

# 2014 From Compliance to Management

## FASAB Update



Tuesday, April 29, 2014  
11:25 – 12:15

# Disclaimer

- Views expressed are those of the speaker.
- The Board expresses its views in official publications.

# OVERVIEW

- Review of Current Projects:
  - Federal Reporting Entity
  - Reporting Model
  - Risk Assumed
  - Leases
  - Public-Private Partnerships
- Research Projects

# Current Projects

# Federal Reporting Entity

- FASAB established concepts in mid-90's
- Standards now being developed

# Federal Reporting Entity (CONT.)

## – Proposal –

- Include in General Purpose Federal Financial Reports (GPFFR) all organizations:
  - Inclusion Principles
    - budgeted for,
    - controlled with potential for risk or reward, or
    - Owned
  - Misleading to Exclude
- Does not specifically address particular entities.
  - Provides for judgment about:
    - Inclusion
    - Classification
    - Disclosure

## Federal Reporting Entity (CONT.)

### – Proposal –

Distinguish between consolidation entities and disclosure entities ~~organizations~~

- Consolidation entities are:
  - Financed by general taxes,
  - Goods and services on a non-market basis,
  - Risks and rewards fall to the federal government, and
  - Governed by/clearly linked to elected officials.
- Information for consolidation entities is to be consolidated in financial statements.

# Federal Reporting Entity (CONT.)

## – Proposal –

- Disclosure entities are:
  - Less direct involvement & somewhat independent from elected officials,
  - Limited taxpayer funding (may be financially self-sustaining.)
  - Limited risks and rewards to the federal government
  - Some relationships are not expected to be permanent
- Information is disclosed in notes to be three objectives-Relationship & Organization, Relevant Activity, and Future exposures.



# Federal Reporting Entity (CONT.)

## – Proposal –

- Component Reporting Entity- GPFFR include all organizations for which it is accountable:
  - Consolidation entities and Disclosure entities administratively assigned to it
    - Scope of the Budget Process
    - Accountability Established Within a Component Reporting Entity
    - Misleading to Exclude and/or Misleading to Include
  - Central Agency guidance anticipated

# Federal Reporting Entity (CONT.)

## – Proposal –

- Other:

- What entities are subject to SFFAS 34 – the GAAP hierarchy for federal entities
- How to deal with:
  - FASB-basis information for consolidation entities
  - Different year ends for disclosure organizations
- Related parties
- Amendments to SFFAC 2, *Entity and Display*
- Illustrations & Flowchart

## Federal Reporting Entity (CONT.)

### – Proposal –

- Due Process Status & What's Next?
- Questions?
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# Reporting Model

- Seeking to enhance the benefits of accrual basis financial statements
- Input to the Board:
  - User needs surveys, focus groups, and roundtables
  - FASAB Task Force on Government-wide Financial Reports (Dec 2010)
  - CFO Act 20-Year Report
  - Input from task forces focusing on agency level reporting on cost, budget and performance
  - Statement of spending pilots
  - Study of other sovereign government practices
  - NAPA Study

## Reporting Model (cont.)

### – Research Results –

Participants want particular or **specialized** information to meet their needs:

- **Understandability** of financial information
- **Centralized source** for obtaining data
  - Move toward real-time data
  - Address program managers needs
- **Integrated data**
  - Financial and non-financial performance information
- Program level cost information
- Add **forward-looking** information in agency reports

## Reporting Model (cont.)

### – Research Results –

#### Improvement Needed in the **Statement of Net Cost:**

- Now - cost by strategic goal
- Some prefer to focus on “cost” by organizations, programs, or projects
- Matching cost and output (and eventually outcome) is not so easy!
- Same terms used differently by different disciplines (cost per the budget versus cost per accrual principles versus cost per program evaluators)
- **CUSTOMIZATION!**

## Reporting Model (cont.)

### – Next Steps –

Develop a framework for integrated reporting:

- What is the ideal framework?
- Can we define a roadmap to follow to reach the ideal framework?

# RISK ASSUMED

- The federal government assumes risk through policies to stabilize financial markets and the economy
- Current FASAB standards are limited to:
  - Insurance contracts, and
  - Explicit guarantees (other than loan guarantees)
- Updated standards will address
  - All risk assumed by the government
  - In order to meet the stewardship and operating performance objectives of federal financial reporting



# RISK ASSUMED (cont.)

## - Three Phases -

- Phase I: Insurance and Non-Loan Guarantees
- Phase II: Entitlement Programs, including:
  - National Defense,
  - Security and Disaster response
  - Other potential effects on future outflows:
    - regulatory actions,
    - Government Sponsored Enterprises (GSEs), etc.
- Phase III:
  - Commitments
  - Obligations
  - Other risk areas

## **RISK ASSUMED** (cont.)

### **- Insurance & Non-Loan Guarantee Phase -**

The Task Force :

- Has defined federal Insurance and Non-Loan Guarantee (I-NLG) programs:
  - To ensure all current and future programs are captured in updated standards/disclosures
- In defining the measurement methodology:
  - Continues to monitor FASB Insurance Contracts Exposure Draft Status
  - Has compared I-NLG programs to Credit Reform programs and accounting
- Will determine the measurement model
  - To ensure consistent reporting by all Insurance and Guarantee programs

# Leases

Are all leases financings?

# Leases (cont.)

- FASAB is partnering with GASB to develop standards for governmental organizations.
- Tentative decision to establish a single model (with exceptions for short-term arrangements).
  - Leases create assets consisting of the “right to use” a resource.
  - Leases create liabilities consisting of the obligation to pay for the resource.
- The focus may be on the interest cost associated with leases.

# Public-Private Partnerships

Due to budget pressures, federal agencies have increasingly turned to public-private partnerships (e.g., PPPs, P3s) to accomplish goals

- Transparency of the full costs and risks of such partnerships is the overall objective
- Specific objectives include:
  - Defining terms (e.g., service concession arrangements, P3s)
  - Providing guidance for the recognition and measurement of:
    - assets and liabilities
    - revenues and expenses
    - risks
  - Consider implications for other arrangements related to P3s (sale-leaseback or other long-term arrangements).

# Research Projects

- Managerial Cost Accounting and Linking Cost to Performance
- Links to:
  - Reporting Model
  - NAPA Study

## *I*MPROVING COST, BUDGET, AND PERFORMANCE INFORMATION

### 1967...

"Interrelationships between appropriations and obligations, and between obligations and costs, are worthy of careful examination. Appropriations..are and will continue to be the important first step in the expenditure process. ...Recording of obligations is essential for financial control and accountability of agency appropriations. Obligations are, however, increasingly recognized as generally inadequate for measurement of agency performance and are being replaced by program costs for this purpose as rapidly as development of adequate accounting systems permits."

Report of the President's Commission  
on Budget Concepts – October 1967

### 2013...

"...to shift the conversation and look through a different lens around cost is something industry does every day, but government doesn't necessarily do. So, frankly it's an industry best practice we are trying to bring in."

Beth McGrath, Deputy Chief  
Management Officer, DoD  
(as quoted in *Federal News*)

## Research Projects (cont.)

- Tax Expenditures
  - Tax provisions are often obscure and hard for citizens to understand.
  - Decisions on tax expenditures are not made annually – so the performance of tax provisions is not monitored.
  - Foregone revenue – is it the same as spending?

## Research Projects (cont.)

- Oil and Gas Resources

- In FY2013 - required supplemental information (RSI)
- RSI should transition to recognition in FY2016.
- First - consider the results of the three-year RSI effort and provide guidance for the transition.
- After transition - The value of petroleum resources under lease would be recognized as an asset.



## Research Projects (cont.)

### Reconciling Budget and Accrual Information

- Government-wide Reconciliation:
  - Net Cost to the Surplus(Deficit)
- Component Entity Reconciliation:
  - 'Net Cost' to 'Obligations Incurred and Other Resources'
- Understandability (Terminology, Notes, Sequence)

**Questions?**

## Contact and Website Information

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