 be improved to facilitate its use as a means for guiding the Board in developing
9 standards of financial accounting and reporting and in developing solutions to financial
10 accounting and reporting issues. The meeting discussions involved issues such as:

- 11
- 12 • Participants' experience with the Budgetary Integrity objective.
- 13 • How changes in the federal environment since 1993 may affect the Board's
- 14 reconsideration of the Budgetary Integrity objective.
- 15 • What the scope of FASAB's role should be in meeting the Budgetary Integrity
- 16 objective.
- 17 • General matters regarding the objectives of federal financial reporting and
- 18 SFFAC 1.
- 19

20 **Budgetary Integrity Objective of Federal Financial Reporting in** 21 **Existing FASAB Literature**

22
23 Federal financial reporting should assist in fulfilling the government's duty to be publicly
24 accountable for monies raised through taxes and other means and for their expenditure
25 in accordance with the appropriations laws that establish the government's budget for a
26 particular fiscal year and related laws and regulations. Federal financial reporting should
27 provide information that helps the reader to determine:

- 28
- 29 • how budgetary resources have been obtained and used and whether their
- 30 acquisition and use were in accordance with the legal authorization,
- 31 • the status of budgetary resources, and
- 32 • how information on the use of budgetary resources relates to information on the
- 33 costs of programs operations and whether information on the status of budgetary
- 34 resources is consistent with other accounting information on assets and liabilities.
- 35

36 **Summary of Issues, Including Staff Analysis and Recommendations**

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38 The participants discussed the importance of the Budgetary Integrity objective in federal
39 financial reporting, and they discussed methods that could enhance achievement of the
40 objective. Also, while the participants noted the comparative advantage of financial
41 reporting, they did discuss concerns with the financial statements used to achieve the
42 objective. In addition, the participants noted specific concern with the third sub-
43 objective. The issues discussed and FASAB's staff analyses are presented as follows.

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3 • **Benefits from Financial Reporting & Audit**
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5 The participants agreed that financial reporting and the related audit have improved the
6 reliability of accounting information. Certain participants explained that although
7 financial reports may not be useful to agency management, the fact that the reports are
8 subjected to audit has been beneficial to improving the accuracy of the agency's
9 underlying accounting data. The participants explained that auditing the financial
10 statements has served to improve the accounting and underlying data that the agencies
11 use in managing programs. The participants believed that budget data has improved
12 since agency financial reports have been subjected to audit because the audit has
13 resulted in the identification of errors that result in correcting budgetary reports.
14 Additionally, the participants believed that audits help bring about consistency in
15 definitions and improvements in controls over assets.

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17 *Staff Analysis and Recommendations:*
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19 *The Board has acknowledged that financial reporting can lead to improved internal*
20 *reporting and analysis. SFFAC 1 discusses that financial reporting provides information*
21 *for various purposes including planning actions and evaluating performance. Also,*
22 *through enhanced systems and controls, the process of preparing and auditing financial*
23 *reports can provide greater assurance that transactions are recorded and reported*
24 *accurately.*

25
26 *During its deliberations, the Board has acknowledged the comparative advantages of*
27 *federal accounting in general and of GAAP reporting in particular. One advantage in*
28 *particular is that users can gain a level of assurance that the information they utilize is*
29 *accurate. The Board should continue to consider this and other advantages of GAAP*
30 *reporting while evaluating the objectives of federal financial reporting.*

31
32 *Recommendation:* *There are no specific staff recommendations for this issue.*
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34

35 • **Statement of Budgetary Resources**
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37 **Materiality and Presentation Detail**
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39 Financial statement audits and the information that is audited help to achieve the
40 Budgetary Integrity objective. Although budget personnel gain assurance that budget
41 information is accurate, the participants expressed concern that the Statement of
42 Budgetary Resources is prepared and audited at a very high-level. The participants
43 explained that the materiality level is high and that it does not provide assurance that
44 each account is accurate. Interestingly, the participants most actively involved in budget
45 oversight expressed greater interest in accuracy at the account level. These participants
46 noted a desire for the information to be audited at a lower level--appropriation or

1 account level. Materiality levels for an audit opinion are determined based on the detail
2 presented on the face of the statements, rather than the information behind them.

3
4 The participants discussed that financial statement readers want to know how much is
5 being spent on each activity, but how to define an activity could be difficult. Also, the
6 level of detail needed by internal users and the terminology they use can vary
7 considerably. Internal users do need assurances of the integrity of the data but external
8 users may not need account-by-account reporting.

9
10 The participants discussed the fact that FASAB does not prescribe budgetary standards
11 and determining how to select accounts and sub-accounts to programs may not be
12 within FASAB's authority. It was noted that there are other ways of meeting the needs
13 of internal users without FASAB involvement. For instance, as part of its OMB Circular
14 A-136, *Financial Reporting Requirements*, OMB could develop criteria for more detailed
15 reporting. A participant noted that perhaps the current set of financial statements are
16 fine, except there is a need to drill down to a lower level, such as the account level, for
17 presentation and audit on items such as budgetary resources, obligations, and outlays.

18 **Conveying Accountability**

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21 The Budgetary Objective states "Federal financial reporting should assist in fulfilling the
22 government's duty to be publicly accountable for monies raised through taxes and other
23 means and for their expenditure in accordance with the appropriations laws that
24 establish the government's budget for a particular fiscal year and related laws and
25 regulations." Certain participants noted that the Statement of Budgetary Resources
26 does not accomplish this. Specifically, several participants expressed the view that the
27 statement does not demonstrate whether an entity is publicly accountable.

28
29 The participants noted that the public's perception or context of the government is
30 normally communicated in terms of budgets and appropriations, yet the financial
31 statements do not convey information in these terms and many perceived this as a
32 disconnect. Certain participants believed that reporting in a traditional commercial
33 model probably contributes to the public's lack of understanding about the way the
34 government is making its financial decisions.

35
36 Most participants agreed that a budget to actual comparison would provide a better
37 report in meeting the overall Budgetary Objective. Specifically, several participants
38 expressed the view that a budget to actual comparison at some meaningful level of
39 detail would meet the objective of having the government publicly accountable. The
40 participants discussed the need for a single report that presents budget versus actual
41 information at a lower level such as appropriation account level.² The participants

² An appropriation account is "the basic unit of an appropriation generally reflecting each unnumbered paragraph in an appropriation act. An appropriation account typically encompasses a number of activities or projects and may be subject to restrictions or conditions applicable to only the account, the appropriation act, titles within an appropriation act, other appropriation acts, or the government as a

1 discussed that there is also Congressional interest in financial statements that show
2 budget versus actual comparisons for each program.
3

4 A few participants noted that state and local governments show budget to actual by
5 some major objective or activity. Specifically, state and local governments show their
6 original budget, final budget, a comparison between the actual and final budget
7 (prepared on the same basis), and the variance (see Appendix I for an example). Most
8 participants agreed that this type of information is useful to the public and that you don't
9 get this from the federal government's financial statements. There is a footnote
10 disclosure that shows the total of the President's Budget compared to total outlays, but
11 most participants believed that it is at such a high level that it is not meaningful.
12

13 A participant noted that the President's Budget does provide much of the information
14 necessary to meet the Budgetary Integrity objective because it does provide detailed
15 budget information. Most participants believed that there would be value if that
16 information was subject to audit. However, it was pointed out that such audits may be a
17 challenge because agencies change their programs or rename activities as detailed in
18 the budget from one year to the next, and the information would be difficult to compare
19 over time if not properly restated. The participants noted that the information to
20 compare budgeted amounts to actual amounts is available through the budget reports
21 but it involves looking at several reports and pulling amounts from the previous year.
22 Most participants believed it would be beneficial to have a concise audited statement
23 that showed the budgeted to actual amounts at some level that was subject to audit.
24

25 Given the interest in an audited report containing detailed budget versus actual
26 information, the participants discussed what vehicles could be used to prescribe such a
27 report. It was noted that there would be some benefit to FASAB prescribing a special
28 report, not a part of the financial statement reports, with detailed budget versus actual at
29 the appropriation account level. However, as noted above, FASAB does not prescribe
30 budgetary standards³ and participants believed that determining how to prescribe
31 accounts and sub-accounts to programs may not be within FASAB's authority.
32

33 It was noted that there are other ways of meeting the need for an audited report
34 containing detailed budget versus actual information. For instance, as part of its OMB
35 Circular A-136, *Financial Reporting Requirements*, OMB could develop criteria for more
36 detailed reporting on the Statement of Budgetary Resources that would include
37 additional columns that would compare budgeted amounts to actual information.

whole." See *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP, September 2005. Also, there are over 1,200 individual appropriations.

³ FASAB is prohibited by the Memorandum of Understanding which created it from setting or proposing "budget concepts, standards and principles." When the Board wishes to present information related to the budget it does so by calling for that information without prescribing detailed definition, measurement, recognition or display standards. For example, SFFAS 7 (par. 77 and 78) requires presentation of information on the budgetary resources made available to the entity, the status of those resources and outlays for the period. However, SFFAS 7 indicates that "recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34."

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2 Staff Analysis and Recommendations:
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4 *The Budgetary Objective states “Federal financial reporting should assist in fulfilling the*
5 *government’s duty to be publicly accountable for moneys raised from the public and for*
6 *their expenditure in accordance with applicable laws that establish the budget and other*
7 *related laws and regulations.” As a means to help achieve this objective, agencies are*
8 *required to prepare and submit for audit a Statement of Budgetary Resources in*
9 *addition to the other required financial statements.*

10
11 *The Statement of Budgetary Resources and related disclosures provide information*
12 *about budgetary resources made available to an agency as well as the status of those*
13 *resources at the end of the fiscal year. The Statement of Budgetary Resources and*
14 *related note disclosures serve as a tool to link budget execution data in an agency’s*
15 *financial statements to information reported in the “actual” column of the Program and*
16 *Financing Schedules in the Appendix of the Budget of the United States Government*
17 *(the President’s Budget). Coupled with the analysis of other budgetary data, the*
18 *Statement of Budgetary Resources linkage to the President’s Budget provides a means*
19 *to help assess the reliability of budgetary data reported in the President’s Budget. The*
20 *proper preparation and audit of the Statement of Budgetary Resources is a key to this*
21 *assessment. Further, reliable “actual” data in the President’s Budget helps ensure that*
22 *officials have accurate and complete information with which to assess spending by*
23 *agencies*

24
25 *It should be noted that information on the Statement of Budgetary Resources should be*
26 *consistent with and reconciled to the budget execution information reported on the*
27 *Report on Budget Execution and Budgetary Resources (SF 133) and the format of the*
28 *Statement of Budgetary Resources is based on the SF 133. Recognition and*
29 *measurement of budgetary information reported on this statement should be based on*
30 *budget terminology, definitions, and guidance in OMB Circular A-11, Preparation,*
31 *Submission, and Execution of the Budget (as amended). OMB Circular A-11 provides*
32 *definitions and instructions for each line item reported in this statement.*

33
34 *Beginning with fiscal year 2006, OMB revised the format of the SF 133. To align with*
35 *this change, the illustrative format of the Statement of Budgetary Resources in the OMB*
36 *Circular A-136, Financial Reporting Requirements also changed. The new format of the*
37 *Statement of Budgetary Resources planned to be included in OMB Circular A-11 as*
38 *amended, should be used beginning with the first quarter of fiscal year 2006 as*
39 *agencies submit interim financial statements to OMB. The enhancements to the*
40 *Statement of Budgetary Resources should facilitate the reconciliation of information*
41 *between the Statement of Budgetary Resources, and actual information reported in the*
42 *President’s Budget. Therefore, it appears that OMB has made certain changes to the*
43 *Statement of Budgetary Resources and may continue to explore other options that*
44 *would better demonstrate accountability. In an OMB lead effort, FASAB may be*
45 *consulted regarding alternative presentations. Alternatively, FASAB may wish to*
46 *consider how effectively its current reporting model aligns with the budgetary objective.*

1
2 *Paragraph 114 of SFFAC 1 describes the focus of the Budgetary Objectives as follows*
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4 *114. The focus of this objective is retrospective. That is, the focus is on recording actual*
5 *data from budget execution against appropriations made by Congress using existing*
6 *budgetary standards. Thus, it would validate the "actual" column shown in the Budget of*
7 *the United States Government. It would also provide data that could be shown in other*
8 *reports as a statement of budget execution or a statement of the status of budgetary*
9 *resources. The data also could be displayed in analytical tables showing, for example,*
10 *the historical pattern of receipts and outlays.*

11
12 *The Board's authority does not extend to recommending budgetary standards or*
13 *concepts. Rather, the Board has recognized that assurance regarding the reliability of*
14 *budget information could be accomplished through financial reporting and subjecting the*
15 *statements to audit. Specifically, SFFAC 1 paragraphs 190-191 state:*

16
17 *190. The Board's authority does not extend to recommending budgetary standards or*
18 *budgetary concepts, but the Board is committed to providing reliable accounting*
19 *information that supports budget planning and formulation. The Board also supports*
20 *efforts to ensure the accuracy and reliability of reporting on the budget.*

21
22 *191. The Board's own focus is on developing generally accepted accounting standards*
23 *for reporting on the financial operations, financial position, and financial condition of the*
24 *federal government and its component entities and other useful financial information.*
25 *This implies a variety of measures of costs and other information that complements the*
26 *information available in the budget. Together with budgetary reports, these reports will*
27 *provide a more comprehensive and insightful understanding of the government's*
28 *financial position, results of operations, and financial condition than either set of reports*
29 *alone.*

30
31 *Concerning the Statement of Budgetary Resources, the Board has expressed flexibility*
32 *in the level of presentation. For example, in SFFAC 1, paragraph 117, the Board*
33 *explained that information to meet the budgetary objective could be reported "by*
34 *program and for all appropriations and fund accounts summarized appropriately to fit*
35 *the intended audience."*

36
37 *Additionally, SFFAC 2 paragraph 64 states:*

38
39 *64. The assurance as to reliability of the information could be accomplished by including*
40 *a statement of budgetary resources in the reporting entity's financial statements,*
41 *recognizing that the statement will likely be subject to audit. The presentation of data*
42 *could be for the reporting entity as a whole, for the major sub-organization units*
43 *(assuming there is congruity among the major sub-organization units and the budget*
44 *accounts), or for the aggregations of the major budget accounts, rather than for the*
45 *individual budget accounts of the entity or other types of entities.*

46
47 *In SFFAS 7, the Board requires the information currently presented in the Statement of*
48 *Budgetary Resources and also that "the reporting entity should provide this information*
49 *for each of its major budget accounts as supplementary information." (par. 78) The*

1 *Board may wish to consider a project to assess whether there are enhancements that*
2 *could be made to the level and means of disaggregation called for by SFFAS 7.*

3
4 *Recommendation: Given the flexibility in current standards and OMB's ability to*
5 *enhance the statements, staff does not believe there is a need to enhance the reporting*
6 *objective or to immediately address standards regarding this issue. Staff notes that the*
7 *International Federation of Accountants' International Public Sector Accounting*
8 *Standards Board (IPSASB) has issued an exposure draft on this topic. IPSAB*
9 *encourages disclosure of comparison of budget and actual amounts. The exposure*
10 *draft focuses on entities that make their approved budgets publicly available, and*
11 *proposes that such entities include a comparison of budget and actual amounts in their*
12 *general purpose financial statements. The exposure draft also proposes:*

- 13
- 14 *• That a comparison of budget and actual amounts be presented either as a*
15 *separate additional financial statement or as additional budget columns in the*
16 *financial statements currently presented in accordance with International Public*
17 *Sector Accounting Standards.*
- 18 *• Disclosure of the reasons for material differences between budget and actual*
19 *amounts.*
- 20 *• That, in a report issued in conjunction with, or at the same time as, the financial*
21 *statements, the entity present an explanation of whether changes between*
22 *original and final budget are a consequence of reallocations within the budget, or*
23 *of other factors.*

24
25 *Staff does not recommend immediate action by the Board on this issue. Instead, OMB*
26 *participants in the roundtable indicated that OMB may research this issue further and*
27 *determine if the Statement of Budgetary Resources could be expanded to include a*
28 *more detailed level of presentation as well as a comparison of budgeted to actual*
29 *amounts. If so, OMB could prescribe a more detailed level of presentation through its*
30 *OMB Circular A-136, Financial Reporting Requirements guidance. When the Board*
31 *considers the individual financial statements in a later phase of the conceptual*
32 *framework, these concerns may be addressed by the Board.*

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35 **• Statement of Financing and Sub-objective 3**

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37 *Sub-objective 3 of the Budgetary Objective reads "Federal financial reporting should*
38 *provide information that helps the reader to determine how information on the use of*
39 *budgetary resources relates to information on the costs of programs operations and*
40 *whether information on the status of budgetary resources is consistent with other*
41 *accounting information on assets and liabilities." Several participants commented that*
42 *this sub-objective is not being achieved through the current financial reports. Most*
43 *would agree that the Statement of Financing is the statement that is intended to help*
44 *achieve this but it is in fact not being achieved. The participants noted that this sub-*
45 *objective points to integrating the Statement of Net Cost with the budget and appears to*

1 require a reconciliation to show how the budget compares to other information
2 presented in the financial statements.

3
4 The participants viewed that most users of the financial statements do not understand
5 the Statement of Financing and therefore, may not understand the relationship between
6 budget and cost that it is attempting to convey. Several participants commented that
7 most preparers and auditors utilize the detailed crosswalk provided by the Treasury's
8 Financial Management Service to prepare the statement, but most believe this does not
9 involve a lot of thinking about what the numbers are actually communicating.

10
11 Despite concerns regarding the understandability of the Statement of Financing, the
12 participants agreed that there is value in performing the exercise, but some questioned
13 if it should be a published report as most readers find it tremendously confusing. The
14 participants believed that the Statement of Financing may show that the agency can
15 reconcile the amounts and therefore it is a useful tool, but not something that can be
16 conveyed in an understandable financial statement. Consequently, most of the
17 participants believed the Statement of Financing may serve as an internal document
18 rather than a published document.

19
20 One participant suggested that Sub-objective 3 appears to refer to a reconciliation
21 exercise. The participant suggested that the Board should consider whether that is
22 significant enough to rise to the level of a sub-objective of financial reporting or whether
23 it should be a matter addressed to internal auditors and accountants to gain assurance
24 regarding the numbers. The participant noted that it appeared the sub-objective goes
25 down to a rule level and does not seem appropriate for a sub-objective. The participant
26 discussed that most would agree that a reconciliation is needed to be performed
27 internally and it assists in achieving the objective, but the participant questioned
28 whether it should be included as a sub-objective that indicates this is how to meet that
29 objective, especially when there may be other plausible ways.

30
31 For instance, certain participants noted that the best way to accomplish the sub-
32 objective would be the integration of the Statement of Net Cost with the Budget and
33 they should align. For example, there should be alignment between the programs
34 identified in the Statement of Net Cost and the programs listed in the Budget. The
35 participants noted that most agencies are tracking major programs in the Statement of
36 Net Cost and including this information with programs in the Management Discussion
37 and Analysis, but very few actually align these with the programs reported in the
38 Budget. Certain participants described that it would be ideal to have financial
39 statements report costs consistent with the program and financing schedules and object
40 classes as reported in the budget, and then align these with the GPRA goals to achieve
41 symmetry and accomplish the integration.

42
43 *Staff Analysis and Recommendations:*

44
45 *The Board primarily created the Statement of Financing to assist readers in*
46 *understanding the difference between obligations, reported in the Federal budget and*

1 the Statement of Budgetary Resources, and the net cost of operations reported in the
2 Statement of Net Cost. “Net cost of operations” is the focal point of the Statement of
3 Financing and the Board perceived that information about gross and net cost to be the
4 principle advantage that financial statements offer those concerned with the budget and
5 those concerned with performance measurement. Consequently, reconciling budgetary
6 obligations with net cost can help individuals making program authorization,
7 modification, and discontinuation decisions. Additional benefits of the Statement of
8 Financing include:

- 9
- 10 ○ Reporting information not shown elsewhere in the financial statements,
11 such as the net change in the amount of obligations for undelivered orders
12 from the beginning to the end of the period, and the future budgetary
13 funding requirements for transactions reflected in the net cost of
14 operations for the period; and
- 15 ○ Providing additional assurance about the reliability of the system that
16 produces the accounting and budgetary information.⁴
- 17

18 SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for
19 Reconciling Budgetary and Financial Accounting, amended SFFAC 2, Entity and
20 Display, to include the Statement of Financing among the items to be included in
21 Federal financial reports. However, it was noted that OMB would provide guidance for
22 the statement. Particularly, in reference to the Statement of Financing, SFFAC 2 states,
23 “OMB will provide guidance regarding details of the display for the Statement of
24 Financing, including whether it shall be presented as a basic financial statement or as a
25 schedule in the notes to the basic financial statements.”

26

27 The Board intended that the Statement of Financing would facilitate understanding and
28 permitted flexibility in what should be conveyed. SFFAS 7, paragraph 95 states that
29 information in the statement should “...be presented in a way that clarifies the
30 relationship between the obligation basis of budgetary accounting and the accrual basis
31 of financial (i.e., proprietary) accounting. By explaining this relationship through a
32 reconciliation, the statement provides information necessary to understand how the
33 budgetary (and some nonbudgetary) resources finance the cost of operations and affect
34 the assets and liabilities of the reporting entity.” SFFAS 7 provides logical groupings of
35 reconciling items that help the reader move from obligations to net cost of operations.

36

37 SFFAC 1, paragraphs 120 and 121 discuss that sub-objective 3 arises from the fact that
38 accrual-basis measures of cost of government programs and activities may differ from
39 the amounts used in the budget for a variety of reasons. Reports intended to address
40 the overall objective and the first two sub-objectives would use budgetary
41 measurement, while reports intended to address sub-objective 3 would use both
42 budgetary and accrual measures because “reconciliation of the two is implied.”

43

⁴ Implementation Guide to Statement of Federal Financial Accounting Standards No. 7: Accounting for Revenue and Other Financing Sources, paragraphs 72 and 73.

1 Although the intent of the Statement of Financing was to provide understanding, it
2 appears that the statement is not achieving that objective. In addition to comments by
3 the participants at the roundtable, others have indicated that the statement is not
4 achieving that objective. For example, respondents to the Board's recent Technical
5 Agenda expressed that the statement is confusing. A typical comment was that, "In its
6 current format, it is understood by very few preparers, auditors, or financial statement
7 users and its preparation does consume significant resources." Staff also notes that the
8 financial management community has long acknowledged dissatisfaction with the
9 Statement of Financing and has conveyed this to FASAB staff through communications
10 at conferences, workgroups, and other government-wide meetings.

11
12 At the government-wide level, SFFAS No. 24: Selected Standards for the Consolidated
13 Financial Report of the United States Government requires two statements for the
14 Consolidated Financial Report of the U.S. Government (CFR). One statement
15 reconciles accrual-based net operating results to the cash-based unified budget
16 (includes all federal activities). The other report shows how the annual unified budget
17 relates to changes in operating cash. Regarding the statements, SFFAS No. 24 states,

18
19 10. The financial report of the Government as a whole should provide a financial
20 statement reconciling net operating revenue (or cost) and the annual unified
21 budget surplus (or deficit). The financial statement should highlight:

22
23 •The components of net operating revenue (or cost) that are not part of the
24 unified budget surplus (or deficit), including the accrued and amortized
25 expenses not included in budget outlays and the accrued or other revenue
26 not included in budget receipts; and

27
28 •The components of the unified budget surplus (or deficit) that are not part
29 of net operating revenue (or cost), including budget receipts and outlays
30 that are not included in net operating revenue (or cost).

31
32 12. The Government as a whole should provide a financial statement explaining
33 how the annual unified budget surplus or deficit relates to the change in the
34 Government's cash. The financial statement should highlight:

35
36 •The components of the unified budget surplus or deficit that are not part
37 of the annual change in cash, including non-cash budget outlays; and

38
39 •Items affecting the Government's cash balance that are not included in
40 the budget outlays or receipts. The statement should prominently display
41 the cash inflow and outflow related to the changes in debt held by the
42 public and interest accrued and interest paid on debt held by the public.

43
44 In issuing these requirements, the Board noted the importance of both budgetary and
45 financial information and the need to assist users in relating the two. The statements

1 would enhance the use of Government financial reports for planning and control
2 purposes. SFFAS No. 24 states,
3
4

5 25. *Accrual accounting is the basis for proprietary accounting in the Federal
6 Government. Proprietary accounting and budgetary accounting are
7 complementary. Proprietary accounting provides an understanding of the
8 entity's net position and cost of operations during a period. Federal
9 Government financial statements have not been used for planning and
10 control as much as they might be. In part, this is because general purpose
11 financial reports have not presented budget information with the financial
12 statements in a way that helped users relate these two important, but
13 different, types of financial information. The Board's objective in requiring
14 new statements in the CFR addresses this issue.*

15
16 *In addition, the CFR statements would help achieve basic objectives of financial
17 reporting and in particular, sub-objective 3.*

18
19 *Understanding the relationship between budgetary and accrual accounting information
20 is important to understanding the information included in Government financial reports.
21 Users can use the CFR reconciling and statement of changes in cash balance reports to
22 identify information such as:*

- 23
- 24 • *major differences between the net operating cost and the unified budget,*
- 25 • *how much of the federal government's operating cost was attributed to*
- 26 *depreciation,*
- 27 • *how much the federal government spent on capitalized fixed assets,*
- 28 • *increases in federal borrowing as a result of the federal government spending*
- 29 *more than it collected in taxes, and*
- 30 • *decreases in federal borrowing as a result of a budget surplus.*⁵
- 31
- 32

33 *Recommendation: The intent of the Statement of Financing was to assist in
34 understanding the difference between obligations, reported in the Federal budget and
35 the Statement of Budgetary Resources, and the net cost of operations reported in the
36 Statement of Net Cost. However, there is concern that the Statement of Financing may
37 not be conveying the information in an understandable way to achieve sub-objective 3).
38 Although an important tool for internal preparers and auditors, the Statement of
39 Financing may need enhancements to be a meaningful statement for readers or users
40 of the financial statements. As discussed above, SFFAC 2 states that OMB could
41 provide more prescriptive guidance for the Statement of Financing. The Board could
42 monitor OMB's progress on this topic as OMB considers annual revisions to its
43 guidance on financial reporting.*

44

⁵ Understanding the Primary Components of the Annual Financial Report of the United States Government, GAO-05-958SP, September 2005, pp. 13 and 15.

1 Also, regarding sub-objective 3, explaining the complimentary nature of budgetary and
2 accrual accounting information helps the user understand and identify key information
3 included in the federal government's financial statements. However, the information
4 does not necessarily need to be presented as a basic financial statement. SFFAC 2
5 states that OMB could determine whether it shall be presented as a basic financial
6 statement or as a schedule in the notes to the basic financial statements. Because this
7 determination is a responsibility of OMB, there are no specific staff recommendations.
8
9

10 • Internal versus External Users

11
12 There was a notion among certain participants in the group that determining who should
13 be the Board's audience was a fundamental issue. Specifically, certain participants
14 believed the Board should select whether financial reporting is intended for internal or
15 external users. The participants believed that when evaluating the financial reporting
16 objectives, the Board may need to consider its audience and then determine what
17 information is useful for that audience. The participants explained that the reason for
18 this view is that information that is important for managing an organization may not be
19 useful for demonstrating accountability to the public at large. For example, the
20 participants noted that the way the Performance and Accountability Reports (PARs) are
21 currently structured is not useful to either audience, and the way individuals operate
22 government is different from what they need to communicate to the public. Participants
23 also noted that PARs are a struggle for external users to understand. Some reports are
24 500 pages in length and are overwhelming to read.
25

26 The participants discussed the fact that FASB and GASB based reports are focused on
27 external users and the reports are meant to be accountable to someone outside of
28 management. Certain participants believed that the FASAB standards and resulting
29 reports are geared more towards external users as well, and the benefit to internal
30 users comes from the audit process itself. Specifically, auditing the financial statements
31 has served to improve the accounting and underlying data that the agencies use in
32 managing programs. The internal users' needs are met through the preparation and the
33 integrity of the system. Further, the financial reports themselves are not the end; rather
34 they are the means to improving data that managers actually use.
35

36 Staff Analysis and Recommendations:

37
38
39 *In June 2003, when considering the plan for the conceptual framework project, the*
40 *Board discussed the need for a new users' needs study and deliberated the implications*
41 *of the internal/external dual focus of SFFAC 1. At that time, the Board determined that*
42 *a users' needs study was not necessary. During the December 2003 Board meeting,*
43 *the Board again discussed the topic further and appeared comfortable with maintaining*
44 *the internal/external dual focus.*
45

1 *Recommendation:* Based on the discussion at the December 2003 meeting, the Board
2 appeared comfortable with maintaining the internal/external dual focus. However, staff
3 believes discussions from the other roundtable meetings may be helpful in determining
4 if this is a prevalent issue that should be revisited and a recommendation should be
5 delayed until after those meetings have occurred.
6
7

8 • **Other Report Formats and Other Guidance Vehicles**
9

10 Several participants commented that some of the PARs are over 500 pages in length
11 and are overwhelming to read. The participants agreed that it is a struggle to clearly
12 communicate the information effectively in the PARS. The participants noted that many
13 agencies are moving towards a 'popular report' or a 'condensed report' and believed
14 that the general public may find those much more useful and interesting. One
15 participant commented that condensed reports are easier for the public to understand.
16 Participants agreed that summary reports with a link to the detailed report would be an
17 improvement. The participants discussed that FASAB may want to consider the
18 requirements for the popular or condensed reports.
19

20 The participants discussed the use of multiple reports to convey different information.
21 The participants believed that the current financial statement reports are blended and
22 contain what some might consider special reports along with general-purpose financial
23 statements. Certain participants commented that if the Board took the approach of
24 multiple reports, the Board could consider what it wants a particular report to
25 communicate. The participants expressed interest in the Board using multiple reports,
26 some for external users and other reports that focus on internal users. Additionally, the
27 participants discussed that FASAB could in theory have a whole series of types of
28 pronouncements that address issues such as budgetary reporting or performance
29 reporting. The participants discussed that these pronouncements could be for special
30 reports and not for producing GAAP financial statements.
31

32 The participants discussed the use of multiple reports by reporting entities and special
33 report guidance from GASB in the state/local government arena as a possibility. For
34 example, GASB developed a special report regarding suggested criteria for effective
35 performance reporting. This report did not have authoritative status but provided criteria
36 for performance reporting. The participants discussed that FASAB could develop
37 similar reports depending on the objective they would like to achieve. The participants
38 discussed that similar to GASB, FASAB could setup a tool that is prescriptive for a
39 special report on accounts and that the auditors could use as a benchmark to test this
40 separate report.
41

42 The participants acknowledged that standards-setters typically use tools such as
43 concept statements, standards, and implementation guidance. The ones with force are
44 the standards and implementation guidance. These come into play when an entity is
45 producing a GAAP set of financial statements and seeking an audit opinion. FASAB
46 could in theory have a whole series of pronouncements that address detailed budgetary

1 account reporting and place these pronouncements under a category such as standards
2 of budgetary reporting. These standards would be used to judge the report and, as a
3 special report, the report would not be a part of the financial statements.
4

5 The participants also discussed that the special reports could alternatively be
6 accomplished through guidance produced by OMB instead of FASAB. Specifically, the
7 participants discussed that one could envision an attestation engagement that would not
8 necessarily need a FASAB pronouncement. Specifically, OMB could prescribe how
9 information should be prepared or give a common set of guidelines to all agencies and
10 require that an auditor attest against it.
11

12 Staff Analysis and Recommendations:

13
14
15 *Reporting vehicles that are shorter in length and containing condensed or summarized*
16 *information may offer some benefits to users. For instance, readability may be*
17 *enhanced and information may be more readily obtained. For the general public in*
18 *particular, condensed reports can be designed to enhance the citizen's understanding*
19 *of financial information. State and local governments have been using condensed*
20 *reports called "popular reports" to communicate financial information to citizens and*
21 *some federal agencies are starting to use summary reports or "highlights" to*
22 *communicate information to citizens about their organizations. While there may be*
23 *benefits to these reporting vehicles, some users require detailed information to assist*
24 *them in managing and monitoring government programs. Also, the Management's*
25 *Discussion and Analysis (MD&A) section of financial reports is intended to communicate*
26 *financial and performance results in a concise, readable manner for a broad audience.*
27

28 *State and local governments have been utilizing popular reports to help make financial*
29 *information easier for citizens to understand. For example, the popular report for the*
30 *Commonwealth of Virginia notes that information in the financial statements are*
31 *technical and complex and, as a result, the full financial statements may not be*
32 *particularly useful to the citizens who wish to better understand state government*
33 *finances. The popular report is intended to better inform the public about their*
34 *government's financial condition, without excessive detail or the use of technical*
35 *accounting terms.*
36

37 *GASB notes that external reports include popular reports and Comprehensive Annual*
38 *Financial Reports (CAFRs). The popular reports are less detailed and are often*
39 *intended for users whose financial reporting needs are better satisfied through more*
40 *condensed information. CAFRs are more detailed and are intended for users who need*
41 *a broad range of information. Both popular reports and CAFRs may include such*
42 *nonfinancial information as statistical data, analytical data, demographic information,*
43 *forecasts, economic and service delivery statistics, legally required data, narrative*
44 *explanations, and graphic displays.*⁶
45

⁶ GASB Concepts Statement No. 1, Objectives of Financial Reporting, paragraph 6.

1 In addition, similar to FASAB, the GASB considered that some financial reporting
2 objectives can be met by means of reporting beyond the general purpose financial
3 statements (GPFS) and outside the CAFR, such as in the popular report. In its
4 Concepts Statement No. 1, Objectives of Financial Reporting, paragraph 91, the GASB
5 stated,

6
7 ...developing and implementing standards to achieve these objectives will
8 be an ongoing and evolutionary process. The Board has no preconception
9 of precisely how an individual objective will be met. It is likely that some
10 objectives will be accomplished in the GPFS without significant extension
11 of the GPFS's scope. It is also likely that other objectives will be better
12 accomplished by some means of reporting beyond the GPFS—in the
13 CAFR, for example. In addition, some objectives may be met by standards
14 developed for means of reporting outside the CAFR—in condensed
15 "popular" reports, for example. The Board will determine—on a standard-
16 by-standard basis—the best means of financial reporting, and only after
17 full due process. The Board believes that it is unlikely that all of the
18 objectives will be, or can be, met through a single means of reporting,
19 such as the GPFS.
20

21 When summarizing information, decisions need to be made to determine what
22 information should be included and how it should be presented to ensure consistency
23 with the more detailed report. Regarding criteria for reporting information in the state
24 and local government popular reports, the National Council on Governmental
25 Accounting Statement 1, Governmental Accounting and Financial Reporting Principles
26 notes that

27
28 ...such statements should supplement, rather than supplant, the CAFR
29 and the separately issued GPFS. Further, the Council believes that the
30 data in such highly condensed summary statements should be
31 reconcilable with the combined, combining, and individual fund and
32 account group statements, and that the reader of such statements should
33 be referred to the CAFR and/or the separately issued GPFS of the
34 governmental unit. (paragraph 175)
35

36 In the federal environment, agencies are starting to use summary or highlight reports in
37 addition to the PARs. The number of agencies using summary reports increased from
38 five for FY 2002 to seven for FY 2003. This increase probably resulted from the view
39 that PARS were lengthy. Agencies needed to include all the prescribed materials in a
40 single document that was primarily of interest to persons in oversight roles, such as
41 OMB. Agencies perhaps used the summary report because they sought ways to
42 demonstrate accountability to constituents, stakeholders, new employees, members of
43 Congress and others with less extensive information.⁷ The length of the summary

⁷ Accountability Reporting Trends & Techniques: A survey of Federal Agencies' Accountability Reporting Practices, KPMG, Summer 2004, pp. 91,

1 reports for FY 2003 ranged from 24 to 84 pages,⁸ while the length of PARs ranged from
2 123 to 564 pages.⁹
3

4 Also, OMB is encouraging the use of highlight reports. OMB Circular A-136, Financial
5 Reporting Requirements, provides federal financial reporting guidance for Executive
6 branch departments, agencies, and entities required to submit audited financial
7 statements and PARs. The circular encourages a brief highlight version of the PAR.
8 Section 2.2 – Format of the PAR, footnote 2, states,
9

10 Agencies are also encouraged to develop a brief highlights version of the
11 annual PAR. The PAR Highlights should exist as a standalone document,
12 presenting key findings and relevant financial and performance data.
13 Agencies should prepare the highlights document in a manner and writing
14 style appropriate for the general public. Agencies may find it useful to
15 prepare a PAR highlights with a CD of the entire PAR document included
16 as an alternative to distributing numerous printed copies of the entire PAR
17 document.
18

19
20 Although the number of agencies using summary reports appears to be increasing,
21 some of the information contained in the reports varied. All seven summary reports
22 prepared for FY 2003 were drawn from the PARs. However, only four agencies
23 specifically mentioned the PAR and directed the reader to the PAR for more detailed
24 information. In addition, although all of the seven reports included performance results,
25 only four included financial statements and the auditor's report.¹⁰
26

27 It should be noted that a vehicle for communicating information in a concise manner
28 already exists. The MD&A section of each financial report is intended to provide
29 concise information on an agency's financial and performance results and to describe
30 these results in a manner that is readable to a broad audience. SFFAC 3,
31 Management's Discussion and Analysis, issued April 1999, states,
32

33
34 MD&A is an important vehicle for (1) communicating managers' insights
35 about the reporting entity, (2) increasing the understandability and
36 usefulness of the GPFRR (general purpose federal financial report) and
37 (3) providing accessible information about the entity and its operations,
38 service levels, successes, challenges, and future.(Summary)
39

40 MD&A should address the reporting entity's program and financial
41 performance measures, financial statements, systems and controls,
42 compliance with laws and regulations, and actions taken or planned to
43 address problems. The discussion and analysis of these subjects may be

⁸ Ibid, p. 91,

⁹ Ibid p. 5

¹⁰ Ibid pp. 92-93,

1 based partly on information contained in reports other than the GPFFR.
2 MD&A also should address significant events, conditions, trends and
3 contingencies that may affect future operations. (paragraph 1)
4

5 A Federal reporting entity's GPFFR should be understandable and useful
6 to a wide audience, not just members of the entity's management and
7 specialized analysts working for special interest groups, corporations, and
8 other entities affected by the Government's actions. Therefore, the report
9 should be accompanied by a concise narrative discussion and analysis.
10 Even insiders and specialized analysts often need such a discussion and
11 analysis to understand the report. Communication with a wide audience
12 may require effective use of colors, graphs, photographs, and charts.
13 Reporting understandable, accessible information on the Government's
14 actions and the effects of its actions helps assure accountability and
15 provides a more "level playing field" on which the public interest can best
16 be served. (paragraph 5)
17

18 Also, like a summary report, the MD&A could include links to direct the reader to more
19 detailed information.
20

21 Summary/highlight reports is an area that is newly evolving in the federal environment
22 which may require further study. SFFAC1 notes,
23

24 35. The FASAB recognizes that developing and implementing standards
25 that will contribute to achieving certain objectives may take considerable
26 time. Time will be needed to establish information-gathering systems and
27 to gain experience by experimenting with alternative approaches.
28

29 36. The FASAB expects that some of these objectives may best be
30 accomplished through means of reporting outside general purpose
31 financial reports. Indeed, the FASAB recognizes that information sources
32 other than financial reporting, sources over which the FASAB may have
33 little or no influence, also are important to achieving the goals implied by
34 these objectives.
35

36 37. In developing specific standards, the FASAB will consider the needs of
37 financial information users, the usefulness of the information in relation to
38 the cost of developing and providing it, and the ability of accounting
39 standards to address those needs compared with other information
40 sources.
41

42
43 Based on the government-wide efforts to streamline reporting requirements and to
44 consolidate reporting (Reports Consolidation Act), it appears that exploring multiple
45 reports would not be consistent with these efforts. However, encouraging the use of a
46 summary report with links to detailed reports and information does seem to be a

1 plausible way to clearly communicate what agencies are reporting. This could be
2 particularly beneficial at the CFR level. At the CFR level, users can gain insights into
3 the financial operations and condition of the federal government as a whole. Also,
4 effectively utilizing the MD&A section of financial reports may achieve similar results.
5

6 Recommendation: It appears there would be value in ensuring that agencies are
7 consistent in preparing the summary level reports and ensuring that links or narratives
8 are included that would direct users to more detailed information. However, the Board
9 should consider that the MD&A could be used to provide concise information to a broad
10 audience. FASAB could explore the possibilities of other guidance vehicles during its
11 strategic planning process. As part of strategic planning, Board members can examine
12 issues such as what the Board does and why it does it. Going through the process and
13 resolving these issues may help identify the types of guidance vehicles that will help the
14 Board achieve its goals and objectives. In addition, staff believes discussions from the
15 other roundtable meetings may be helpful in determining if this is a prevalent issue that
16 should be considered further and a final decision should be delayed until after those
17 meetings have occurred.
18
19

20 • **General Comments about the Objectives**

21
22 Most of the participants agreed that the objectives in SFFAC were very broad, but that
23 was the intent. The participants did not expect FASAB or financial statement reporting
24 to cover or meet all the objectives alone. Specific to the Budgetary Objective, several
25 participants noted that the Budget itself also assists in achieving the objectives. Other
26 than the specific comments on sub-objective 3 identified above, the participants were
27 satisfied with the wording of the Budgetary Objective and did not offer comments on the
28 other federal financial reporting objectives.
29

30 Staff Analysis and Recommendations:

31
32 *During the December 2003 meeting, the Board expressed general satisfaction with the*
33 *Budgetary Integrity objective. The discussion at the roundtable was consistent with the*
34 *Board's position that the objective appears broad, but there are other documents such*
35 *as the President's Budget that accomplishes the objective.*
36

37 Recommendation: There are no specific staff recommendations for this issue.

EXAMPLE BUDGETARY COMPARISON SCHEDULE

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF FAIRFAX, VIRGINIA
 Budgetary Comparison Schedule - General Fund (Budget Basis)
 For the fiscal year ended June 30, 2004

	Budgeted Amounts		Actual Amounts (Budget Basis)	Variance from Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,139,644,748	2,155,947,504	2,183,671,850	27,724,346
Permits, privilege fees, and regulatory licenses	26,851,322	26,902,515	28,675,370	1,772,855
Intergovernmental	320,474,316	335,179,755	339,355,974	4,176,219
Charges for services	38,148,727	41,941,708	42,529,744	588,036
Fines and forfeitures	12,044,433	12,778,263	13,272,803	494,540
Revenue from the use of money and property	16,936,547	18,797,119	18,166,576	(630,543)
Recovered costs	5,395,848	6,052,139	6,492,301	440,162
Total revenues	2,559,495,941	2,597,599,003	2,632,164,618	34,565,615
EXPENDITURES				
Current:				
General government administration	84,261,105	90,170,330	84,278,513	5,891,817
Judicial administration	26,382,592	27,146,531	26,165,531	981,000
Public safety	314,344,171	322,571,046	312,007,368	10,563,678
Public works	52,705,647	55,497,674	53,366,808	2,130,866
Health and welfare	221,752,095	234,603,394	214,474,072	20,129,322
Community development	37,687,030	40,689,690	36,794,741	3,894,949
Parks, recreation, and cultural	60,450,523	61,476,693	59,775,119	1,701,574
Nondepartmental	147,978,554	155,665,666	146,605,328	9,060,338
Total expenditures	945,561,717	987,821,024	933,467,480	54,353,544
Excess of revenues over expenditures	1,613,934,224	1,609,777,979	1,698,697,138	88,919,159
OTHER FINANCING SOURCES (USES)				
Transfers in from other primary government funds	1,396,150	1,396,150	1,396,150	-
Transfers out to other primary government funds	(374,551,862)	(419,080,185)	(419,080,185)	-
Transfers out to component units	(1,239,690,634)	(1,242,065,754)	(1,242,065,754)	-
Total other financing sources (uses)	(1,612,846,346)	(1,659,749,789)	(1,659,749,789)	-
Net change in fund balance	\$ 1,087,878	(49,971,810)	38,947,349	88,919,159

See accompanying notes to required supplementary information.

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TAB 2
SUMMARY OF THE OPERATING PERFORMANCE ROUNDTABLE MEETING¹
SEPTEMBER 28, 2005
9:00 a.m. – 12 p.m.

PARTICIPANTS

Jim Dalkin	Deloitte
Rick Hass	Department of Energy, Office of Inspector General
Diana Espinosa	Office of Management and Budget
Barry White	Council for Excellence in Government
Maurice McTigue	Mercatus Center, George Mason University
Anna Miller	Association of Government Accountants
Hal Steinberg	Former FASAB member
Terry Patton	Government Accounting Standards Board
Leo Lex	Congressional Budget Office
Robin Landauer	U. S. Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management, Government Information, and International Security
Chris Mihm	Government Accountability Office

FASAB

Wendy Comes	Executive Director
Melissa Loughan	Assistant Director
Ross Simms	Assistant Director

PURPOSE OF ROUNDTABLE AND DISCUSSION TOPICS

FASAB's conceptual framework ensures that federal financial accounting standards are based on a sound framework of objectives and concepts. During its initial years of operation, FASAB developed a core set of accounting standards and concepts statements. Now, after 12 years of substantial progress, the Board believes that it is time to revisit the concepts given the changes in the federal financial reporting environment since the first concepts statement was issued.

The Board relies on Statement of Federal Financial Accounting Concepts 1 (SFFAC 1) – *Objectives of Federal Financial Reporting*, issued September 2, 1993, to support its deliberations on financial reporting issues. The first phase of the conceptual framework project involves reviewing the four objectives of financial reporting as described in SFFAC 1. The four objectives of financial reporting are Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. The Board is evaluating these objectives with a focus on (1) clarifying their broad characteristics (by determining if they

¹ Complete transcripts for the Roundtable Meeting are available upon request.

1 are still valid and appropriate and whether additional ones are necessary) and (2)
2 defining the Board's role in achieving the objectives as the nature of the Board's
3 involvement may vary.

4
5 This was the second of four roundtable meetings on each financial reporting objective.
6 This meeting focused on the Operating Performance objective and its primary purpose
7 was to discuss how the objective might be improved to facilitate its use as a means for
8 guiding the Board in developing standards of financial accounting and reporting and in
9 developing solutions to financial accounting and reporting issues. The meeting
10 discussions involved issues such as:

- 11 • Participants' experience with the Operating Performance objective.
- 12 • How changes in the federal environment since 1993 may affect the Board's
- 13 reconsideration of the Operating Performance objective.
- 14 • What the scope of FASAB's role should be in meeting the Operating
- 15 Performance objective.
- 16 • General matters regarding the objectives of federal financial reporting and
- 17 SFFAC 1.
- 18
- 19
- 20

21 **Operating Performance Objective of Federal Financial Reporting in** 22 **Existing FASAB Literature**

23
24 The Operating Performance objective of federal financial reporting states that:

25
26 Federal financial reporting should assist report users in evaluating the service
27 efforts, costs, and accomplishments of the reporting entity; the manner in which
28 these efforts and accomplishments have been financed; and the management of
29 the entity's assets and liabilities. Federal financial reporting should provide
30 information that helps the reader to determine:

- 31
- 32 • the costs of providing specific programs and activities and the composition of,
- 33 and changes in, these costs;
- 34 • the efforts and accomplishments associated with federal programs and the
- 35 changes over time and in relation to costs; and
- 36 • the efficiency and effectiveness of the government's management of its
- 37 assets and liabilities.
- 38
- 39

40 **Summary of Issues, Including Staff Analysis and Recommendations**

41
42 The participants confirmed that performance reporting is an important initiative in the
43 federal government and they discussed matters associated with reporting on program
44 performance. While they did not determine a need for FASAB to consider changes to
45 the Operating Performance objective of financial reporting, the participants did discuss

1 issues and methods that could enhance achievement of the objective. The issues and
2 methods discussed and FASAB's staff analyses are presented as follows.

3
4
5 • **Challenges in Achievement of the Operating Performance Objective**
6

7 Based on their experiences working with federal agencies and reviewing agency
8 performance and accountability reports, the participants offered their views on how well
9 the Operating Performance objective is being achieved. Generally, they noted that
10 while there is a need to maintain high standards, agencies are still having difficulty
11 meeting basic financial reporting requirements as well as the objective. Additionally, the
12 participants noted that agencies continue to struggle with determining what information
13 should be conveyed. The participants also believed that integrating financial and
14 performance systems and consequences for not controlling costs may help change
15 behavior and begin to address some of the challenges. Further, the participants
16 discussed that FASAB could have a role in education and providing non-authoritative
17 guidance, but some participants felt that guidance vehicles already exist and more
18 guidance may overwhelm a community already struggling to meet requirements.
19 A description of each of these challenges in achieving the operating performance
20 objective follows.

21
22 **Systems and Control Issues**
23

24 Certain participants explained that because of system issues and internal control
25 weaknesses, agencies are having difficulty meeting even some of the fundamental
26 requirements such as those involved in preparing financial statements for the standard
27 financial statement audits. The participants explained that there is a need to get internal
28 controls to a certain level before agencies can hone in on some of the performance type
29 objectives. One participant described that agencies are really far behind in terms of
30 systems and controls and added that most auditors have chosen not to rely on controls
31 while performing the financial statement audits. Although this issue may tie closer with
32 the 4th Roundtable on the Systems and Control Objective, the participants did want to
33 point out that this issue affects achieving the Operating Performance Objective.
34

35
36 **Determining Appropriate Information to Convey and Utility of Information**
37

38 The participants explained that agencies are having difficulty determining the
39 appropriate information to convey through performance measures. Additionally, the
40 participants described that agencies are having difficulty determining unit cost
41 information, linking that information to outcome, and developing performance measures
42 for some services. Participants noted that, in some instances, performance measures
43 can not be quantified. Further, the participants explained that agency difficulty in
44 achieving the objective could be due to more than simply the agency's level of effort and
45 capacity. Other concerns and comments regarding the challenges in conveying the
46 appropriate information and to achieving the objective include:

- When focusing on accomplishments, skills beyond those of a typical accountant are needed, such as the disciplines of program evaluation and social science research.
- For some agencies, the accomplishments have not been clearly defined. As a result, linking funding to accomplishments is difficult.
- Multi-year investments and activities pose concerns. For example, some accomplishments are the result of multiple years of investments and activities. It was believed that in some cases, spending occurs over such a long period of time that a review is not performed to determine how much was actually spent in relation to the budget. Also, evaluating long-term results requires connecting short-term outputs with the long-term outcome.
- Another factor that may be considered is that most federal programs are unique and subject to change with each administration. Consequently, developing comparable measures among entities may be a challenge.
- Meaningful outcome measures are difficult to develop. For example, if output is measured in terms of number of grants awarded, that information alone does not describe what happens with those grants.
- Outcome measures that cross organizational boundaries are difficult to capture and report. Some measures may involve other agencies and state and local governments.
- Outcome measures in the federal government could be enhanced through integrating data from states and local governments. States and local governments develop outcome measures that federal agencies could use in their reporting. The challenge would be obtaining up-front agreement on the requirements.

The participants discussed the notion that the utility of the information should be the key factor in determining what should be presented. Additionally, the participants discussed that there should be a focus on simplicity and who the audience is when determining performance information to present. Although the participants noted that the utility of the financial and performance information has improved remarkably, much work remains. Several participants explained that the eventual goal is for there to be constant and real-time cost information that could be used day-to-day to monitor performance and make managerial decisions and ultimately, be able to determine the cost per unit of success. The participants also commented that financial and performance information should not be produced for the sake of producing it, the utility of the information should drive what is reported.

Integrating Budget, Performance and Financial Information and Consequences

The participants discussed the need for integration of the many systems and information across the government. The participants explained that there is a need to establish and recognize the degree of required integration of accounting data, internal controls, financial management, and performance reporting with the capital

1 management and performance management systems. Further, the participants
2 discussed the integration of performance and financial information and the need for
3 consequences when results are not achieved or costs are not properly controlled.
4 Although the participants noted that this may be outside of FASAB's purview and
5 FASAB may not be the body to lead or direct this effort, the participants believed
6 bringing it up could stimulate discussion among appropriate parties.

7
8 The participants also discussed that there is disconnect among budget, performance
9 and financial personnel, and they appear to use different vocabulary. One participant
10 explained that although the President's Management Agenda includes Budget and
11 Performance Integration, there is still a lack of consistency in reporting information for
12 different purposes. Additionally, the participants noted differences or issues with
13 guidance issued by OMB for performance reporting, budget reporting and financial
14 reporting.

15
16 The participants noted that the Government Performance and Results Act (GPRA)
17 requirements and implementation were developed separately from financial reporting.
18 Although the participants acknowledged that reporting requirements have been
19 streamlined to integrate GPRA reporting with the financial information in the
20 Performance and Accountability Reports, much remains to truly integrate the
21 information. Integration is necessary because it is difficult to discuss "results" without
22 determining the cost and how efficiently the cost was managed to achieve those results.
23 The participants believed that to address performance and accountability reporting, a
24 community broader than the "accountants" needs be engaged.

25
26 The participants discussed that performance measures are good in different contexts,
27 and the right performance measures to have in performance and accountability reports
28 might be different than the ones that the managers are using on a day-to-day basis, and
29 they might be different from the ones that OMB uses when reviewing the effectiveness
30 of a program overall. Perhaps OMB working with agencies and other groups needs to
31 continue refining the guidance. However, the challenge is avoiding being too
32 prescriptive, because there are so many different cases.

33
34 Also, the participants discussed that the federal government may not have appropriate
35 consequences and incentives to control costs. Although some progress is being made,
36 integrating financial, performance, and performance appraisal systems could contribute
37 to changing behavior toward cost information. The Sarbanes-Oxley Act poses
38 consequences for financial officers of corporations who fail on internal control over
39 financial reporting, but OMB A-123, the comparable federal government requirement,
40 does not have consequences. One step that is being taken to integrate consequences
41 is that the federal government's human capital initiative involves linking managers'
42 appraisals and pay to results.

43
44 The participants discussed that FASAB operates in a public setting through due
45 process. An advantage of operating in this manner is that FASAB can bring people to
46 the table from different backgrounds, different fields, and have a dialogue around issues

1 such as integrating accounting, capital management, and performance management.
2 That wouldn't necessarily fall into an accounting standard that one audited against, but
3 rather would be a different kind of product, a more thought-provoking, visionary type of
4 a product. Also, while FASAB could provide some lessons learned, other vehicles, such
5 as the CFO and CIO Council already exist for communicating that information.
6
7

8 **Other Report Formats and Guidance Vehicles**

9

10 The participants noted that FASAB could have a role in education and providing non-
11 authoritative guidance. However, most participants felt that guidance vehicles already
12 exist and more guidance may overwhelm a community already struggling to meet
13 requirements. The participants also expressed the view that any guidance issued
14 should be less prescriptive and more open so it may be applied as needed to particular
15 agencies. The participants cautioned that auditors and agencies believe that too many
16 requirements already exist, and agencies are still trying to meet those. For example,
17 the participants noted that OMB A-11 provides some criteria regarding the accuracy of
18 performance information.
19

20 The participants discussed that if FASAB were to issue guidance, FASAB should
21 consider the importance of simplicity and the users of financial information. The
22 participants explained that additional guidance could result in significant amounts of
23 effort being utilized to prepare reports that users do not read. The participants
24 discussed that if FASAB pursues developing performance measures guidance, one
25 should consider that auditors may then have to verify the information. The participants
26 were concerned that when a standards setting body such as the FASAB issues
27 guidance, the natural reaction is to get someone to measure it. The participants
28 explained that if you have performance measures, it can be debated who sets those
29 measures, but the next logical step is having the accountants verify that that data is
30 accurate and this results in increased costs. The participants explained that in the case
31 of Sarbanes-Oxley, audit fees for public companies have doubled. Accordingly, the
32 participants believed having the accountants look at the performance measures could
33 have a substantial impact on the agencies' costs.
34

35 The participants discussed using GASB's approach may address this concern. GASB
36 recognized that there could be multiple general purpose external reports of interest to
37 citizens. In the late eighties, GASB hired academicians to perform research and
38 subsequently issued a number of research reports. The reports primarily focused on
39 coming up with measures. Now it appears that GASB has moved way away from that
40 approach and recently issued a special report called, Suggested Criteria for
41 Performance Reporting.² In this report, GASB does not advocate any measures at
42 least being set by a standard setter. Instead, GASB discusses that the governments
43 need to set their own measures. After more research, GASB may consider issuing
44 standards. The Association of Government Accountants has a Certificate of Excellence

² This special report describes a set of 16 suggested criteria that state and local governments can use when preparing external reports on performance information.

1 in Accountability Reporting (CEAR) program for federal agencies and a Service Efforts
2 and Accomplishments (SEA) program for state and local governments. Through SEA,
3 they are trying to encourage state and local governments to follow the GASB suggested
4 criteria.

5
6 The American Institute of Certified Public Accountants basically says that if a state or
7 local government wants to follow generally accepted accounting principles in their
8 external financial reports, and receive a clean audit opinion on them, they have to follow
9 the GASB standards. On the other hand, the performance report would be separate
10 from the financial report and no organization has designated GASB as the body to set
11 standards for this type of report.

12
13 Also, GASB advocates that governments layer their reports. In the Internet
14 environment, a user can click on, for example, a government in which they have an
15 overall interest. Then, if they have a particular interest, they can “drill down” to the next
16 level, such as public safety. From there they could drill down further and review the fire
17 or police department. The individuals in the police or fire department would set their
18 measures while considering their budget.

19
20 A participant offered an additional alternative FASAB could consider relative to
21 performance reporting. As part of the project on elements, FASAB could consider
22 defining the elements of a performance measure. GASB has done this and they
23 discuss relevance, reliability, consistency, comparability, understandability, and
24 timeliness. These may apply at the federal level, as well as the state and local level.

25
26
27 Staff Analysis and Recommendations:

28
29 *The Board acknowledged the complexities of cost measurement and performance*
30 *reporting when crafting SFFAC 1. Rather than address challenges and implementation*
31 *issues, the Board decided to establish a framework for reporting on performance to*
32 *demonstrate how cost information can assist in the process. SFFAC 1, paragraph 194*
33 *states,*

34
35 *Both cost measurement and performance measurement are complex subjects.*
36 *Difficult problems arise during attempts to implement the ideas involved. For*
37 *example, meaningful interpretation may require disaggregation of information, or*
38 *adjustment of targets for differences in client characteristics, for local conditions,*
39 *and for other factors beyond the government’s control. Such problems are*
40 *beyond the scope of this conceptual document. This Statement does not purport*
41 *to present a comprehensive discussion of how to measure cost or performance.*
42 *Neither does this Statement address the problems of implementation; it merely*
43 *shows the relationship between financial reporting and performance reporting in*
44 *conceptual terms.*
45

1 *In SFFAS 4, the Board recognized the importance of the reporting relationships among*
2 *budgetary, financial, and performance information. Specifically, par.55 of SFFAS 4*
3 *states “Proper financial management requires that the three accounting processes work*
4 *closely together to provide useful reporting to both internal and external users.”*
5 *Additionally, SFFAS 4 also presented the notion of special purpose reports by*
6 *explaining in par. 56 “Federal financial reporting encompasses general and special*
7 *purpose reports to meet the needs of the four user groups. Information produced by*
8 *managerial cost accounting appears in or influences both types of reports. As*
9 *discussed above, managerial cost accounting should provide information for use by*
10 *both financial accounting and budgetary accounting. That information is used by those*
11 *processes in producing both general purpose and special purpose reports.” SFFAS 4*
12 *addressed the linkage to performance reporting as follows:*

13
14 *57. Managerial cost accounting also results in reports of its own. Most often*
15 *these are special purpose reports designed for internal users, typically program*
16 *and line managers. However, they may be for groups generally considered*
17 *external users.*

18
19 *58. One of the most important aspects of reporting in which managerial cost*
20 *accounting plays a large role is that of performance reporting. Measuring and*
21 *reporting actual performance against established goals is essential to assess*
22 *governmental accountability. Cost information is necessary in establishing*
23 *strategic goals, measuring service efforts and accomplishments, and relating*
24 *efforts to accomplishments. The importance of cost information in relation to*
25 *performance measurement and performance reporting has been recognized in*
26 *the Objectives of Federal Financial Reporting, which said “One reason for*
27 *performing cost accounting is to assist in performance measurement” and it also*
28 *stated that “The topics of cost and performance measurement are related*
29 *because it is by associating cost with activities or ‘cost objectives’ that accounting*
30 *can make much of its contribution to reporting on performance.*

31
32 *As noted in the above paragraphs, it appears the Board has attempted to make clear*
33 *the importance of the reporting relationships among budgetary, financial, and*
34 *performance information. Staff believes efforts to further integrate systems may be*
35 *best accomplished through other means, such as guidance from OMB. It should be*
36 *noted that the President’s Management Agenda (PMA) does include the Budget and*
37 *Performance Integration initiative. This initiative directs departments to improve*
38 *program results and to ensure that performance is routinely considered in funding and*
39 *management decisions. The goal of this initiative is to use performance information in*
40 *budgeting and improving program performance and efficiency. The standards for*
41 *success in this initiative includes areas such as demonstrating improvement in program*
42 *performance and efficiency in achieving results, strategic plans contain outcome-*
43 *oriented goals and objectives, and linkage of performance appraisal plans and award*
44 *programs for all SES and managers.*

1 The Board noted the broad nature of performance reporting and its relationship to
2 financial reporting and utilized some of GASB's performance reporting work in
3 describing the relationship between performance and financial reporting. SFFAC 1
4 paragraph 199 states,

5
6 *Performance reporting is broader than financial reporting, but good financial*
7 *reporting is essential to support performance reporting. The GASB has identified*
8 *three broad categories of measures for reporting on performance of state and*
9 *local governmental entities: those that measure service efforts, those that*
10 *measure service accomplishments, and those that relate efforts to*
11 *accomplishments. Although some performance measures may not be clearly*
12 *assignable to one of these categories, the categories are helpful for*
13 *understanding how and where financial reporting can contribute to performance*
14 *reporting by providing relevant financial information.*

15
16 *The Board further noted the evolutionary nature of the standards setting process by*
17 *discussing that, in future projects, the FASAB may wish to change or expand parts of*
18 *the financial and performance reporting framework described in SFFAC 1 (SFFAC1,*
19 *paragraph 200). Since FASAB issued SFFAC1, GASB has been making progress in*
20 *the area of performance reporting. GASB developed a special report entitled, Reporting*
21 *Performance Information: Suggested Criteria for Effective Communication, issued*
22 *October 2003. The special report suggests criteria that provide a basis for more*
23 *extensive experimentation with the external reporting of service efforts and*
24 *accomplishments (also referred to as performance information) that will communicate*
25 *relevant, reliable information about the results of government programs and services to*
26 *elected officials, citizens, and other users. Over the next few years, GASB plans to*
27 *encourage and assist with experimentation using the suggested criteria.*

28
29 *While GASB is making progress in performance reporting, some groups do not believe*
30 *that an accounting standards board should be involved in setting standards concerning*
31 *performance reporting. They believe that performance measures are managerial in*
32 *nature and setting standards for performance could imply defining what the government*
33 *should do and how it should spend money, which is more appropriately the role of*
34 *elected officials. Also, the existence of benchmarks established by a standard-setting*
35 *body may place pressure on organizations to conform their own performance measures*
36 *to the standard-setter's model measures.*

37
38 *In addition, FASB includes neutrality among the desired qualitative characteristics of*
39 *accounting information, while asserting that its standards affect resource allocation.*
40 *Although FASAB does not include neutrality as a qualitative characteristic of financial*
41 *reporting, the Board has stated in SFFAC 1, paragraph 193, that setting performance*
42 *targets³ is a function of management (elected and appointed officials) and that financial*
43 *reporting standards deal with what information is reported and how it is reported.*
44

³ A performance target refers to the desired level of performance defined by elected or appointed officials.

1 *Recommendation:* Staff does not believe there is a need to enhance the reporting
2 objective or to immediately address standards regarding the issues identified above.
3 FASAB could explore the possibilities of other guidance vehicles during its strategic
4 planning process. As part of strategic planning, Board members can examine issues
5 such as what the Board does and why it does it. Going through the process and
6 resolving these issues may help identify the types of guidance vehicles that will help the
7 Board achieve its goals and objectives. In addition, staff believes discussions from the
8 other roundtable meetings may be helpful in determining if this is a prevalent issue that
9 should be considered further and a final decision should be delayed until after those
10 meetings have occurred. Also, in later phases of the Conceptual Framework project,
11 the Board could consider updating SFFAC 1 for recent developments in the relationship
12 between financial reporting and performance reporting.
13
14

15 • **Cost Accounting Issues and SFFAS 4, Managerial Cost Accounting**
16 **Concepts and Standards⁴**
17

18 Certain participants discussed the belief that the least has been completed to achieve
19 sub-objective 1, which states “Federal financial reporting should provide information that
20 helps the reader to determine the costs of providing specific programs and activities and
21 the composition of, and changes in, these costs.” The participants discussed that even
22 though SFFAS 4 requires the notion of costs of specific programs, it is not being
23 accomplished or reported in the published financial reports. The participants discussed
24 that although some agency financial statements show the total costs of strategic goals,
25 the notion of costs of specific programs and activities, is not specifically included in the
26 statements.
27

28 Certain participants suggested that FASAB could ascertain and address the conditions
29 that are impeding the implementation of SFFAS 4. Additionally, participants expressed
30 that FASAB could focus on standards to ensure the inclusion of full costs and improve
31 the alignment of budget accounts with the programs for which costs are reported.
32

33 The participants discussed the level of understanding regarding what the cost
34 accounting system should produce, and they discussed their views on SFFAS 4’s
35 contribution to cost accounting at agencies. SFFAS 4 was developed in response to
36 one of the requirements in the National Performance Review (NPR). The NPR required
37 that FASAB produce, within 18 months, a cost accounting standard. The Board did
38 proceed and produced the standard, which is our cost accounting standard. Essentially,
39 the goal of the standard is full cost on an accrual basis of the program, and divided by
40 segments. The participants noted that SFFAS 4 drives what is presented on the face of
41 the Statement of Net Cost, as well as the additional note disclosures that agencies

⁴ Staff notes that this issue area (Cost Accounting Issues and SFFAS 4, *Managerial Cost Accounting Concepts and Standards*) could have been included with the prior area--Challenges in Achievement of the Operating Performance Objective. However, due to the length of discussion devoted to this topic at the Roundtable meeting and this issue has been considered as an agenda topic in the past, staff believed it to be more appropriate to include as a separate issue area.

1 prepare to get the information to a finer level. The participants expressed concern that
2 the standard does not require explicitly that the statement of net cost match the goals
3 under GPRA, and align with all of the other efforts.
4

5 The participants noted other matters regarding SFFAS 4. The participants discussed
6 that it is possible for agencies to receive a clean opinion on their financial statements
7 but not have adequate systems to adhere to accounting standards such as SFFAS 4.
8 However, the auditor's work on agency compliance with laws and regulations can
9 provide an indication of whether agencies are actually determining the cost of providing
10 specific programs.
11

12 Also, certain participants believed that SFFAS 4 did not go far enough. Specifically, one
13 participant commented that it talked about concepts and not enough about
14 requirements. A participant also noted that it allowed manual or non-computerized
15 accounting for costs and was not strong enough to get agencies to change their
16 behavior. Because agencies use many different systems, there needs to be an effort to
17 integrate financial systems with the larger performance measurement system. This
18 could help achieve the integration of performance and financial information as
19 discussed above.
20

21 It was noted that SFFAS 4 does have strengths. For example, SFFAS 4 does set forth
22 the requirement for entities to accumulate and report the costs of its activities on a
23 regular basis for management purposes. Additionally, it sets forth the requirement for
24 entities to report the full costs of outputs. Also, SFFAS 30, *Inter-entity Cost*
25 *Implementation*, will require full implementation of the inter-entity cost provision in
26 SFFAS 4. Specifically, SFFAS 30 will require that each entity's full cost incorporate the
27 full cost of goods and services that it receives from other entities in FY 2009. The
28 participants noted that although this will help show the cost of running an agency,
29 agencies have a problem with accounting for costs that they cannot control or influence
30 the quality of the service.
31

32 In addition, the participants agreed that some education on cost accounting and SFFAS
33 4 would be helpful. The participants discussed that program staff members need to
34 understand the utility in this information. The participants discussed that perhaps
35 identifying an "access point" to the persons responsible for results would facilitate
36 education. For example, in private industry, a comptroller could institute a cultural
37 concern with cost and cost drivers. The participants discussed that a comparable
38 position in the federal government could be the CFO or CIO. However, the structure of
39 agencies could be a factor that hinders progress in this area. As noted earlier, program
40 managers often do not have control over all the resources that support their programs.
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1 Staff Analysis and Recommendations:

2
3 *With the issuance of SFFAS 4, the Board intended that agencies perform managerial*
4 *cost accounting on a “regular basis.” SFFAS 4, paragraph 68, describes regular basis*
5 *as follows,*

6
7 *To perform managerial cost accounting on a “regular basis” means that entities*
8 *should establish procedures to accumulate and report costs continuously,*
9 *routinely, and consistently for management information purposes. Consistent and*
10 *regular cost accounting is needed to meet the second objective of federal*
11 *financial reporting which states information should be provided to help the user*
12 *determine the costs of providing specific programs and activities and the*
13 *composition of, and changes in those costs. That objective also requires the*
14 *reporting of performance information of federal programs and the changes over*
15 *time in that performance in relation to the costs.*

16
17 *SFFAS 4 also requires that management of each reporting entity define and establish*
18 *responsibility segments and that managerial cost accounting should be performed to*
19 *measure and report the costs of each segment's outputs. SFFAS 4 explains the*
20 *purpose for responsibility segments, which includes the following—provide a vehicle for*
21 *accumulating costs incurred by the segment to match with its outputs, facilitate cost*
22 *control and management, provide useful information in support of financial reporting by*
23 *components. In addition, SFFAS 4 provides the linkage to performance reporting as*
24 *follows:*

25
26 *85. For internal management, segmentation could also facilitate performance*
27 *measurement. Since each segment is responsible for a mission, or a line of*
28 *activity to produce a certain type of output, performance goals can be set for*
29 *each segment based on its specific tasks and operating patterns. Information on*
30 *costs, outputs, and outcomes related to each segment can be used to measure*
31 *its performance against the goals. The results of the segment performance*
32 *measurement could also support external reporting on performance measures for*
33 *the entire reporting entity or its major programs.*

34
35 *SFFAS 4 provides flexibility to management in establishing segments by providing in*
36 *par. 86 that “Reporting entity management should define and structure its responsibility*
37 *segments. The designation of responsibility segments should be based on the following*
38 *factors: (a) the entity's organization structure, (b) its lines of responsibilities and*
39 *missions, (c) its outputs (goods or services it delivers), and (d) budget accounts and*
40 *funding authorities. However, the predominant factor is the reporting entity's*
41 *organization structure and its existing responsibility components, such as bureaus,*
42 *administrations, offices, and divisions within a department.” Although SFFAS 4 does*
43 *not explicitly state that the segments should be the same as programs identified under*
44 *GPRA, there is sufficient flexibility and language that encourages segmentation to*
45 *facilitate performance measurement reporting.*

1 *In a recent Government Accountability Office (GAO) report entitled, Achieving FFMI*
2 *Compliance Continues to Challenge Agencies (GAO 05-881, issued September 2005),*
3 *it was noted that despite becoming effective in 1998, SFFAS 4 remains particularly*
4 *difficult for agency financial managers to fully implement. This difficulty appears to exist*
5 *even with the Board affording agencies a level of flexibility in implementing the*
6 *standard. SFFAS 4 states,*

7
8 *70. The managerial cost accounting processes consist of collecting data from*
9 *the common data source, processing that data, and reporting cost and*
10 *output information in general purpose and special purpose reports.*
11 *Appropriate procedures and practices should also be established to enable*
12 *the collection, measurement, accumulation, analysis, interpretation, and*
13 *communication of cost information. This can be accomplished through the*
14 *use of a cost accounting system or the use of cost finding techniques and*
15 *other cost studies and analyses. A cost accounting “system” is an organized*
16 *grouping of methods and activities designed to consistently produce reliable*
17 *cost information.*

18
19 *71. Regardless of whether a reporting entity uses a cost accounting system or*
20 *cost finding techniques, the methods and procedures followed should be*
21 *designed to perform at least a certain minimum level of cost accounting and*
22 *provide a basic amount of cost information necessary to accomplish the*
23 *many objectives associated with planning, decision making, control, and*
24 *reporting. The more important of these minimum criteria for cost accounting*
25 *are associated with the standards in the remainder of this statement. Others*
26 *are also important.*

27
28 *Responsibility Segments - Cost information should be collected by*
29 *responsibility segments which have been identified by management and*
30 *outputs should be defined for each responsibility segment.*

31
32 *Full Costing - Each reporting entity should measure the full cost of outputs*
33 *so that total operational costs and total unit costs of outputs can be*
34 *determined. “Full cost” includes the cost of goods or services provided by*
35 *other entities when the applicable criteria are met.*

36
37 *Costing Methodology - The costing methodology used (e.g., activity-based*
38 *costing, job order costing, standard costing, etc.) should be appropriate for*
39 *management’s needs and the operating environment.*

40
41 *Performance Measurement - Cost accounting should provide information*
42 *needed to determine and report service efforts and accomplishments and*
43 *information necessary to meet the requirements of the GPRA or interface*
44 *with a system that provides such information. This includes the quantity of*
45 *inputs and outputs and other non-financial information needed in the*
46 *measurement of performance.*

1
2 *Reporting Frequency - Cost information should be reported in a timely*
3 *manner and on a regular basis consistent with the needs of management*
4 *and the requirements of both budgetary and financial reporting.*
5

6 *Standard General Ledger - Managerial cost accounting should be*
7 *integrated with general financial accounting. Both depend on the standard*
8 *general ledger for basic financial transaction data.*
9

10 *Precision of Information - Cost information supplied to internal and*
11 *external users should be reliable and useful in making evaluations or*
12 *decisions. At the same time, unnecessary precision and refinement of*
13 *data should be avoided.*
14

15 *Special Situations - The managerial cost accounting processes should be*
16 *designed to accommodate any of management's special cost information*
17 *needs that may arise due to unusual or special situations or*
18 *circumstances. If such cost information is needed on a regular basis,*
19 *appropriate procedures to provide it should be developed.*
20

21 *Documentation - All managerial cost accounting activities, processes, and*
22 *procedures should be documented by a manual, handbook, or guidebook*
23 *of applicable accounting operations. This reference should outline the*
24 *applicable activities, provide instructions for procedures and practices to*
25 *be followed, list the cost accounts and subsidiary accounts related to the*
26 *standard general ledger, and contain examples of forms and other*
27 *documents used.*
28

29 *72. While each entity's managerial cost accounting should meet the basics*
30 *discussed above, this standard does not specify the degree of complexity or*
31 *sophistication of any managerial cost accounting process. Each reporting*
32 *entity should determine the appropriate detail for its cost accounting*
33 *processes and procedures based on several factors. These include the:*
34

- 35 • *nature of the entity's operations;*
- 36 • *precision desired and needed in cost information;*
- 37 • *practicality of data collection and processing;*
- 38 • *availability of electronic data handling facilities; cost of installing,*
39 *operating, and maintaining the cost accounting processes; and*
- 40 • *any specific information needs of management.*

41
42 *Also, agencies could use a gradual approach to the development of cost systems while*
43 *developing basic cost information through other means in the short run (paragraph 266).*
44

45 *The Board's flexibility permits others to develop more prescriptive guidelines. It should*
46 *be noted that the President's Management Agenda (PMA) does include the Budget and*

1 *Performance Integration initiative. This initiative directs departments to improve*
2 *program results and to ensure that performance is routinely considered in funding and*
3 *management decisions. The standards for success in this initiative includes the area of*
4 *reporting the full cost of achieving performance goals accurately in budget and*
5 *performance documents and accurately estimate the marginal cost of changing*
6 *performance goals.*

7
8 *In addition, the GAO report discussed some current initiatives in the federal government*
9 *that can help address financial management system issues. One initiative is OMB's*
10 *task forces to conduct a government-wide analysis of lines of business that support the*
11 *PMA goal to expand electronic government. The purpose of the Line of Business (LOB)*
12 *initiative is to develop business-driven, common solutions for lines of business that*
13 *extend across the entire federal government. The lines of business are financial*
14 *management, human resources management, grants, federal health architecture, and*
15 *case management. These lines of business share similar business requirements and*
16 *processes. OMB and designated agency LOB task forces plan to use enterprise*
17 *architecture-based principles and best practices to identify common solutions for*
18 *business processes, technology-based shared services, or both to be made available to*
19 *government agencies. The solutions are expected to address business improvements*
20 *to enhance government's performance and services.*

21
22 *Also, OMB established agency task forces that focused on developing Centers of*
23 *Excellence (COE). The purposes of the COE's are to (1) reduce the number of systems*
24 *that each individual agency must support, (2) promote standardization, and (3) reduce*
25 *the duplication of efforts.*

26
27 *The Board has been monitoring cost and performance issues in the federal government,*
28 *and in 2001, considered a project designed to assess concerns similar to those*
29 *expressed by the participants, including assessing the effectiveness of SFFAS 4,*
30 *whether the objectives of the standards are being met and, if not, options for the Board*
31 *in improving the effectiveness of the standard. However, the Board determined that*
32 *other financial reporting projects warranted higher priority.*

33
34 *Recommendation: While there has been significant progress in improving federal*
35 *financial management, challenges such as establishing financial management systems*
36 *that provide reliable, timely, and useful information to support day-to-day decision-*
37 *making and oversight and for the systematic measurement of performance remain.⁵*
38 *Given the time that has elapsed since SFFAS 4 was issued, and the flexibility afforded*
39 *in its implementation, more progress in achieving the standard may have been*
40 *expected. The Board may want to reconsider a project devoted to assessing the*
41 *effectiveness of SFFAS 4 during the next agenda setting process. In addition, as part of*
42 *the strategic planning process, the Board should consider whether additional vehicles*
43 *and the types of vehicles that may be needed to enhance the progress in*
44 *implementation. The Board would need to remain aware that others such as OMB have*

⁵ See GAO-06-242T, CFO ACT OF 1990: Driving the Transformation of Federal Financial Management, November 17, 2005.

1 *initiatives on-going and are able to provide more prescriptive guidance. However, staff*
2 *does not believe there is a need to enhance the reporting objective or to immediately*
3 *address standards regarding the issues identified above.*

4
5
6 • **Sub-Objective 3**

7
8 Certain participants believed that additional reporting could be done with respect to sub-
9 objective 3. Sub-objective 3 states “Federal financial reporting should provide
10 information that helps the reader to the efficiency and effectiveness of the government’s
11 management of its assets and liabilities.” Relative to Sub-objective 3, certain
12 participants expressed the concern that physical assets may be underutilized in the
13 federal government. A participant noted that physical assets in the federal government
14 are probably under-utilized with some not utilized at all, and there needs to be a
15 mechanism to identify this fact so the right financial management decisions are made.
16 One participant explained that to address this concern, New Zealand utilized an
17 approach that involved imposing a capital charge on all the capital in a department’s
18 budget. As a result, underutilized property began to be identified.

19
20 The participants acknowledged FASAB’s previous consideration of the capital charge
21 approach. FASAB studied New Zealand’s process and issued an invitation to comment.
22 The issue faced by standard setters is that they can require reporting and produce nice
23 reports, but in some ways not achieve the end that they wanted. The key that FASAB
24 perceived with the New Zealand approach is the funding of the charge. FASAB could
25 have these reports impute a charge, but in the past Board deliberations, the feeling was
26 that unless there was some “meat” behind a charge, just having a debit and a credit in
27 the system was not going to change behavior.

28
29 It should be noted that most other participants believed that the publication of the
30 standards and the initiation of the audited financial statements have contributed to
31 providing information to the public regarding the efficiency and effectiveness of the
32 government’s management of its assets and liabilities.

33
34
35 *Staff Analysis and Recommendations*

36
37 *In 1999, the Report of the President’s Commission to Study Capital Budgeting proposed*
38 *the Capital Acquisition Fund (CAF)⁶ concept as a means to improve annual budget*
39 *decisions by promoting better planning and budgeting of capital expenditures. The*
40 *report noted that CAF encourages managers to make more efficient use of assets by*
41 *ensuring that individual programs are charged the true cost of using capital assets.*

⁶ It has been suggested that CAFS would operate as department-level funds that would use appropriated up-front borrowing authority to buy new departmental subunit assets. These subunits would then pay the CAF a mortgage payment sufficient to cover the principal and interest payment on the Treasury loan. The CAF would use those receipts only to repay Treasury and not to finance new assets. If existing capital assets were transferred to the CAF, subunits would pay an annual capital usage charge to the CAF.

1 *During its deliberations in 1999, the Board considered a cost of capital project, including*
2 *the issue of implementing a capital charge. However, the Board determined that other*
3 *financial reporting issues warranted higher priority and that this may be an area that the*
4 *budget needed to go first to ensure changes in behavior and realized consequences.*

5
6 *More recently, in April 2005, the GAO completed a study and noted that although CAFs*
7 *might achieve the goals intended, the goals can be achieved through simpler means.*
8 *For instance, asset management systems, cost accounting systems, and working*
9 *capital funds may achieve the goal of allocating annual capital costs and improving*
10 *decision making for capital assets. Also, the report noted that Agency officials,*
11 *congressional staff, and other key players raised concerns about CAFs and that*
12 *implementation issues could overwhelm its potential benefits.*⁷

13
14 *Recommendation: Given that the Board has made a determination on this issue, there*
15 *are no specific staff recommendations unless the Board decides that this is an area that*
16 *should be revisited. Therefore, staff does not believe there is a need to enhance the*
17 *reporting objective or to immediately address standards regarding the issues identified*
18 *above.*

19
20
21 • **General Comments about the Objectives**

22
23 Most of the participants agreed that the objectives in SFFAC were very broad, but that
24 was the intent. The participants did not expect FASAB or financial statement reporting
25 to cover or meet all the objectives alone. Most of the participants agreed with the
26 wording of the Operating Performance objective and did not offer comments on the
27 other federal financial reporting objectives.

28
29 *Staff Analysis and Recommendations:*

30
31 *During the December 2003 meeting, the Board expressed general satisfaction with the*
32 *Operating Performance objective. The discussion at the roundtable was consistent with*
33 *the Board's position that the objective appears broad, but there are other documents*
34 *and requirements that assist in accomplishing the objective.*

35
36 *Recommendation: There are no specific staff recommendations for this issue.*

⁷ Potential Benefits of Capital Acquisition Funds Can Be Achieved through Simpler Means, GAO 05-249, issued April 2005.