Options for Next Steps

The following presents project alternatives. The items are not listed in any particular order and could overlap.

1. **Participate in Developing a Strategy for Presenting Integrated Budget, Cost, and Performance Information (including Designs, Illustrations, and Guiding Principles)**

   The results of resources budgeted and amounts consumed could be better articulated in financial reports. Although departments and agencies report budget and cost information in different financial statements and report performance information in a separate section, the information is not well integrated. Users expect information on the amount of resources budgeted and consumed to provide services and they often ask, "What did we get for our tax dollars and the resources consumed?" Clearly articulating this information would require a long-term commitment involving different disciplines, the development of a common unit of analysis, and changing management's focus from managing inputs or budgets to managing performance. FASAB could develop a conceptual model to help facilitate better integration of budget, cost, and performance information and the budget, cost, and performance task forces have proposed some illustrations for consideration.[2] A concept statement that establishes the design of an integrated presentation would serve as the target for system development efforts, practices, and future guidance.

   <u>Staff Recommendation</u>

   At this time, the Board should consider other issues to address. Improving integration of cost, budget, and performance information would likely not be accomplished within a reasonable period. Also, FASAB develops accounting standards and determining budget and service performance information requirements are not within its role. In addition, although FASAB's accounting guidance could have an indirect impact on budgetary and performance reporting, FASAB members have been reluctant to divert resources from direct standards-setting activities.[3]

[2] Summary of Task Force Discussions, December 2012, pp. 37-42.
[3] FASAB Minutes, April 17, 2008, p.57.

2. **Managerial Cost Accounting is Not Broadly Used – Are more prescriptive standards needed?**

During roundtable discussions and discussions with the cost, performance, and budget task forces, it was noted that managerial cost accounting is not being broadly implemented and used across the federal government.[4] The Board could consider developing more prescriptive managerial cost accounting standards to guide departments and agencies.

Staff Recommendation

FASAB should consider other issues to address. Direct enforcement of managerial cost accounting usage is not within the role of GAAP-based financial statement audits. Also, FASAB members have noted that it would not be practical to develop prescriptive managerial cost accounting standards for the highly diverse population of departments and agencies.[5]

[4] Summary of Task Force Discussions, December 2012, p. 1.
[5] FASAB Minutes, December 19, 2012.

3. **Greater Disaggregation of Cost Information is Desirable but Needs Differ – Could a Standard Encourage More Detail by Guiding Decisions about Disaggregation? (That is – Standardize the Decision Process but not the Display)**

   "Cost information - more standardization or more disaggregation" is a debate that the community persistently brings before the Board. Some analysts and others in the financial reporting community believe that "inconsistencies" exist in how departments and agencies present cost information in financial reports. Departments and agencies use different approaches for classifying costs in the statement of net cost and they may present cost information in other locations such as disclosures. This condition results because, in their view, Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, permits too much discretion in reporting costs; therefore, the standard should promote more standardization which would lead to more comparability.[6]

   However, others believe that less aggregation can satisfy the needs of a broader range of users. Some users may want to analyze government purchases while others may want to analyze the cost of programs or activities such as the cost of issuing grants. They trust that the technology is available to permit "drill-downs" and linking and accessing data and designing reports that are most suitable for their analyses. Also, FASAB could encourage this concept by requiring less aggregated presentations of cost information. The FASAB guidance would promote the standardization needed for comparing data aggregated for a variety of purposes. Consequently, those who want to know what the government purchases could access and summarize object class data by program, organization, etc., while those who want to know the cost of a department's programs could access and summarize the costs of all the programs for that particular department.

   Yet another group in the financial reporting community recognizes that departments and agencies have very different missions and stakeholder expectations. For example, one congressional committee may seek program cost information from one agency while another committee may seek the cost of strategic goals from a different agency. Therefore, different classifications reflect the different characteristics and stakeholder expectations of each department and agency and flexibility in reporting is warranted.[7] In addition, they note that the federal government currently presents detailed information and data in various other reports that are publically accessible.[8] Also, based on previous discussions, FASAB's views appear to be closer to this group.

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[6] Ibid.
[7] Summary of Task Force Discussions, p. 22.
[8] Ibid, p. 23.

FASAB focuses on developing guidance to meet the common information needs of a wide audience of users rather than trying to develop guidance for specific groups of users.[9] Also, the Board does not appear to view the differences in reporting cost information as "inconsistencies" in reporting. The Board recognizes that departments and agencies have very different characteristics and stakeholder expectations and that a variety of aggregations and classifications of costs in the statement of net cost should be expected.[10] Also, in general, members were concerned about the implementation challenges associated with alternatives for disaggregation.[11]

Staff Recommendation

FASAB should develop a standard to help guide the decision process for determining how to classify and disaggregate costs in the statement of net cost. It is not practicable for departments and agencies to present each classification and disaggregation approach possible and, in some cases; the approach selected may not provide the level of detail needed for users to understand the operations of the entity and the costs incurred. Consequently, providing guidance would help:

- ensure that users have the level of information needed to facilitate their understanding and analyses of entity operations and costs;
- the community understand the purpose, characteristics, and intended use of the cost information provided in financial reports and, in particular, the statement of net cost.
- large entities with numerous programs[12] or responsibility segments to determine what and how to present costs for general purpose financial reporting purposes; and
- bring some closure to recurring discussions about reporting cost information.

Departments and agencies could apply the Board's criteria for general purpose financial reporting regardless of the existing technology or means of presentation, i.e., printed document or Internet based electronic media with drill-down capability.

To assist the Board in deciding whether to pursue this project, Attachment II: Classification and Disaggregation of Cost, provides a strawman of a standard to guide departments and agencies in classifying and disaggregating costs in the statement of net cost. The strawman illustrates how the issue of classifying

[9] Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display, par. 73E.c.
[10] FASAB Minutes, October 24, 2012, p. 29.
[11] FASAB Minutes, February 23, 2011, p. 10.
[12] The term program is used broadly here to refer to goals, missions, projects, activities, etc.

and disaggregating costs in the statement of net cost could be approached, the criteria that could be provided, and the subjects that the Board may need to deliberate.

4. **Transfer Payments are not distinguished from Program Administrative Costs in Financial Statements – Should this Distinction be required?**

Departments and agencies need to distinguish "transfer payments" from program administrative costs. These costs should be differentiated because transfer payments are a measure of the benefits that the government provides and such amounts are necessary for determining the cost-effectiveness of the program.[13] However, program administrative costs involve the cost of managing the program and providing payments. These costs help in measuring the efficiency of program operations.[14] SFFAS 4 provides both managerial cost accounting and financial reporting guidance and the guidance requires reporting entities to distinguish the cost of resources transferred to individuals and states and local governments from the cost of operating the program. SFFAS 4, paragraphs 98 and 99 state

> 98. Major costs of welfare, insurance, and grant programs are the costs of resources transferred from the federal government to individuals and state and local governments. Some of them are referred to as "transfer payments." The following are some typical public assistance and insurance programs:
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> - Grants, such as aid to state and local governments;
> - Subsidies, such as agricultural commodity price support and stabilization programs;
> - Credit and insurance costs, such as the Family Education Loan Program and Savings Association Insurance;
> - Welfare payments such as Aid to Families with Dependent Children (AFDC);[[15]] and,
> - Social insurance, such as the Old Age, Survivors, and Disability Insurance Program.
>
> 99. The full cost of such a program includes: (a) the costs of federal resources that have been or will be transferred to individuals and state/local governments, and (b) the costs of operating the programs. These two types of costs should be recognized on a basis of accounting that is prescribed within the Federal Financial Accounting Standards. These two types of costs should be separately identified so that each can be used for different analytic purposes.

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[13] SFFAS 4, par, 100.
[14] SFFAS 4, par, 101.
[15] AFDC was replaced by the Temporary Assistance for Needy Families program. See http://www.hhs.gov/recovery/programs/tanf/index.html .

Staff Recommendation

The Board should amend SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* to give prominence to the existing SFFAS 4 requirement to distinguish the cost of resources transferred to individuals and states and local governments from the cost of operating the program. SFFAS 7 currently provides some guidance for disaggregating costs on the face of the statement of net cost so that readers can determine the net cost to the taxpayer for services provided at a price. In particular, SFFAS 7 states

> 43. Exchange revenue should be recognized in determining the net cost of operations of the reporting entity during the period. The exchange revenue should be recognized regardless of whether the entity retains the revenue for its own use or transfers it to other entities. Gross and net cost should be calculated as appropriate to determine the costs of outputs and the total net cost of operations of the reporting entity. The components of the net cost calculation should separately include the gross cost of providing goods or services that earned exchange revenue, less the exchange revenue earned, and the resulting difference. The components of net cost should also include separately the gross cost of providing goods, services, benefit payments, or grants that did not earn exchange revenue. The U.S. government-wide financial statements need not break out gross costs of providing goods, services, benefit payments, or grants that did not earn exchange revenue, separately from those programs that earned exchange revenue.

To assist the community in understanding the required additional levels of disaggregation, SFFAS 7 could be amended as follows:

> 43. Exchange revenue should be recognized in determining the net cost of operations of the reporting entity during the period. The exchange revenue should be recognized regardless of whether the entity retains the revenue for its own use or transfers it to other entities. Gross and net cost should be calculated as appropriate to determine the costs of outputs and the total net cost of operations of the reporting entity. The components of the total net cost of operations calculation should separately ~~include~~ identify:
>
> a. the gross cost of providing goods or services that earned exchange revenue, less the exchange revenue earned, and the resulting difference; and
>
> b. ~~The components of net cost should also include separately~~ the gross cost of providing goods, services, benefit payments, or grants that did not earn exchange revenue.

43A. Also, the gross cost of providing goods, services, benefit payments, or grants that did not earn exchange revenue includes two types of costs: (a) the cost of federal resources that have been or will be transferred to individuals and state/local governments, and (b) the costs of operating the programs. These two types of costs should also be separately identified so that each can be used for different analytic purposes.

43B. The U.S. government-wide financial statements need not break out gross costs of providing goods, services, benefit payments, or grants that did not earn exchange revenue, separately from those programs that earned exchange revenue.

5. **The Conceptual Guidance on Displaying Costs Needs Clarification so that Readers Do not Expect to See Program Cost Displayed on the Statement of Net Cost**

The net cost of specific programs supported with taxes and other unearned monies are not individually presented in financial statements. FASAB's conceptual guidance provides a common framework for distinguishing items of information that are candidates for recognition in the body of financial statements from those that qualify for disclosure in notes or supplementary information.[16] Accordingly, Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, provides guidance for determining what information should be recognized in the body of the statement of net cost. SFFAC 2, paragraph 86, states

> The main purpose of a statement of net costs is to provide an understanding of the net costs of each organization and each program that the government supports with taxes and other unearned monies. Another important purpose for the statement is to provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and/or organization. Thus the statement of net costs should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities.

Thus, the Board expects that the net cost of specific programs be individually presented in statements of net cost and the determination does not include exceptions so that, alternatively, departments and agencies may disclose the net costs of programs in notes or required supplementary information. Although the Board developed this framework in the 90's the determination to present individual program costs remains consistent with user expectations today.[17]

Given that about 20 years has passed since the Board developed the framework for the statement of net cost, users could expect the wide presentation of program net cost information. However, agencies present costs in other ways not discussed in the Board's framework, such as strategic goals. The Board's cost, budget, and performance reporting task forces noted that departments and agencies strive to present information to satisfy the information needs of stakeholders such as Congressional committees.[18] Therefore, the Board should not develop requirements that change working models. Rather, guidance that permits high level classifications such as goals

[16] SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*.
[17] Staff Paper, TAB B-2, December 7, 2012, pp. 4-5.
[18] Summary of Task Force Discussions, December 2012, p. 13.

afford departments and agencies the flexibility they need to continue to address the needs of their stakeholders.

Moreover, program is not a precise term. For example, the term major program could refer to a mission, strategic goal, function, services, activities, or project.[19] As a result, requiring the reporting of program information would not necessarily result in standardization or a lower level of disaggregation than say, strategic goals, or less esoteric line item descriptions.

Staff Recommendation

The Board should consider other issues to address. Clarifying the Board's conceptual guidance would consume limited resources on a matter that does not directly contribute to better achieving the reporting objectives.

[19] Office of Management and Budget Circular A-136, p. 52.