

# The Federal Accounting Standards Advisory Board

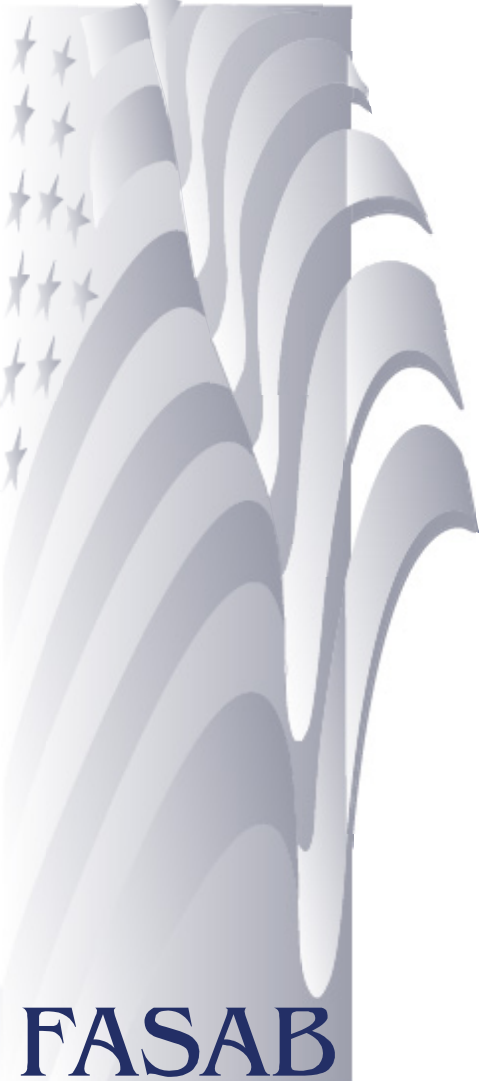
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## US Federal GAAP

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# Disclaimer

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Views expressed are those of the speaker. Official positions of the FASAB are determined only after extensive due process and deliberations.



# Overview

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- GAAP – What is it?
- General Acceptance by Whom and for What?
- Cost Accounting – Getting to the Data
- Evolution – “Traditional” or “Transparent”
- FASAB Reporting Model Project



# GAAP

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- Generally accepted accounting principles
  - Prior to 1999 – no GAAP for the federal government
  - AICPA role and criteria:
    - independent
    - due process
    - unique domain
    - comprehensive and consistent
    - human and financial resources



# But is information “Generally Accepted”?

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- AICPA monitors governance
- What do users think of the information?
  - Resource providers (who are they?)
  - Recipients of services
  - Overseers
  - Rating agencies



# Discussion - Accountability

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Are there principal-agent relationships in government?

What is the scope of accountability when an agent acts on behalf of a principal?

What are the different aspects of accountability?

How do financial reports support the various aspects of accountability?



# Where did “tradition” take financial reports?

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- Report on:
  - Resources
  - Obligations
  - Costs
  - Revenues
- Accountability and/or Decision-making



# Super-sized “traditional” financial reports for accountability

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- Budget & relationship to accrual
- Performance measures
- Beyond accrual to forward-looking
- Future:
  - Granularity of cost information
  - Cost vs. “spending”





# Discussion – Decision Making

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Statement of net cost provides the net cost of government goods and services to be financed by taxpayers (presently and in the future)

Balance sheet presents the resources the government has under its control presently and the obligations it has already incurred to deliver goods and services

What decisions can you envision making with this type of information?



# Disaggregation – Pathway to Users through Costing

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- CUSTOMIZATION
- Recurring themes:
  - Nimble
  - Granular
  - Timely
  - Budget
- Simplification
- Managerial cost accounting



# Cost Survey: Observations

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- Significant variance in the nature and type of cost information that is captured, used, and reported:
  - Lack of consistency in defining responsibility segments and outputs
  - Inability to make meaningful comparisons of statements of net cost
  - Lack of reporting on output costs and per unit costs
- No link between cost and performance



# Cost Survey: Observations (contd.)

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- Lack of integration between budget and cost data
  - Budgetary data – obligations – is the primary source of data for management decision-making
  - “...the culture is based on managing by ‘obligations’ rather than ‘expense’ data.”
    - Questionnaire respondent



# NAPA Study

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- Data are available but not analytics.
- May recommend:
  - Model linking cost to performance
  - Transaction coding to support costing
  - Executive Dashboards
  - Improving CFO staff understanding of programs (support analytics)



# Discussion – Cost Accounting

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Do tight budgetary times lead to more demand for cost information?

What is the role of the CFO?

What are the barriers to cost accounting?

What is the benefit?



# E-Transparency

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- Accountability vs. decision making
- Qualitative characteristics:
  - Understandable
  - Relevant & reliable
  - Comparable
- Aggregation options:
  - None
  - Political basis such as voting districts
  - User selected basis
  - Cash vs accrual (false choice?)



# Electronic Reporting

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- Creating and satisfying a public need
  - Where did the \$s go
  - Who gets public assistance
  - What do public officials earn
- But does it answer important questions?
- Can we build on this foundation?





# Discussion – Transparency on the Web

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What are the drivers of Web-based reporting – that is who wants it, who delivers it, who ‘governs’ it, who audits it, who advertises it?

What role – if any - do agency PARs or AFRs play in web-based approaches to transparency?



# E-Challenges & Opportunities

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- Audit
  - Stay inside the lines
  - Completeness
- “Serial” vs “Drill” down data
  - What does the pyramid of “information” look like?
- Awareness
  - Finding sources
  - Providing context



# FASAB Reporting Model Project

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- User Needs Study Findings
- Task Force
  - Concerns
  - Approach to Recommendations
- Next Steps



# Federal Reporting Model – Early Thoughts on User Needs

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- “Media and analysts believe that preparing financial reports and having them audited would **instill discipline and provide confidence** in other federal government financial reports, and that an annual financial report about the federal government would serve as a useful reference document for further research.”
  - *Federal Government Reporting Study* (GAO and Office of the Auditor General in Canada)

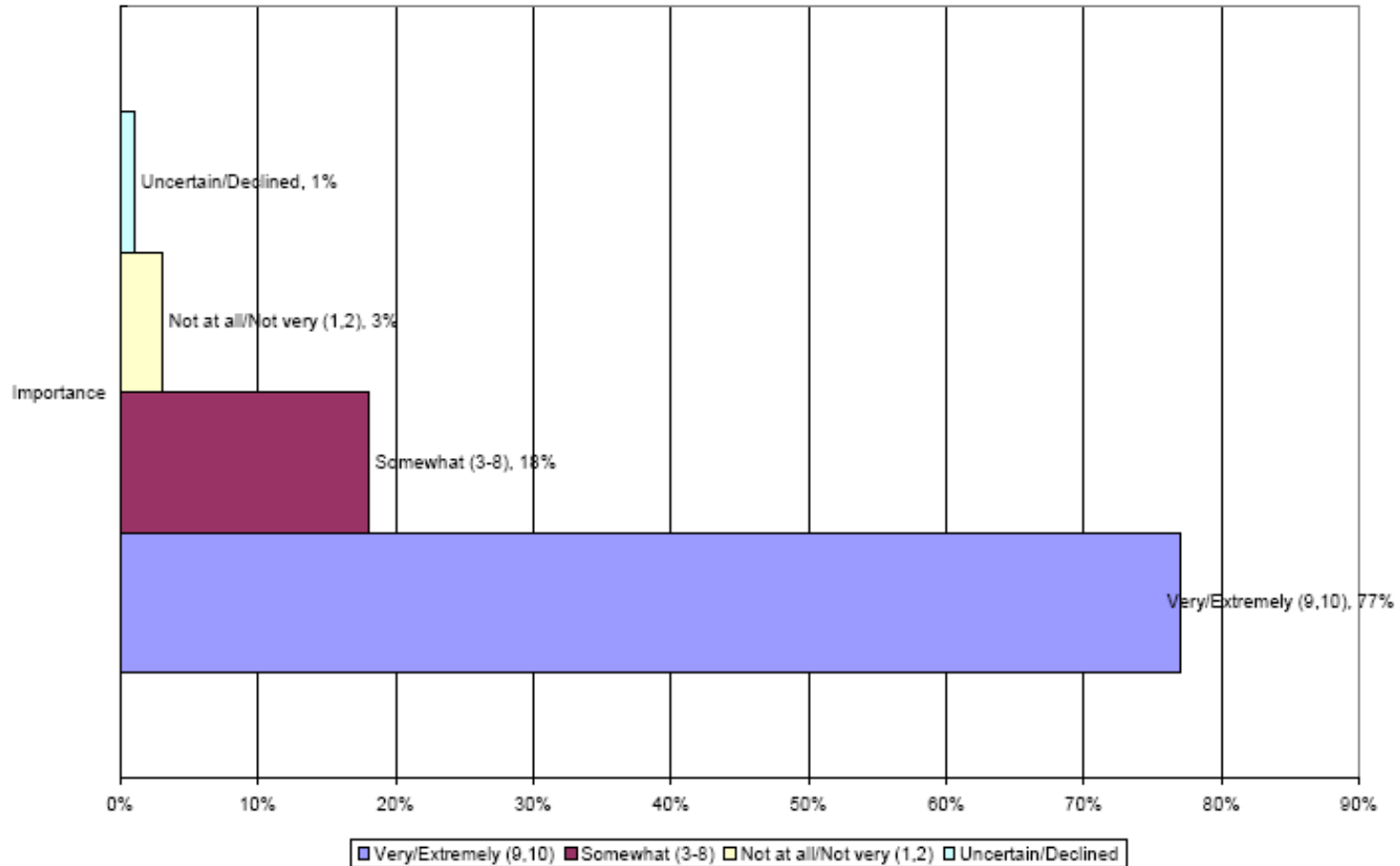


# Federal Reporting Model – User Needs - Citizens

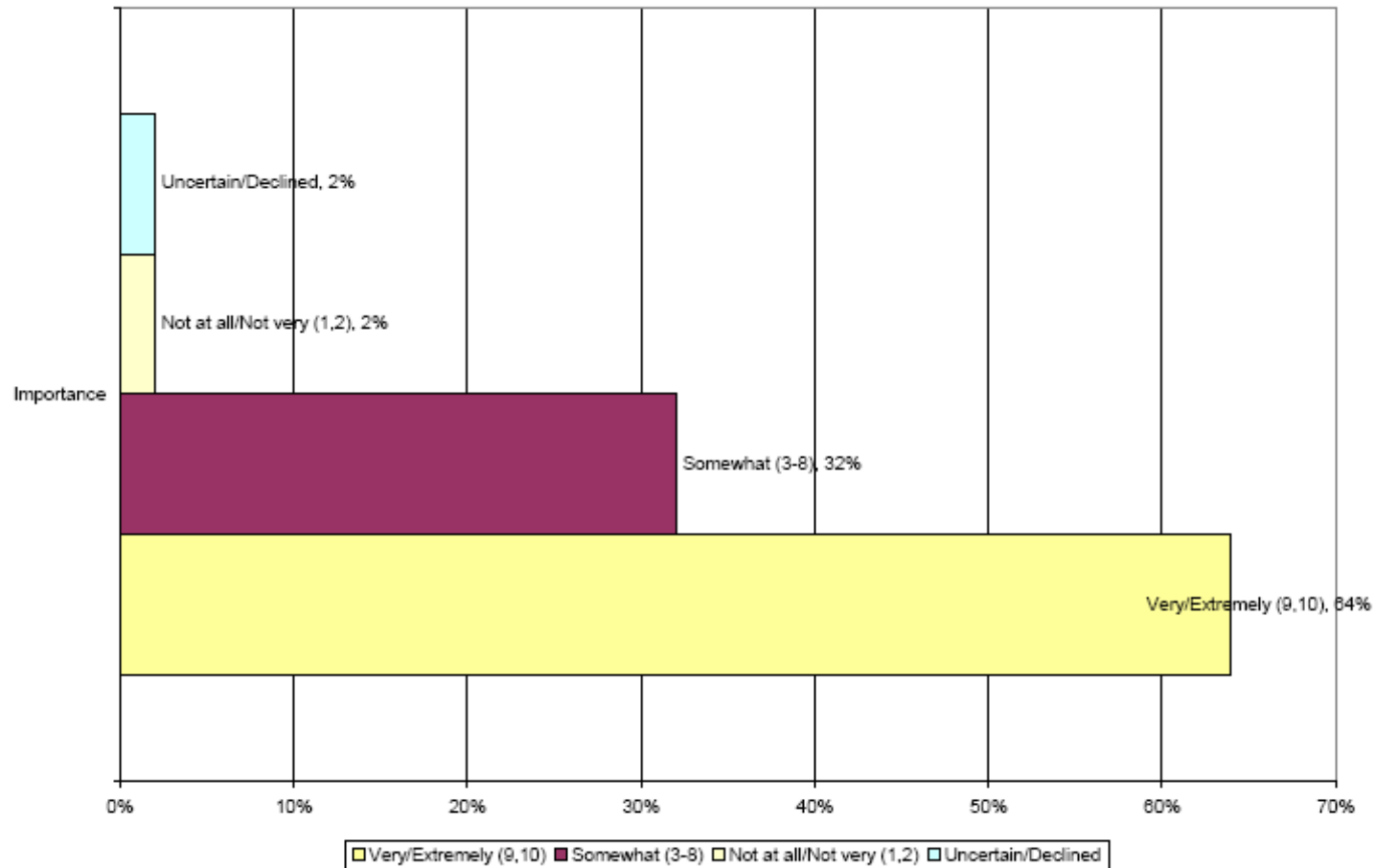
- Citizens
  - Focus group participants:
    - were **not aware** of annual financial reports
    - wanted **understandable financial information** about the finances of the federal government and they adamantly emphasized that they were **entitled** to this information
    - Focus group participants appeared to indicate that “**layers**” of reports **would be beneficial to them**. They believed that a summary document, like the Citizen’s Guide, would be a good start, but they wanted to be able to access additional information if necessary. They pointed to the fact that the Citizen’s Guide has a “Find Out More” section where they can access details.
  - Survey results:
    - 21% of the respondents stated that they did not have access to the internet or email
    - Details follow...



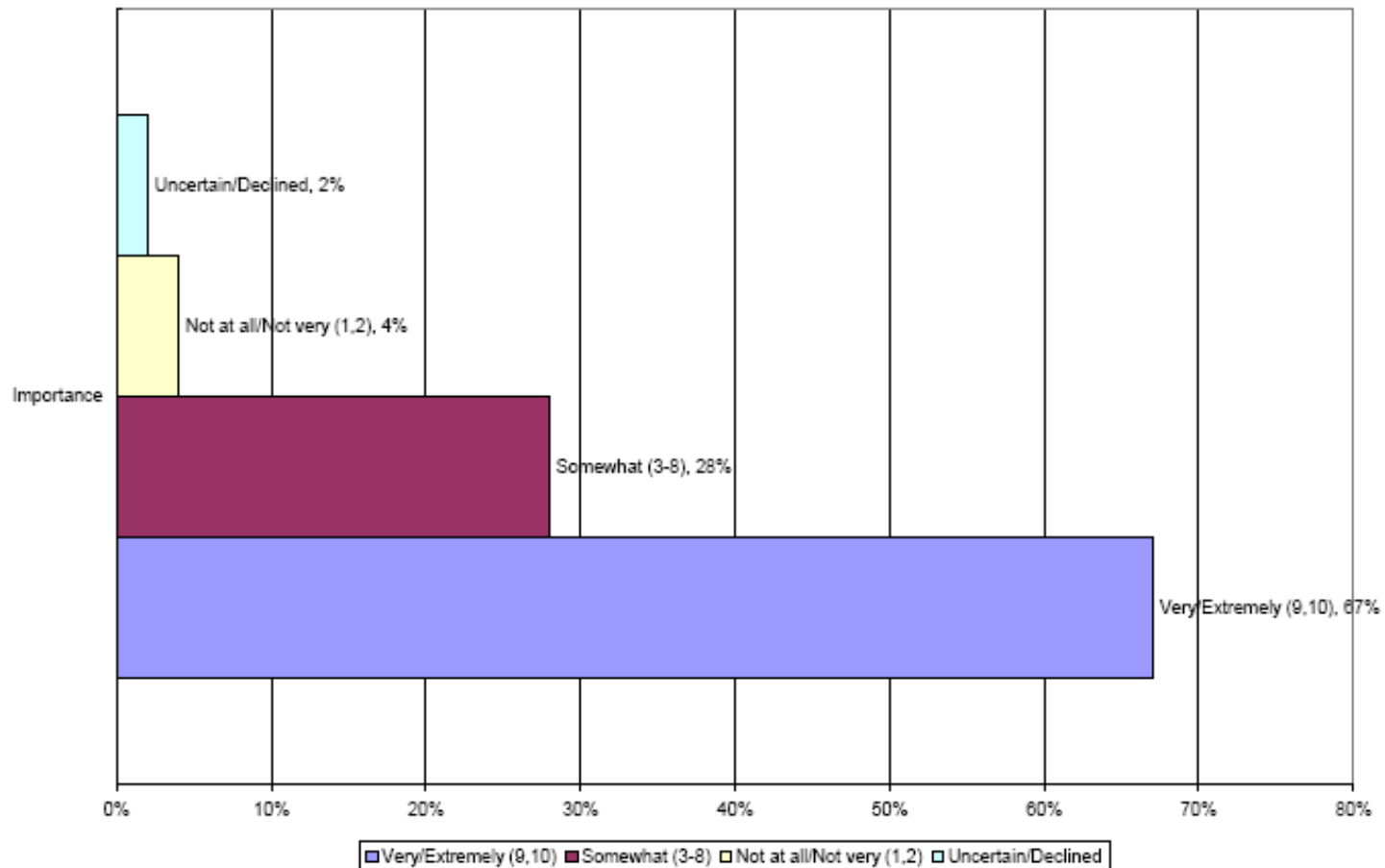
# Perceived Importance of Providing Understandable Information about the Results of Programs



# Perceived Importance of Providing Understandable Cost Information

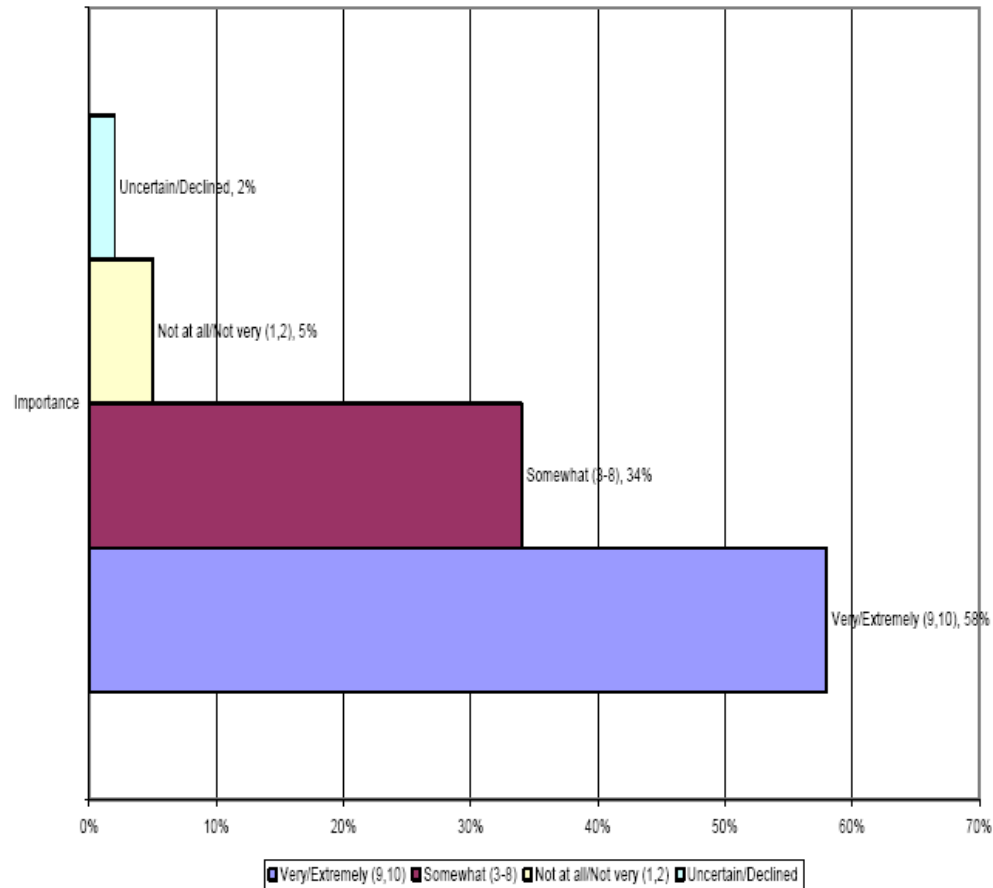


# Perceived Importance of Providing Understandable Information about Liabilities





# Perceived Importance of Providing Understandable Information about Assets



# Federal Reporting Model – User Needs

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- Program managers and executives
  - Better access to information
  - Interest in cost accounting and resources
  - Budget, budget, budget
- Congress
  - Report on reports...
- Findings from other countries
  - Budget and financial reporting often in synch
  - Departmental audits common
  - Have users!



# Federal Reporting Task Force

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- Majority non-accountants with government-wide focus
- Focus on awareness and delivery
- Pyramid approach
- Refinements to financial statements
  - Net cost to spend presentation
  - Streamlined reconciliations
  - “Net assets” rather than “net position”



# 10 Recommendations

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- 1: Adopt an Electronic, Web-Based Reporting Method**
- 2: Explore How Best to Report Additional Government-wide Performance Information**
- 3: Present a Functional Statement of Net Cost in the CFR with Departmental Net Cost by Function as RSI**
- 4: Establish Minimum Requirements for a Statement of Spending**
- 5: Include Intergovernmental Financial Dependency Reporting in RSI**
- 6: Enhance the Information Value of the Reconciliation of Net Operating Cost and Unified Budget Deficit Statement through Re-labeling**
- 7: Reclassify the Information in the Statement of Changes in Cash Balance from Unified Budget and Other Activities**
- 8: Re-orient the Balance Sheet Display and Enhance the Related MD&A Discussion**
- 9: Explain the Difference between Net Position and Fiscal Gap**
- 10: Establish a Federal Financial Information Web Site and Raise Awareness of Federal Financial Information**



# Roundtables with Preparers and Auditors

## Preparers

- Users not served well
- Audit changes to improve cost-benefit equation
- Focus more on cost accounting
- Statement of spending

## Auditors

- Technical barriers to many of the financial statement audit changes suggested (cost savings questioned)
- Benefits of discipline seem to be overlooked



# Structured Interviews

## Internal

- Data for dashboards comes from financial systems
- Interested in cost data and investment in PP&E
- Having machine readable financial data allows for analytics

## External

- Accrual accounting has strong support world-wide (EC, World Bank, IMF, survey by E&Y)
- Emerging focus on comparability among nations



# Integrated?

"Because the report was paper, it was an island - not linked to other pertinent data and information that might help a stakeholder understand the company or an executive manage it more effectively."

Don Tapscott, author of *Grown Up Digital: How the Net Generation is Changing Your World*



# Online Resources

<http://www.fasab.gov>

- Select Resources Tab for Links to:
  - FASAB managerial cost publications
  - Other federal publications
  - General resources on government cost accounting
  - Non-federal organizations





# Contact Information

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