Disclaimer

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

• Recently Completed Projects
  – Earmarked Funds
  – Deferred Maintenance and Repairs

• Ongoing Projects
  – Federal Financial Reporting Model
  – Federal Entity

• New Projects
  – Leases
  – Risk Assumed
  – Investments
  – Public Private Partnerships
Earmarked Funds – Background

• SFFAS 27 requirements effective in 2006
• Intended to accomplish two goals:
  – highlight financing that will be needed by the government as a whole when earmarked funds use their accumulated revenues in the future
  – enhance awareness of the restrictions on the use of earmarked revenues
• Requires separate display of certain information on the balance sheet and statement of changes in net position as well as disclosures
Earmarked Funds –
Results of Evaluation

• Problems identified:
  – Confusion regarding the term “earmarked”
  – 500+ funds classified as earmarked
    • Some with no external source of revenue
    • Some with large negative balances
  – Uncertainty about the understandability of agency level financial statements due to multi-column display
Earmarked Funds – Approved Changes

• Changing the name to “funds from dedicated collections”

• Excluding funds:
  – supporting federal employee benefits
  – predominantly financed from general funds rather than a dedicated collection from external sources

• Allowing combined or consolidated amounts to be presented

• Alter presentation on the Statement of Changes in Net Position:
  – continue current presentation on the face of statements if a majority of funding is from dedicated collections or such funds are qualitatively material
  – If not, present information in a note referenced on the face of statement of changes in net position

• SFFAS 43 to be issued June 2012 and effective FY2013
SFFAS 40, Deferred Maintenance and Repairs: Definitional Changes

- Amended the definition only
- Repairs – clarify that deferred repairs are included
- Capital – clarify that deferred capital improvements are not included
- Preserves the notion that management determines acceptable condition
  - Effective FY 2012
Deferred Maintenance and Repair – SFFAS 42 (under review)

- Emphasize the need for interdisciplinary communication
- Encourage consistent use of condition standards, assessment methods, and reporting formats
- Eliminate the requirement to report condition information
- Information required:
  - Policies and how they are applied including policies for ranking and prioritizing maintenance and repair activities
  - Factors considered in determining acceptable condition standards
  - Scope of DM&R (whether includes non-capitalized G-PP&E and/or excludes any classes of PP&E)
  - Beginning and ending DM&R balances by category of PP&E
  - Explanation of significant changes from the prior year.

- Effective FY2015
Federal Reporting Model

• Concerns exist regarding the benefits of accrual basis financial statements relative to the cost of preparing them

• Input to the Board:
  – User needs surveys, focus groups, and roundtables
  – CFO Act 20-Year Report
  – Statement of spending pilots
  – Study of other sovereign government practices
User Research Results

- Citizen surveys and focus groups
  - Program performance, cost, assets and liabilities of interest
  - Lack of awareness of audited financial reports
  - More interested in electronic reporting than paper based reports
- Program managers
- Analysts
- CFO Roundtables
  - Spending information needed (with audit coverage)
  - Focus on high risk areas and provide information on risk
  - Adjust audits to reduce cost and increase benefit
  - Integrate information
- Auditor Roundtable
  - Improve cost accounting and Statement of Net Cost
  - Focus on performance information
Federal Reporting Model Task Force - Government-wide Recommendations

- Web delivery model
- Government-wide performance information
- Net cost and spending by function
- Statement of spending requirements
- Intergovernmental financial dependency
- Improved reconciliation of deficit and operating cost
- Reclassify the reconciliation of cash and debt changes
- Re-orient the balance sheet and improve stakeholder link
- Explain the difference between net liabilities and fiscal gap
- Establish a web-site for reports and raise awareness in the near-term
Twenty-year Chief Financial Officers (CFO) Act Study by CFOs and IGs found the Act:

- increased transparency and accountability,
- established a government-wide financial management leadership structure and agency CFOs,
- promoted new accounting and reporting standards,
- generated auditable financial statements,
- strengthened internal control and improved financial management systems, and
- enhanced performance information.

Recommended:

- Move toward real-time data
- Add forward-looking information
- Address program managers needs
- Evolve the reporting model
Annual AGA CFO Survey (2011)

- Annual Association of Government Accountants CFO survey results:

Table 7: Federal executives’ opinions on changing the current financial reporting model and associated financial statement audit

<table>
<thead>
<tr>
<th>Change</th>
<th>Yes</th>
<th>No</th>
<th>Maybe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change the current financial report model to save money and increase its value</td>
<td>89%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>Do a full financial statement audit every 2 or more years if entity has history of unqualified opinions and no major changes to its financial systems or processes or its structure</td>
<td>55%</td>
<td>43%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Specific Ideas from the AGA CFO Survey

Enhance and Expand Existing Statements
- Create a new statement associated with spending money.
- Change the Statement of Net Costs to be about costs, not just expenses as it is now.
- Break information down by projects and programs, which would produce information of more value to program managers and citizens.
- Integrate performance results with financial information in a single report.
- Add predictive information to the statements.
- Focus on both financial and nonfinancial performance metrics.
- Use plain English in the reports.

Align Statements and Audits with Greatest Needs
- Report the information that stakeholders say they want.
- Make the model risk-based.
- Simplify the reports; there are now too many overlaps and layers.
- Move toward the Government of Canada model, so that the auditors’ opinion is on the consolidated financial statements of the United States government instead of on its components, and only on components and other factors that are material to the consolidated report.
- Focus on speeding up the sharing of information, which means simplifying and setting priorities on what is to be reported.
Reporting Model – Next Steps

• Potential projects being developed in two overarching areas.

• Performance Reporting
  – Statement of net cost improvements
  – Integrating financial and non-financial performance reporting

• Understandability
  – Clarity of budgetary reporting
    • Budget to actual (feasibility questions)
    • Context and terminology
  – Potential streamlining to highlight most important items
  – Functions (education, health, defense) and programs
Federal Entity

• FASAB established concepts in mid-90’s
• Standards now being developed
• Questions:
  – What to include (all entities “established by” the federal government or a subset)?
  – How to present information (all consolidated, some separately displayed or disclosed)?
  – What distinguishes “related” parties from parties included in governmental reports?
Federal Entity – Draft Proposal

• Include all entities budgeted for, controlled with potential for risk or reward, or owned

• Distinguish between core and non-core entities
  – Core entities are taxpayer supported and on-going decision making is more clearly linked to elected officials. Information for core entities is to be consolidated in financial statements.
  – Non-core entities are somewhat independent from elected officials and may be financial self-sustaining. Information regarding non-core entities is to be disclosed in notes.
    • Relationship explained
    • Relevant financial activity during the period revealed
    • Risks discussed and quantified if possible
New Projects

• Risk Assumed
• Leases
• Investments in non-federal securities
• Public Private Partnerships
Contact and Website Information

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