



June 4, 2008

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: **The Financial Reporting Model – TAB I¹**

MEETING OBJECTIVES

The purpose of the meeting will be to discuss an expanded project plan for the reporting model project and the proposed approach.

BRIEFING MATERIAL

The briefing material is provided in the attached plan for the reporting model project. The plan describes four phases for the project and the components of each phase.

BACKGROUND

At the April 2008 meeting, members discussed an initial plan for developing concepts that describe the reporting model and how it relates to the reporting objectives. The plan involved: 1) reviewing the existing financial statements; 2) determining how well the statements help achieve the reporting objectives; and 3) reviewing the objectives for areas that are not being addressed. The project would begin by reviewing the statement of net costs because of its contribution to helping readers assess operating performance. Members expressed concern about focusing on “what is” and noted the need to ensure that the reporting objectives are adequately addressed and to provide

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.

financial statements that are useful to readers. For example, members discussed a possible financial statement that could help better address the budgetary integrity objective, provide more useful information, and integrate budgetary and accrual basis information.

Members also discussed the present relationship between the balance sheet and the statement of net costs and other factors. Members questioned whether a relationship should exist between the statements and wanted to consider non-articulation as an alternative during the project. In addition, members believed that the project should involve comparisons with reporting models of other governments.

The reporting model session concluded with staff proceeding with plans to: 1) review the statement of net costs and the balance sheet; 2) consider issues such as how well the statements help achieve the reporting objectives, whether objectives are being achieved, and whether the statements should articulate; and 3) compare the model with other reporting models. However, later, during agenda setting discussions, members returned to the reporting model topic and noted that the project could be expanded to consider appropriate agency level reporting. Examples of member's comments were as follows:

- A possible alternative to the existing model could be a model where agencies do not produce audited financial statements—the only audit opinion would be on the consolidated financial report (CFR). Information on the amount of payments made to organizations such as IBM or a university is of great interest to public users. However, this information is not audited. We are auditing the balance sheets; so you could argue that our audit focus is misplaced.
- Does a traditional balance sheet make sense in this environment and to meet our reporting objectives?
- The government has been spending a great deal of money on asset valuation and is apparently not getting much benefit.
- At the agency level, the interest is in performance information and only touches on financial information where it is tied to non-financial performance information. The area of interest to FASAB at the agency level should be how we are driving internal operations; are we driving improvement in processes, controls and decision support. At the consolidated level, our interest in financial information would be focused on material issues and, therefore, a smaller range of issues than we currently consider.
- We need to rationalize what the appropriate level of reporting is at the agency level.

- Perhaps the question is whether we even need agency reports.

These comments helped guide the staff proposal for an expanded project plan.

ISSUE

I. Does the Board agree with the project plan proposed by staff?

The project plan describes four phases: 1) determine user needs within certain cost/benefit constraints; 2) determine the inventory of user needs and how they relate to the reporting objective; 3) determine methods for meeting user needs; and 4) determine presentation. Determining user needs would be the initial phase to complete and each subsequent phase would build on those results. Ultimately, completing the phases could lead to conceptual guidance, standards, and/or educational material for the federal reporting model. Some features of the plan are as follows:

- Each phase will include a planning, execution, and review component. This approach would help in monitoring progress and identifying the need for any adjustments before continuing to the next phase.
- As part of planning the Determine User Needs Phase, staff proposes to develop a plan for conducting discussions with users. Staff will provide the plan for Board consideration at the October 2008 meeting.
- During each phase staff will inform the Board of issues identified and proposed solutions. Also, at the completion of each phase, staff will inform the Board of outcomes and any additional issues and proposed solutions.
- The project will consider progress on on-going Board projects such as the conceptual framework projects, Fiscal Sustainability, and Social Insurance.

Each phase is discussed in more detail in Attachment I: Draft Project Plan.

- Does the Board agree that the plan should include determining user needs as phase 1? See Attachment I, Draft Project Plan, page 4.
- Does the Board agree that the plan should include determining an updated inventory of user needs as phase 2? See Attachment I, Draft Project Plan, page 11.
- Does the Board agree that the plan should include determining appropriate reporting methods for meeting user needs as phase 3? See Attachment I, Draft Project Plan, page 12.
- Does the Board agree that the plan should include determining the presentation needed as phase 4? See Attachment I, Draft Project Plan, page 12.

E. Does the Board wish to pursue other phases as part of the project?

If you have questions or need additional information, please contact me at 202-512-2512 or by email at simmsr@fasab.gov as soon as possible. I will be able to consider and respond to your request more fully in advance of the meeting.

Attachment

**ATTACHMENT
DRAFT PROJECT PLAN**

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BACKGROUND

The FASAB developed and issued initial guidance for the federal reporting model in 1995. Since that time, there have been significant changes in federal financial management. For instance, the FASAB received the American Institute of Certified Public Accountant's (AICPA) designation as the accounting standards-setting body for the federal government. In addition, Congress has enacted federal financial management and reporting laws and a series of administrative directives have been issued. These laws and directives were intended to facilitate more effective financial management practices, performance measurement, and systems and controls.²

Also, the financial reporting community has gained substantial experience and innovation has opened doors for improving processes and access to information. Automation is replacing manual processes and is helping organizations integrate information sources. In addition, improvements in internet and intranet capabilities are helping agencies to expand the information available to users. A recent example of these changes is the enactment of the Federal Funding Accountability and Transparency Act of 2006 (Transparency Act). The Transparency Act requires a single searchable website that includes information on federal spending, such as the amount of money awarded to an entity. The website must provide free access to the public. The site may be accessed at www.USAspending.gov. In addition to individual agency websites³, <http://www.whitehouse.gov/omb/expectmore/index.html> provides information on federal program performance. These are some of the changes helping users to access information. Additional advancements may enable users to obtain financial and non-financial information on a real-time basis.

² For a discussion on the evolution of FASAB and federal financial management reporting laws and administrative directives, see FASAB's Strategic Directions, November 2006. Available at: <http://www.fasab.gov/stratdirections.html>

³ Some agencies also provide information on compact disk which enables users to readily search for the information need.

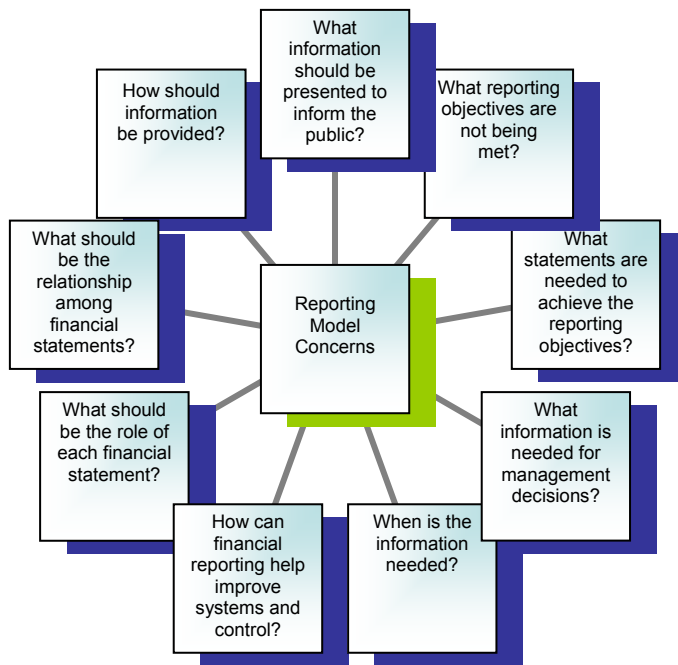


Figure 1: Current Concerns

The progress made in financial reporting affords an opportunity to revisit the reporting model. As illustrated in Figure 1: Current Concerns, various concerns have developed since the FASAB developed the initial model. Those concerns include:

- What information should be presented to inform the public about agencies?
- What information is needed for management decisions?
- How can financial reporting help improve systems and control?
- How should information be provided?
 - Access audited reports
 - Access web database
- When is information needed?
- What statements are needed to achieve the reporting objectives?
 - Levels of disaggregation or detail
 - Government-wide reporting
 - Agency reporting
 - Is a balance sheet needed?
- What reporting objectives are not being met? See Appendix I: Objectives of Federal Financial Reporting for the reporting objectives.
- What should be the role of each financial statement?
- What should be the relationship among financial statements?

However, these concerns do not necessarily indicate a need to revise the reporting model. User education or clarification of concepts may be needed. To help address these concerns staff has developed the project plan described below.

APPROACH

The reporting model project would involve the following phases: 1) determine user needs; 2) determine inventory of user needs; 3) determine methods for meeting the needs; and 4) determine the presentation. Completion of these phases, as illustrated in Figure 2: Reporting Model Project Phases may lead to conceptual guidance, standards, and/or educational material for the federal reporting model.

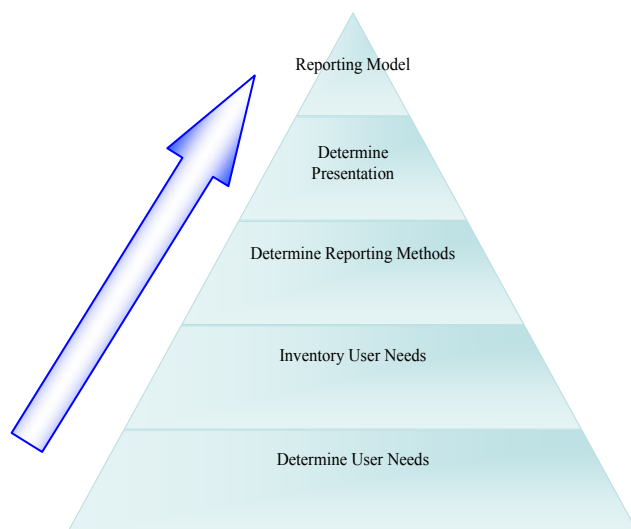


Figure 2: Reporting Model Project Phases

Appendix II: Overview of Project Phases provides a snapshot of the project, including the components of each phase.

Determine User Needs Phase

Staff believes that determining user needs within certain cost/benefit constraints is the foundation for the project. The following discussion provides a brief history of the

Board's efforts in determining user needs, the proposed approach for the Determine User Needs Phase, and some matters members may wish to consider in deciding whether to conduct a new user needs study.

History on Determining User Needs

In 1991, prior to legislation requiring government-wide financial statements, the FASAB organized a user needs and reporting objectives task force and conducted several research projects to determine user needs and reporting objectives. Those projects included:

- Focus group discussions. The purpose of the focus group discussions was to help the Board in learning the information needs of potential financial report users and it focused on the perceptions of federal personnel. The discussions involved 34 participants such as agency managers, congressional staff members, and staff from the Congressional Budget Office (CBO) and Office of Management and Budget (OMB). Staff asked participants questions related to: information needed to provide accountability for resources entrusted to agency managers; information needed to assess efficiency and effectiveness of agency operations; information needed on the condition of agency infrastructure; information needed on human capital; information needed on contingent liabilities; and advice to the Board.
- Interviews with high-level agency managers. The purpose of the interviews was to determine the information that is important to program manager needs. The types of information they discussed included: fund control information; basic accounting information on transactions; basic information needed to manage programs; cost information; and measures of success.
- Review of published accounting literature and history of selected legislation.
- Review of the OMB, Treasury, Government Accountability Office (GAO), and other guidelines related to preparing and reporting financial and budgetary information.
- Review of federal agency audited financial statements.
- Review of comments on exposure drafts concerning accounting for selected assets and liabilities, inventory, and credit programs, and uses and objectives of federal accounting and financial reporting.

In addition, in 1992, the Board considered conducting a user needs mail survey. Some task force members expressed the need to communicate with external users and members believed that the on-going efforts at that time would primarily provide general

guidance on user needs and objectives of financial reporting. The mail survey could help expand the range of users and help the Board develop specific guidance on topics such as cost information or the needs of non-federal users.

In deciding whether to conduct the mail survey, the Board considered issues such as:

- Resources. Staff was under time pressure to meet the agreed-upon timetable and conducting the survey would require substantial staff time and effort.
- Drawbacks of mail surveys. The drawbacks associated with mail surveys included low response rates and the inability to check the answers given. Staff believed that the researcher had little control over how carefully a person answers survey questions.

The Board decided not to conduct the survey, but staff conducted discussions with financial managers and auditors from states and local governments. In 1993, the Board issued SFFAC 1, *Objectives of Federal Financial Reporting*, which includes a discussion on users and user needs. Appendix III: Excerpt of SFFAC 1 presents the discussion. Also, Appendix IV: Chronology of Early Deliberations on Concepts provides a chronology of some of the FASAB's early deliberations concerning conceptual issues, including user needs research.

Several years later, because of increased experience with and interest in the federal government's consolidated financial report, the Board began developing conceptual guidance regarding the primary audience for government-wide reporting. The Board relied on its earlier conclusions from SFFAC 1, extensive experience subsequent to its earlier conceptual guidance, and other literature that describes users of federal government financial information, such as a GAO and Canada Auditor General user needs study conducted in the 1980s. In 2003, the Board issued SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*. The guidance discussed that citizens are the primary audience for government-wide reporting and describes their information needs. Appendix V: Excerpt of SFFAC 4 provides an excerpt of the basis for conclusions for SFFAC 4.

Also, in 2003, the Board began to revisit its conceptual framework, including the reporting objectives. As part of revisiting the reporting objectives, the Board considered whether to conduct another user needs study. The Board considered the resource requirements to conduct a new study and decided to pursue interaction with groups as an alternative. In 2005, staff conducted a roundtable discussion for each of the four reporting objectives.

The purpose of the roundtable discussions was to determine how each reporting 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. The discussions involved from 8 to 12

participants that included former Board members, representatives from public accounting, agency management, citizen intermediaries, Congress, the OMB, CBO, and GAO. As a result of the discussions, the Board agreed that the reporting objectives remained valid.⁴

Determine User Needs Approach

The Determine User Needs Phase involves a new study to determine the information needs for each group of users. The FASAB existing concepts discuss the following user groups:

- External
 - Citizens
 - Citizen intermediaries
- Internal
 - Congress
 - Executives
 - Program managers

The components of this phase include planning, execution, and review and the estimated completion would be third quarter 2009.

Planning

Planning involves developing the survey questionnaires and organizing discussions for government-wide and agency level reporting. Organizing the discussions will involve selecting participants and scheduling the discussions. Because the Board recently studied government-wide basic financial statements, different approaches would be used in the project. The approach for agencies involves conducting focus group discussions to determine user information needs. The approach for government-wide involves discussing the present government-wide model with roundtable participants and determining whether education is needed or there is a need for enhancements. In addition, staff plans to identify other government models for review and comparison.

During this component, staff will also evaluate options for conducting the discussions such as obtaining a moderator and assistance in developing questionnaires. To reduce the burdens associated with collecting data from citizens, staff plans to rely on citizen

⁴ See FASAB's Strategic Directions, November 2006, pp 12-13. Available at: <http://www.fasab.gov/stratdirections.html>.

intermediaries. Citizen intermediaries include members of public interest groups, policy analysts, and members of the auditing community.⁵

Also, to facilitate the discussions, staff plans to prepare a discussion document focusing on how financial information can contribute to addressing management issues such as safeguarding and accounting for assets and determining the cost of programs. This document will help engage managers in financial reporting and assist in efforts to improve decision support and controls.

Overall, Planning will include the following:

1. Develop survey questionnaire for agency reports (possibly with assistance from GAO)
 - a. What information is needed and when?
 - b. How is the information used?
2. Identify research performed by others.
3. Develop agency survey plan
 - a. Utilize user groups discussed in SFFAC 1
 - b. Identify participants for focus groups
 - c. Develop schedule for meeting with focus groups
4. Develop survey questionnaire for government-wide report
 - a. How is the report used?
 - b. What improvements may be needed?
5. Identify roundtable participants to discuss government-wide report.
6. Document plan for periodic review and update if needed.

The estimated completion date for Planning would be October 2008.

Execution

During execution, staff will conduct discussions and gather information as planned. This would include the following:

1. Conduct focus group discussions for agency participants
 - a. Develop results by group
 - b. Determine issues
2. Conduct roundtable for government-wide report
3. Summarize results

⁵ Auditors gather and review information from entities as part of their efforts to gain an understanding of entity programs, systems, and internal control (including the control environment, risk assessment, control activities, and monitoring functions). They may be able to provide a perspective on what and how information is used in managing programs.

Review

Review the results of determining user needs and determine steps for the next phase.

Some Matters to Consider

In determining whether to conduct a new study, members may wish to consider matters regarding Resources that may be required, Risks or challenges associated with the approach, Research that the Board has already conducted, and the Rewards of conducting new research. These matters are discussed below.

Resources

As noted in previous Board discussions, the level of resources needed to conduct a study is a primary concern. A user needs study may require significant time and resources while the Board has several competing issues to consider for its technical agenda. In addition to FASAB resources, the study would require the time of agency personnel and others. Participants will be needed to provide input on focus groups and roundtable discussions and the Board already has agency personnel participating on task forces of on-going projects. Staff will consider these issues in developing a plan for conducting the study.

Risks

The plan for determining user needs would include conducting focus group and roundtable discussions with various participants. Based on past efforts to gather information using these techniques, staff has noted that some participants: may not know what they want and may need information to trigger ideas; note that their needs may change over time; may only focus on what is important at the time and leave out some key details that support routine decisions; are influenced by others in the discussion group; or may not provide context to help understand their input.

In addition, to ensure consideration of the range of perspectives, participants from multiple user groups may need to be consulted. However, identifying and contacting users may be a challenge. For example, the internet has helped broadened the range of possible report users, but identifying these users may not be feasible given privacy concerns. Also, participant availability may present a challenge to coordinating discussions in a timely manner. Staff will consider these and other issues in designing questions and the plan for conducting the discussions.

Research

As discussed in the History of Determining User Needs section, the Board has conducted extensive research on the user needs topic during its early years of concepts deliberations and has recently conducted roundtable discussions on objectives.

Rewards

Although research that contributes to determining user needs has been conducted, the reporting model project plan suggests a new user needs study should be undertaken. Over 10 years have passed since that initial research and there have been technological advancements that facilitate access to information. In addition, the financial management community has gained considerable experience in financial reporting. Less time and resources are used in processing transactions and preparers are beginning to focus on issues such as business processes and program management needs. Changes have also occurred in the private sector where chief financial officers are being challenged to provide more insight and analysis, including nonfinancial operational data.⁶ A new user needs study may provide current views on user concerns and decisions and assist the Board in assessing the impact of the changes on the reporting model.

Also, the Board has noted two types of users – external and internal. Conceptually, external users may not have the ability to demand the information they need, while internal users have that ability. The initial research focused largely on the internal users and agency reporting. At that time, factors such as the lack of adequate systems hindered internal users' access to information and the Board considered the distinction between internal and external users to be less significant.⁷ Considering both groups' needs in the new study may provide the Board with more inclusive perspectives for the design of the reporting model.

In addition, determining user needs was not a particular objective of the roundtable discussions. See Appendix VI: Example Package from Roundtable Discussions for the roundtable package for the Budgetary Integrity objective. Conducting a new study involving all groups may provide the Board with specific insights on the types of information users need from agencies and government-wide reports and where the FASAB could focus its efforts.

A. Does the Board agree that the plan objectives should include determining user needs as phase 1?

⁶ CFO Research Services. "The Story Behind the Numbers: CFOs are under pressure to provide insight and analysis in financial reporting." December 2007, 5.

⁷ SFFAC 1, par. 25.

Determine Inventory of User Needs Phase

In the Determine Inventory of User Needs Phase, staff plans to develop an inventory of information needs and identify how those needs relate to the reporting objectives. Discussion of user needs was an intermediate step in the Board's previous efforts to develop the reporting objectives.⁸ Comparing the updated inventory of needs to the reporting objectives will help determine whether user needs are currently being addressed in some manner. In addition, issues regarding the scope of financial reporting may be considered in this phase. For example, results may indicate that users of agency reports may be highly interested in non-financial performance information.⁹ Appendix I: Objectives of Federal Financial Reporting provides the existing reporting objectives. The components of the Inventory User Needs Phase are as follows:

1. Planning
 - a. Review user needs results and classify information
 - b. Review research performed by others
 - c. Evaluate past concepts and determine whether views remain valid
 - i. *Objectives*
 - ii. *Entity and Display*
 - iii. *Intended Audience*
2. Execution
 - a. Compare with existing objectives
 - b. Determine reporting objectives not being achieved by government-wide report
3. Review results and determine next steps

The estimated completion date for this phase would be in the fourth quarter of 2009.

B. Does the Board agree that the plan should include developing an updated inventory of user needs as phase 2?

⁸ SFFAC 1, par. 249.

⁹ In previous efforts to revisit the reporting objectives, staff conducted a series of roundtable discussions to determine how each reporting 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. During the March 2006 Board meeting, members discussed the roundtable results and agreed to maintain the reporting objectives as stated in SFFAC 1, Objectives of Financial Reporting. See FASAB's Strategic Directions, November 2006, pp 12-13. Available at: <http://www.fasab.gov/stratdirections.html>.

Determine Methods for Meeting Needs Phase

The Determine Methods for Meeting Needs Phase involves developing the appropriate method for meeting user's needs. Methods involve the means of providing access to information. With advancements in technology users may access information using a variety of methods. Users may access and review audited reports or reports derived from systems and controls that support audited reports and other advancements may develop in providing users with an array of relevant information.

Existing conceptual guidance will play a role in this phase. For example, qualitative characteristics may be considered in determining access to reports from systems that support audited reports. Understandability, timeliness, reliability, and comparability may be important characteristics to consider in whether to use a particular method. Also, this plan will consider some of the views on the benefits of audited financial statements regularly prepared by agencies such as demonstrating accountability to the public, instilling a level of discipline for improving systems and control, and providing assurance that information is presented fairly. In addition, note disclosures help users understand the information and make comparisons among similar organizations. Overall, the phase would involve the following components:

1. Planning
 - a. Analyze results of the previous phase
 - b. Identify other models and research
2. Execution
 - a. Review other models and research
 - b. Develop methods
3. Review
 - a. Compare results with existing model
 - b. Determine next steps

The estimated completion date for this phase would be in the second quarter 2010.

C. Does the Board agree that the plan should include determining appropriate reporting methods for meeting user needs as phase 3?

Determine Presentation Phase

The Determine Presentation Phase concerns determining how to present the information within the reporting method identified. This phase will consider issues such as what financial statements are needed to achieve the reporting objectives, how the statements should relate, appropriate level of disaggregation or detail, and how they compare with existing statements and with other models.

Staff will determine the presentation needed to meet users' needs considering the methods developed in the previous phase. This objective involves issues such as what financial statements are needed, how the statements should relate, appropriate level of disaggregation or detail, and how they compare with existing statements and with other models. Overall, the phase would involve the following:

1. Planning
 - a. Review previous phase results
 - b. Review other reporting models
 - i. What statements are considered basic?
 - ii. Do statements articulate?
 - iii. What basis is used?
 - iv. Are different levels of reporting used?
 - v. Are ranges used?
 - c. Review research performed by others.
 - d. Review past concepts
2. Execution
 - a. Develop illustrative agency model
 - b. Discuss agency model with focus groups
 - c. Summarize agency results
 - d. Review results for government-wide reporting
 - e. Develop enhancements
3. Review
 - a. Assess results
 - b. Develop concepts, standards, and/or educational materials

The estimated completion date for this phase would be in the fourth quarter 2010.

D. Does the Board agree that the plan should include determining the presentation needed as phase 4?
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E. Does the Board wish to pursue other phases as part of the project?

Appendix I: Objectives of Federal Financial Reporting

Objective 1--Budgetary Integrity

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

- 1A. How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.
- 1B. The status of budgetary resources.
- 1C. How information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

Objective 2--Operating Performance

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

- 2A. The costs of providing specific programs and activities and the composition of, and changes in, these costs.
- 2B. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.
- 2C. The efficiency and effectiveness of the government's management of its assets and liabilities.

Objective 3--Stewardship

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. *Federal financial reporting should provide information that helps the reader to determine:*

- 3A. Whether the government's financial position improved or deteriorated over the period.
- 3B. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.
- 3C. Whether government operations have contributed to the nation's current and future well-being.

Objective 4--Systems and Control

Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that:

- 4A. Transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards;
- 4B. Assets are properly safeguarded to deter fraud, waste, and abuse; and
- 4C. Performance measurement information is adequately supported.

Appendix II: Overview of Project Phases

Determine User Needs	Inventory User Needs	Determine Methods	Determine Presentation
Planning <ol style="list-style-type: none"> Develop survey questionnaire for agency reports (possibly with assistance from GAO) <ol style="list-style-type: none"> What information is needed and when? How is the information used? Identify research performed by others. Develop agency survey plan <ol style="list-style-type: none"> Utilize user groups discussed in SFFAC 1 Identify participants for focus groups Develop schedule for meeting with focus groups Develop survey questionnaire for government-wide report <ol style="list-style-type: none"> How is the report used? What improvements may be needed? Identify roundtable participants to discuss government-wide report. Document plan for periodic review and update if needed. Execution <ol style="list-style-type: none"> Conduct focus group discussions for agency participants <ol style="list-style-type: none"> Develop results by group Determine issues Conduct roundtable for government-wide report Summarize results Review <p>Review the results of determining user needs and determine steps for the next phase.</p>	<ol style="list-style-type: none"> Planning <ol style="list-style-type: none"> Review user needs results and classify information Review research performed by others Evaluate past concepts and determine whether views remain valid <ol style="list-style-type: none"> Objectives Entity and Display Intended Audience Execution <ol style="list-style-type: none"> Compare with existing objectives Determine reporting objectives not being achieved by government-wide report Review results and determine next steps 	<ol style="list-style-type: none"> Planning <ol style="list-style-type: none"> Analyze results of the previous phase Identifying other models and research Execution <ol style="list-style-type: none"> Review other models and research Develop methods Review <ol style="list-style-type: none"> Compare results with existing model Determine next steps 	<ol style="list-style-type: none"> Planning <ol style="list-style-type: none"> Review previous phase results Review other reporting models <ol style="list-style-type: none"> What statements are considered basic? Do statements articulate? What basis is used? Are different levels of reporting used? Are ranges used? Review research performed by others. Review past concepts Execution <ol style="list-style-type: none"> Develop illustrative agency model Discuss agency model with focus groups Summarize agency results Review results for government-wide reporting Develop enhancements Review <ol style="list-style-type: none"> Assess results Develop concepts, standards, and/or educational materials
Est. Completion Date: 3 rd quarter 2009	Est. Completion Date: 4 th Qtr 2009	Est. Completion Date: 2 nd Qtr 2010	Est. Completion Date: 4th Qtr 2010

Appendix III: Excerpt of SFFAC 1

	<p>Concepts 1</p>
	<ul style="list-style-type: none"> • Level 2 is program accountability—establishment and achievement of goals (outcomes). • Level 3 is performance accountability—efficient operation (efficiency and economy). • Level 4 is process accountability—using adequate processes, procedures, or measures in performing the actions called for (planning, allocating, and managing). • Level 5 is probity and legality accountability—spending the funds in accordance with approved budget and/or approved items (compliance).⁷ <p>74. In a democracy, appointed officials are accountable to their superiors, and elected officials are accountable to the citizens for each of these kinds of accountability. Accounting and financial reporting can help elected and appointed officials to maintain and to demonstrate their accountability. The last kind of accountability listed, for “probity and legality,” probably is the kind most often associated by the public with accounting. However, the accounting profession has long recognized that accounting can and should contribute to achieving and demonstrating several kinds of accountability, such as</p> <ul style="list-style-type: none"> • accountability for financial resources; • accountability for faithful compliance or adherence to legal requirements and administrative policies; • accountability for efficiency and economy in operations; and • accountability for the results of government programs and activities, as reflected in accomplishments, benefits, and effectiveness.⁸
<p>Users Of Federal Financial Reports</p>	<p>75. The Board believes that users of financial information about the federal government can be classified in four major groups: citizens, Congress, executives, and program managers.</p> <p>⁷J. D. Stewart, “The Role of Information in Public Accountability,” eds. Tony Hopwood and Cyril R. Tompkins, <u>Issues in Public Sector Accounting</u> (Oxford, Great Britain: Philip Allan, 1984), pp. 14-15, as cited by the GASB in its <u>Preliminary Views on Service Efforts and Accomplishments Reporting</u> (Dec. 1992).</p> <p>⁸<u>Report of the Committee on Concepts of Accounting Applicable to the Public Sector</u>, American Accounting Association (1970-71), pp. 80-81, as cited by the GASB in <u>Preliminary Views on Service Efforts and Accomplishments Reporting</u> (Dec. 1992).</p>

Concepts 1	
Citizens	76. This group includes individual citizens (without regard to whether they are taxpayers, voters, or service recipients). Citizens include the general news media and more specialized users, such as trade journals; public interest and other advocacy groups; state and local legislators and executives; and analysts from corporations, academe, and elsewhere.
	77. Citizens are interested in many aspects of the federal government. They are concerned about individual programs, candidates for office, the services the government provides, and the fiscal responsibility of their elected and appointed representatives. Citizens receive and pay for government services and therefore are concerned with the outputs and outcomes of those services and the efficiency with which they are provided. Citizens are concerned about their families and, in particular, with the financial burden their children and grandchildren will inherit. As individuals, citizens typically have limited time and ability to analyze reports about their government; they want and rely on assurances that the government is functioning economically, efficiently, and effectively. As they are organized and represented by analysts working for interest groups and the news media, citizens want more information about the government's activities.
	78. Citizens express their interest in the government by discussing issues, by voting, and by writing to their representatives about the quality and quantity of the services they receive. In some cases, citizens may decide whether and when to use services and products provided by the government. They may contribute to political campaigns, demonstrate support or opposition for individuals responsible for past and proposed government actions, and even run for office.
Congress	79. This group includes elected members of Congress and their staffs, including staff of the Congressional Budget Office (CBO) and the GAO. Congress is concerned with broad policies, priorities, and the programs that implement those priorities. It decides what taxes to impose, what funds should be spent, and for what purpose. Thus, Congress is concerned both with how to finance programs and with how they are executed.
	80. Congress participates—along with the administration—in the basic decisions that describe the intent of government. Such decisions include passing laws in response to public demand, allocating resources among competing programs, and establishing policy that
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	<p>affects various aspects of the country's economic and social life. These decisions often are influenced by assessing costs and benefits and by considering the effect of the government's aggregate financial requirements on the economy.</p>
Executives	<p>81. Congress also participates in monitoring government programs. It assesses the management performance of the executive branch and the efficiency and effectiveness of programs.</p> <p>82. This group includes the President and those acting as his agents, i.e., program agency heads and their deputy, under, and assistant agency heads; heads of bureaus, administrations, services, and agencies; and the central agency officials in OMB and the Department of the Treasury.</p> <p>83. Executives, like Congress, are concerned with the government's goals, objectives, and policies. Executives focus on the strategic plans and programs that are intended to achieve presidential and congressional goals and to implement their policies. In particular, they pay attention to budgets that, from the perspective of each agency, are the source of the resources needed to achieve goals and to implement policies. Executives are, of course, directly concerned about the management of programs, that is, with the actual delivery of services and with the efficiency and effectiveness of the delivery process.</p> <p>84. Executives develop legislative proposals, recommend the necessary level of program funding, and formulate financing and revenue-raising strategies. They help select the method for delivering services. They determine whether program managers have been accountable for the resources entrusted to them and whether programs are operating efficiently and effectively. Executives also provide information that will enable the President and Congress to monitor programs.</p>
Program managers	<p>85. This group includes individuals who manage government programs. Their concerns include operating plans, program operations, and budget execution.</p> <p>86. Program managers assist in the design of programs and organize the method selected for delivering services. They recommend program budgets based on detailed plans that set forth needs for money, staffing, facilities, and inventory.</p>

	<p>87. Program managers establish operating procedures for their programs and manage them within the limits of the spending authority granted by Congress. They select, supervise, and evaluate personnel. They also make sure that program inventory and facilities are acquired economically, maintained adequately, and used efficiently. Program managers need to provide information to enable executives and Congress to monitor the programs.</p>
The Needs Of Users Of Federal Financial Reports	<p>88. While the financial information needs of these groups is more diverse than their membership, those needs can be categorized under four broad headings.</p>
Budgetary Integrity	<p>89. All user groups need information about the budget. For citizens, information about budget execution provides assurance that their elected and appointed representatives have fulfilled their most basic fiduciary responsibility: to raise and spend money in accordance with the law.</p> <p>90. For the President's economic team and for congressional budget committees, information is needed on budget aggregates (total budget authority, total receipts and collections, and total outlays) to establish fiscal policy, including governmental financing needs. These officials need to know that prior-year "actuals" have been accurately recorded in accordance with the same budgetary principles used to prepare estimates.</p> <p>91. To avoid violations of the Anti-Deficiency Act and the Impoundment Control Act, program managers need information about obligations incurred on their programs. They need periodic information about the status of budgetary resources, that is, the extent to which the resources have been used or remain available. They also want to know whether budgetary resources are available to be used for other purposes through reprogramming.</p>
Operating Performance	<p>92. Citizens want information about programs that affect them. Veterans, for example, want to know about new hospitals, and defense workers want information about contract awards (and cancellations). Retirees and people planning retirement—and their representatives in Congress—want to know that the Social Security Administration provides reliable services to the public.</p>

	Concepts 1
Stewardship	93. Congress and executives want information about the comparative costs of programs (such as the per student cost of the Job Corps Program versus that of other job training programs). For comparisons to be valid, costs must be defined and measured alike.
	94. Of course, information on the effectiveness of programs is also needed to make valid comparisons among programs. Information is needed about outputs (e.g., number of students who graduated) and outcomes (e.g., number of students who got and held jobs for which they were trained).
	95. Executives and program managers need to know the cost of performing work reimbursed by other government entities or by nonfederal customers. Costs, in this case, would measure the resources (personnel, material, and equipment) used to accomplish the work.
	96. Congress and executives often want cost information that would help to compare alternative courses of action. How much more or less would it cost if the Census Bureau used a new approach to taking the census? How much would be saved if an Army division were based in the United States rather than in Europe?
	97. Program managers need information on the assets and liabilities related to operations. Managers of loan programs need information on the quality of their loan portfolios. Managers of repair depots want information on inventories, such as their value, quantity, location, age, and condition. Managers of government facilities need to know the facilities' condition and an estimate of future outlays made necessary by deferring needed maintenance.
	98. Congress and executives need information about the market value of assets that could be sold, such as precious metals or other commodities.
	99. Citizens, Congress, executives, and program managers need information to assess the effect of the government's activities on its financial condition and that of the nation. Information is needed about the financial outlook for both the short and the long term.
	100. Information is needed on the government's exposure and risks associated with deposit insurance, pension insurance, and flood

	<p>insurance. People need to know about likely future expenditures for cleaning up nuclear weapons sites and military bases. They want information that will help them assess the likelihood and amount of future claims that might arise from government-sponsored enterprises.</p>
	<p>101. All users need information on earmarked revenues recorded in trust funds. They want to know, for example, whether the Social Security Trust funds are likely, in the foreseeable future, to need infusions of new taxes to pay benefits. Citizens need to know the implications of investing trust fund revenues in government securities.</p>
	<p>102. Users also need trend information on spending on investments in physical and human capital versus spending on consumption.</p>
Systems and Control	<p>103. Users at all levels need information on internal controls and the adequacy of financial management systems. Citizens want assurances that systems and controls are in place to protect the resources they supply to the government. They want to know that operating procedures and processes provide reasonable assurance that those resources are used economically and efficiently for the purposes intended. Congress, executives, and program managers need to demonstrate to those to whom they are accountable that they have, in fact, protected those resources and used them well. Users want to know, for example, that agency heads have determined that internal controls are adequate, that basic financial statements are auditable, and that high-risk areas have been identified and addressed.</p> <p>104. The implications of these four broad categories of information needs for the objectives of federal financial reporting are discussed in more detail in the next Chapter.</p>
Chapter 4: Objectives Of Federal Financial Reporting	<p>105. The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. These reports must accurately reflect the distinctive nature of the federal government and must provide information useful to the people, their elected representatives, and federal executives. Providing this information to the public, the news media, and elected officials is an essential part of accountability in government. Providing this information to program managers,</p>

Appendix IV: Chronology of Early Deliberations on Concepts

Chronology of early deliberations related to “conceptual framework”

February 1991—The Board discussed some concepts-related topics, including plans for a FASAB taskforce on user needs and objectives. This reflected an early consensus that the Board should focus on satisfying “user needs,” within the cost/benefit constraints defined by the comparative advantages of accounting, financial reporting, and financial auditing—and within the context of other mechanisms to provide accountability and useful information in the federal environment. It also reflected an early consensus that the Board should not simply adopt existing federal standards (GAO’s “*title 2*”) or standards from other sources, but should develop standards based on a study of the unique characteristics and implications of the federal environment.

March 1991—the Board discussed a draft Mission Statement (with implications for objectives), including the use of the word “neutral,” and made revisions to the draft. The Board also received a draft paper on “conceptual framework—user needs and reporting objectives.”

April 30, 1991—The first meeting of FASAB’s Taskforce on User Needs, Uses and Objectives for Federal Accounting and Financial Reporting.¹

May 1991—FASAB received papers by Bob Mautz on “GAAP and Federal Government Financial Reporting,” Cornelius Tierney on “The AICPA’s Proposal for Federal Accounting Reform,” June Pallot on “The Nature of Public Assets: A Response to Mautz,” Paul Miller on “The Conceptual Framework as Reformation and Counterreformation,” and two items from Elmer B. Staats, “Testimony before the Subcommittee on Deficits, Debt Management and International Debt, Committee of Finance, U.S. Senate” and “How Can Accounting Help in Controlling the Cost of Government.”

June 1991—FASAB discussed issues related to setting separate standards for commercial-type and governmental-type activities of the Government.

September 1991—FASAB considered a draft of its first exposure draft, titled “Financial Resources, Funded Liabilities, and Net Financial Resources” The draft included an appendix with a history and proposed agenda for the Board.

October 1991—FASAB discussed a paper from Mr. Chapin on “budget-based information shells” and material on commercial versus noncommercial accounting issues, including a memo

¹ There were 12 members of FASAB’s taskforce: Frank Clemente, Senior Policy Advisor, House Committee on Government Operations; Phillip Dame, Deputy Assistant Director, Budget Analysis and Systems Division, OMB; Dennis Fisher, Deputy Assistant Secretary for Finance, HHS; Susan Herring, Salomon Brothers; Bradford Huther, Assistant Commissioner for Finance and Planning, PTO, Dept. of Commerce; S. Anthony McCann, Asst. Secretary for Finance and Planning, VA; Dale McComber, Asst. Director for Budget Review (retired) OMB; Robert McQuie, National Taxpayers Union; James Patton, professor, University of Pittsburgh; Ronald Points, Director of Federal Accounting, Price Waterhouse; Relmond VanDaniker, National Association of State Auditors, Controllers and Treasurers and professor, University of Kentucky; Joseph Wakefield, Chief, Government Division, Bureau of Economic Analyses, Commerce Department. FASAB staff led the discussions.

from Jim Blum of CBO. There was continuing discussion on the inventory and the credit reform (loans and guarantees) projects.

January 1992—Report to the Board on focus group sessions with:

- Agency managers from DoD
- Agency financial managers
- Budget committee staffers
- Congressional staff from authorizing, appropriation, and oversight committees
- Budget analysts and other staff from OMB and CBO.

February 1992—The Board held its first public hearing on its initial exposure draft (on selected assets and liabilities). Although the ED focused on current assets and liabilities, there were some comments on users' needs, relationship to the budget, agenda, etc.

March 1992—The Board received (but did not consider) a first draft of an exposure draft prepared by FASAB staff titled *Uses and Objectives of Federal Accounting and Financial Reporting*. This draft was organized based on “concept mapping” by FASAB staff and members of FASAB’s User Needs Taskforce of objectives commonly asserted in prior accounting literature and in the users’ needs focus groups. The draft organized the objectives under six major headings, which included both internal accounting and external reporting objectives. Staff’s plan had been to repeat the concept mapping exercise with the Board members, to reflect their perceptions in a revised statement of objectives, but this was never done. (For more on concept mapping, see <http://trochim.human.cornell.edu/mapping/mapping.htm>.) Instead, a new OMB-led taskforce on objectives was established. The OMB-led taskforce had 18 members.² Chapter 4 of SFFAC 1 presents the objectives as defined by that taskforce and revised by the FASAB. The Board also received a detailed report on the focus group discussions, a background paper on accounting concepts, and other background material including:

- IFAC Public Sector Study Number 1 *Financial Reporting by National Governments*.
- GASB’s Statement of Objectives.
- Excerpts from FASB’s statements of concepts and material from various sources on reporting on service efforts and accomplishments.
- NAA’s statement of Objectives of Management Accounting.

² Barry Anderson, OMB; Steve Arisumi, OMB; James Blum, CBO; Lawrence Eisenhart, State Department; Richard Emery, Jr., OMB; Sherman Funk, State Department; Martin Ives, GASB and FASAB; Norwood Jackson, Jr., OMB; Mitchell Laine, Education Dept.; Edward Mazur (taskforce Chair) OMB and FASAB; Gerald Murphy, Treasury and FASAB; Edward Rea, OMB; Gerald Riso, Dept. of Education; Justine Rodriguez, OMB; Harold Steinberg, OMB; Jeffrey Steinhoff, GAO; Barry White, OMB. Ronald S. Young, FASAB’s Executive Director, may have attended some or all of the meetings.

Appendix IV: Chronology of Early Deliberations on Concepts

April 1992—The Board discussed liabilities, claims, and national responsibilities: when to recognize them, alternatives to recognition, and which entity should recognize? Messrs. Mazur and Steinberg of OMB briefed the Board on “a small group interagency session” OMB led on environmental characteristics of federal accounting/reporting.³ The Board received an analysis from FASAB staff of “user needs” by type of user.

May 1992—FASAB continued its deliberations on liabilities: it considered possible definitions of liability and alternative recognition points. The Board considered accounting for tangible property other than long term fixed assets.

July 1992—FASAB considered another discussion paper on the liability project and an OMB paper on “Characteristics of the Federal Government Environment.”

September 1992—FASAB considered a draft statement of concepts on *User Needs and Objectives of Federal Financial Reporting* based on the work of the OMB-led taskforce and incorporating some of the material in the March 1992 draft prepared by FASAB. A proposed appendix summarized some of the prior research efforts undertaken by FASAB staff.

October 1992—considered a draft ED on “Liabilities and Future Claims” and a revised draft on Objectives.

November 1992—Considered revised draft EDs on Liabilities and on Objectives. In a memo on the future FASAB agenda, Mr. Young explained:

Absent from the list [of projects], but fundamental to resolving the more complex accounting issues listed above and included in the liabilities project, is a project on the Reporting Model. Some may give it another name, but its purpose would be to define the basic format and content of the financial statements that the FASAB has identified as within its domain in the reporting objectives project. It would be difficult, if not impossible, for the FASAB to be reasonably certain of hitting the target of causing meaningful and useful information to be developed and reported through its standards without articulating a vision of the reporting model. . . .

Currently the GAO is pilot testing a reporting model previously presented to the Board by Don Chapin.⁴ The pilot test is being conducted at the Department of Veterans Affairs. . . . GAO will . . . brief the FASAB on the status of that project Since the Office of Management and Budget has legal authority over the Form and Content of Financial Statements they may wish to use the FASAB as the vehicle for constructing a model to replace the current 220 Financial Reports. . . .

³ This may have been a meeting of the same OMB-led taskforce or another group.

⁴ Note by RWB: GAO staff involved in the pilot included John Hill, Christine Bonham, and Jeffrey Steinhoff, working under the general direction of Don Chapin. Individuals from other agencies also were involved, including people at VA, Gerald Murphy from Treasury, and one or more people from OMB (possibly Jackson, Steinberg, and/or Mazur), and Ronald Young, FASAB's Executive Director. Mr. Steinhoff may be the only person still working for the federal government who was involved in both the OMB-led taskforce on objectives and in the GAO-led taskforce on reporting model.

December 1992—The Board heard a presentation from GAO staff on the reporting model that was pilot tested with the VA. The focus of the model was described as three-fold: budgetary, programmatic, and stewardship. Financial information was presented by activity in an attempt to improve its usefulness to users of budget information that is prepared by activity. Budget execution information would be audited.

The Board also heard a presentation from OMB staff on the agreement with AICPA on a hierarchy for federal accounting standards as an “other comprehensive basis of accounting.” OMB’s bulletin 93-02 on Form and Content of financial statements defined much of the federal reporting model,⁵ and constituted the second level of guidance in this hierarchy, after individual statements of standards agreed to and published by the Secretary of the Treasury, the Director of OMB, and the Comptroller General.

January 1993—The Board continued deliberations on the liabilities project. It considered numerous issues, including how to deal with entitlements and insurance programs, and whether some definitions or recognition points better supported certain objectives while other alternatives would better support other objectives. The Board heard a presentation from Justine Rodriguez of OMB. Her presentation included excerpts from the President’s Budget:

- Section E, “A Balance Sheet Presentation” from Appendix One “Alternative Budget Presentations”
- Chapter 11, “Hidden Liabilities Requiring Policy Correction”
- Selected supplementary material

Also, the Board considered material related to concepts and reporting model presented in the context of deliberations on future projects on:

- budgetary resources,
- revenue recognition
- cost accounting, and
- reporting model.

The cost accounting material included a three dimensional diagram developed by GAO with three axes:

- Financial Performance Objectives
- Governmental Activities
- Accounting Basis and Measurement Focus

The reporting model material included references to FASB and GASB’s models, and a three dimensional diagram of the “federal accountability reporting pyramid” I developed for an AGA

⁵ During the first 7 or 8 years of FASAB’s existence, OMB insisted that providing guidance on “the form and content” of federal financial statements was its prerogative. “Form and content” might seem to be comprehensive (as indeed the term is intended to be in laws that define the SEC’s authority). In practice, this meant that FASAB developed standards that focused on recognition, measurement and disclosure requirements, while OMB defined matters of entity and display. Although this may be a matter of history, it still is important to understand federal accounting. This division explains, for example, why SFFAC 2 is structured as it is, and why all guidance from FASAB during those years that might be regarded as dealing with “reporting” or “display” was presented in “nonauthoritative” vehicles, such as the “implementation guide” that accompanied SFFAS 7. This means that some early FASAB standards may be difficult to understand fully without reference to the relevant guidance from OMB or other sources such as the “implementation guides.”

taskforce that proposed an “Accountability Report to Citizens.” The AGA proposal influenced the development of Accountability Reports, known today as Performance and Accountability Reports. (For more details on the AGA proposal, see the article from the *Government Accountant’s Journal*, previously provided.)

February 1993—Deliberations continued on liabilities. Also, there was discussion of a possible project on “investment” type expenditures. This material included references to asset definitions from FASB and others, the evolving statement of objectives for federal financial reporting, and to a schematic reporting model developed by the GAO-led working group. The model included:

- “performance operating statement,”
- “operating performance balance sheet”
- “accountability statement”

March 1993—The Board reviewed comments on two exposure drafts:

- Objectives of Federal Financial Reporting
- Accounting for Inventory and Related Property

The Board also continued deliberations on liabilities and “future claims on resources” (subsequently called “stewardship responsibilities”). The discussion distinguished what should be recognized on the balance sheet for reporting operating performance from what should be reported separately to address the accountability or stewardship objective. The Board also began discussing the role of MD&A in the federal reporting model.

April 1993—The Board members received additional comments on *Objectives* and participated in a public hearing on the *Objectives* exposure draft.

Appendix V: Excerpt of SFFAC 4

Concepts 4

Category	Federal (Civilian)	Federal (Military)	Non-federal
Users, academics, and others (includes professional organizations)			5
Preparers and Financial Managers	6	1	
Totals	6	1	5

12. In general, respondents agreed with the Board's identification of the primary audience as citizens and citizen intermediaries. Other respondent comments are addressed in the discussions that follow.
13. In providing guidance on the CFR, the Board primarily relied on its earlier conclusions supporting decisions on SFFAC 1, *Objectives of Federal Financial Information*. It then filtered into those conclusions its years of experience subsequent to its earlier conceptual work and other pertinent literature that describes user groups of government-level financial information. In particular, the Board relied on one of the most extensive studies on user needs for Federal Government financial information, the joint US-Canadian user needs study, Federal Government Reporting Study of March 1986. In this study, conducted by the US Comptroller General and the Auditor General of Canada, the researchers identified similar groups of users as those the Board had identified in SFFAC 1 and in this document.
14. The Board agreed that, in general, users of Federal financial information fall into the four categories identified in SFFAC 1: Citizens, Congress, Executives, and Program Managers.⁷ However, for information at the more highly summarized governmentwide or consolidated level the Board divided those four groups identified in SFFAC 1 into two major groups: external users (Citizens), and internal users (Congress, Executives, and Program Managers).
15. The Board believes that citizens should be the primary audience for the CFR. This is based on the notion that citizens as compared to the other groups do not have ready access to more detailed Federal financial reports on which to make decisions. Moreover, they may not

⁷ SFFAC 1, par. 88-104.

 Concepts 4

have the knowledge or desire to take the time to understand more sophisticated reports, preferring instead to look to a more summarized report for highlights of interest. Thus, the Board believes that the CFR should not attempt to meet all users needs for all objectives. Instead it should focus on meeting the basic needs of citizens for highly summarized information.

16. Further, for the CFR the Board believes that the Citizen user group identified in SFFAC 1 has two different sets of needs and therefore should be divided into two groups: Citizens and Citizen Intermediaries. Citizen needs are more specifically targeted to issues of general interest and to broad indicators of the overall financial health of the Government. On the other hand, Citizen Intermediaries devote more time to reading, analyzing, and interpreting more detailed information that they then analyze, summarize, and pass on to Citizens for further application. For these reasons, the Board expanded its original four groups of users to five user groups for the CFR. The group characteristics are summarized in the paragraphs that follow.

External Users

17. *Citizens.* This group includes individuals outside the Government who are interested in information that supports their goals of generating and preserving income and savings, and improving their standard of living.⁸ Citizens are interested in many aspects of the Federal Government. They are concerned about individual programs, candidates for office, the services the Government provides, and the fiscal responsibility of their elected and appointed representatives. Citizens receive and pay for Government services and therefore are concerned with the outputs and outcomes of those services and the efficiency with which they are provided. Citizens are concerned about their families and, in particular, with the financial burden their children and grandchildren will inherit.⁹ These users are interested in a "comprehensive but concise...report [that would provide] a broad and complete picture of the Government's...many and varied activities and resulting overall financial position."¹⁰

⁸ *Federal Government Reporting Study: A Joint Study by the Office of the Auditor General of Canada and the US Government Accountability Office*, March 1986, p.10.

⁹ SFFAC 1, par. 77.

 Concepts 4

18. Citizen Intermediaries. This group also includes individuals from outside the Government. It includes, among others, individuals such as: the media; public interest and advocacy groups; state and local legislators and executives; and analysts from corporations, academe and elsewhere. As citizens typically have limited time and ability to analyze reports about their government, they want and rely on assurances that the government is functioning economically, efficiently, and effectively.¹¹ However, citizens, for the most part, "would look to analysts in the media, financial institutions, policy institutes, etc., to do such analysis for them."¹² Citizen intermediaries would analyze and interpret the more detailed information to deliver it to citizens. They also would provide more in-depth analysis that citizens may not have the desire or the ability to perform. Citizen intermediaries typically have more skill, time and ability to gather and analyze detailed data from alternative sources.
19. Intermediaries are interested in all of the major facets of each of the Board's objectives, including individual programs; Government services and activities; fiscal responsibility of elected and appointed representatives; program outputs and outcomes; and assurances of Government economy, efficiency and effectiveness. Intermediaries, therefore, are interested in a wider array of information on all aspects of budget, program operations, the Federal Government's stewardship, and systems and controls. "Media and analysts are the most frequent direct users of Federal Government financial reports, the major source of information about the Government for citizens and corporations, and an important source of information for legislators."¹³ The Board believes that intermediaries may rely on the CFR as a starting point but that they will seek more detailed reports.
20. The Board agrees with the conclusion of the Federal Government Reporting Study. A significant finding was that "users depend on each other for the communication of financial information about the Federal Government. Legislators - generally considered to have a

¹⁰ *Federal Government Reporting Study*, p.v.
¹¹ SFFAC 1, paragraph 77.
¹² *Ibid.* p.5.
¹³ *Ibid.* pp.5-6.

 Concepts 4

primary role in the use of Federal Government financial information - depend to a considerable extent on the interpretations of information by analysts and the media to provide them with the understanding they need. This also applies to citizens and corporations. Thus, needs of analysts and the media are considered crucial because, if they are not well served, the understanding of government activities by others will suffer."¹⁴

Internal Users

21. Internal users are those groups inside the Federal Government who typically have more access to the myriad of Federal Government information including summarized and detailed financial, program, budget, cost, and economic reports and analyses for all entities. Because they are able to get information on their specific issues of interest, they might benefit from the CFR but are not its primary audience. Internal users include Congress, Federal executives, and program managers. Of these three internal users, some have considered Congress as the ultimate intermediary between the public and its Government. That notwithstanding, Congress, as would the other internal users, has access to more specific internal information and reports for conducting its work. Thus they are not the main audience of the CFR. However, these users may rely on the CFR with its broad indicators and summarized information as "a reference document to lead to more detailed or disaggregated information in specific areas."¹⁵ Each internal user has access to detailed, disaggregated information, but relies on summarized data in a more limited capacity as indicators for general Governmental financial position and condition. Internal users would use the CFR to provide "an overall picture of the financial health of the Government that is not available elsewhere...[and provide it with] a general framework to situate [its] own activities."¹⁶

¹⁴ Ibid. pp. iv-v.

¹⁵ Ibid. p.8.

¹⁶ Ibid. p.9.

 Concepts 4

Summary

22. Based on the above analysis, the Board concluded that the CFR would be of general interest to five user groups. However, the Board believes that the external user groups representing the general public, that is, Citizens and Citizen Intermediaries, are the primary audiences for the CFR.
23. The Board also considered comments from respondents to its exposure draft (see paragraph 11). Some respondents requested that specific individuals be added to the examples of persons included in the Citizen Intermediary group. Since the Board intended that the individuals listed in the group description were typical examples rather than an exhaustive list, it decided not to expand the list of examples. Rather it decided to slightly modify the wording of the description of the Citizen Intermediary group to clarify that the individuals and groups listed are typical examples and not an exhaustive list.

Qualitative Characteristics

24. To be useful, FASAB's SFFAC 1 provides that information should be reliable, relevant, consistent, comparable, understandable and timely. The FASAB considers these characteristics as it deliberates standards applicable to all Federal reporting entities, both agency level and the government as a whole. In the Federal environment, satisfaction of these characteristics occurs when FASAB develops standards for Federal reporting. At the CFR level, where the audited agency level data are aggregated, the manner in which the data are presented to the general audience for which the CFR is intended is a fundamental consideration. Because Federal financial statements differ from commercial financial statements in concept, form, volume, and complexity and the intended audience for Federal financial statements is so all encompassing, the FASAB is emphasizing the need for the CFR to be understandable. The Board concurs with a study by the Association of Government Accountants on Government accountability reporting that concluded that, "the problem of reporting to the citizens is not primarily one of inability to develop meaningful information or lack of it. Rather, the principal problem is the manner in which this information is communicated to the American citizens."¹⁷ The study suggested that the abundance of detailed financial data

Appendix VI: Example Package from Roundtable Discussions

**Federal Accounting Standards Advisory Board
Roundtable Discussion on the
Budgetary Integrity Objective of Financial Reporting
September 19, 2005**

Questions for Consideration

Introduction

FASAB is the source of GAAP for financial reporting in the federal government. The Board issues its guidance through a range of vehicles such as Statements of Federal Financial Accounting Concepts and Standards, Interpretations, Technical Bulletins, Technical Releases of the Accounting and Auditing Policy Committee, and Implementation Guides published by FASAB staff. SFFAC 1 is a conceptual statement on the objectives of financial reporting in the federal government, and it was part of the Board's initial set of concept statements and accounting standards. Each objective relates to the federal government's management and financial reporting systems in their entirety. As the Board's work progressed, members found that the broad nature of the objectives hinders their usefulness as a tool for guiding them in choosing among alternative solutions.

"The term "objective" has no unusual meaning in financial accounting. An objective is something toward which effort is directed, an aim or end of action, a goal."

FASB Discussion Memorandum, *Conceptual Framework for Accounting and Reporting: Consideration of the Report of the Study Group on the Objectives of Financial Statements*, June 6, 1974

"...before a standard can be set for any product, the purpose of the product must be defined."

David Solomons, "The FASB's Conceptual Framework: An Evaluation," *Journal of Accountancy*, June 1986, p.118

In June 2003, the Board began extensive review of the financial reporting objectives discussed in SFFAC 1. Since that time, the Board has:

- reviewed the changes in federal financial management legislation;
- considered the basis for SFFAC 1's inclusion of a dual focus on internal and external user needs;
- discussed how prior standards contributed to meeting certain objectives and indirect contributions to improving systems and controls; and
- discussed the foundational objectives of accountability and decision usefulness.

Roundtable Objective

To determine how the financial reporting objective, Budgetary Integrity, 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.

Description of the Budgetary Integrity Objective

Budgetary Integrity

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

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

"A budget is not just about numbers. Far more it is about priorities—and integrity. One great test is whether a budget legitimately supports the initiatives it purports to advance. A budget not only says a lot about how much we will spend, but it will inevitably reveal how we do the people's business. In other words, it is time to restore accountability and responsibility to Federal budget making."

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities

Attachment I provides a summary of how federal financial reporting contributes to meeting the Budgetary Integrity objective.

Discussion Topics and Questions

A. Participant's Observations on the Budgetary Integrity Objective

Discuss your experience with the Budgetary Integrity objective.

1. What reporting requirements or other actions have contributed particularly well to meeting the objective and what could be improved?
2. Are there aspects of the Budgetary Integrity Objective (or sub-objectives) that should be clarified?
3. Are there specific issues that may relate to the Budgetary Integrity Objective that are not addressed (ie. Are there additional sub-objectives that should be added or considered)?

B. Evaluating the Budgetary Integrity Objective in an Evolutionary Environment

FASAB issued SFFAC 1 in 1993. Since that time, the operations and structure of FASAB has changed and Congress has passed new laws. Federal accounting and reporting exists in the context of various laws that have impacted financial management practices, internal control, and performance

measurement. For example, the Government Management Reform Act of 1994 (GMRA) required audited financial statements covering all accounts in the 24 CFO agencies, and it required the preparation of the consolidated government-wide financial statement. Also, the Reports Consolidation Act of 2000 allows agencies to combine its audited financial statements and its performance reports into an annual report referred to as a Performance and Accountability Report. Other changes in legislation and financial management initiatives are discussed in the FASAB staff white paper.

SFFAC 1 acknowledges the evolutionary nature of financial reporting. It states that FASAB recognizes that developing and implementing standards may take considerable time. Given the changes in the federal financial reporting environment since SFFAC 1 was issued, the Board believes that an up to date statement of views would be helpful. Board members noted that:

"The objectives of financial reporting are not immutable – they are affected by the economic, legal, political, and social environment in which financial reporting takes place."

FASB Statements of Financial Accounting Concepts
1: *Objectives of Financial Reporting by Business Enterprises*

They may not need wholesale revision, but the passage of time and changed conditions may suggest some changes.

...the environment had changed, including new laws. We need to look at the objectives in light of the perceived effectiveness of new requirements.

Maybe the torch has been passed as a result of some law; in which case (he) would want to take out the objective or in some way revise it accordingly.

Discuss how changes in the federal environment since 1993 may affect the Board's reconsideration of the Budgetary Integrity objective.

1. What have been some key changes in the federal environment since the Budgetary Integrity objective was drafted?
2. Have any events or circumstances arisen that should cause the Board to reconsider the Budgetary Integrity objective?
3. Considering the evolutionary nature of financial reporting, what factors should the FASAB consider to guard against the risk of narrowing the scope of the Budgetary Integrity objective excessively?

C. Broad Nature of the Budgetary Integrity Objective

SFFAC 1 states that many information sources other than financial statements help to obtain these objectives. Also, financial reporting is not the only source of information to support decision-making and accountability. Regarding this matter, a Board member noted that it is unclear in what areas the Board has a direct impact versus an indirect aid. Presently, the Board would like to determine FASAB's domain within the broad spectrum of federal financial reporting. Other Board member perspectives include:

"The objectives are also affected by the characteristics and limitations of information that financial reporting can provide."

FASB Statements of Financial Accounting
Concepts 1: *Objectives of Financial Reporting
by Business Enterprises Accounting
Information*

We need to have concepts to embrace all that the Government does regarding financial reporting, but we need to be a little cleaner and crisper about what we do versus what others do to meet those requirements.

The Board would look at the "whole world" of federal reporting, scope it down to where the Board believes its role and responsibilities are in federal reporting, and then develop a strategic plan.

One of the advantages we offer is the ability to set standards that subject information to audit. That is one of the advantages we offer in connection with the budget. That is how we bring integrity to the budget; we don't tell anyone how to budget, but because we have some audited schedules that include budgetary data, and the budgetary data is reconciled to the accrual statements, we are bringing some integrity to the budgetary side.

It may not work to expect GAAP reports directly to serve the budgetary integrity objective. Producing GAAP reports may induce people to do some things that will help assure budgetary integrity, but not the report itself.

Discuss what the scope of FASAB's role should be in meeting the Budgetary Integrity objective.

1. What are some of the other information sources that help achieve the Budgetary Integrity objective and to whom is the information reported?
2. Are the other sources effective in achieving the Budgetary Integrity objective?
3. Are there particular aspects of the Budgetary Integrity objective on which FASAB should focus?
4. Is there information that should be subjected to audit or have assurance of reliability?
5. Given the limitations of FASAB's guidance vehicles, should the FASAB clearly state the areas where it only has an indirect role?

D. General Questions for Consideration

Discuss general matters regarding the objectives of federal financial reporting and SFFAC 1.

1. Given that the nature of the Board's involvement in each objective could vary, should FASAB explore other types of guidance vehicles, possibly less formal, that would assist in achieving aspects of a financial reporting objective? If so, what are some examples of other types of guidance?

2. Do you have comments or suggestions concerning financial reporting objectives in general?
3. Do you have any areas of concern regarding SFFAC 1?

ATTACHMENT I

SUMMARY OF HOW FEDERAL FINANCIAL REPORTING CONTRIBUTES TO THE BUDGETARY INTEGRITY OBJECTIVE

Segments of the Budgetary Integrity Objective	Contributing Component of Federal Financial Reporting
<p><u>Overall</u></p> <p>Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.</p>	<p>Performance and Accountability Report that includes:</p> <ul style="list-style-type: none"> ▪ <u>Management's Discussion and Analysis</u> that addresses <ul style="list-style-type: none"> ○ Whether internal accounting and administrative controls are adequate to ensure that: transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards (SFFAC 3, par. 15) and ○ An estimate of the amount of underpayments and overpayments (Improper Payments Act) ▪ <u>Basic financial statements</u> that provide audited information on revenues, custodial collections, and the availability and status of budgetary resources. ▪ <u>An auditor's report</u> that identifies discovered noncompliance with laws and regulations as well as material internal control weaknesses ▪ <u>FMFIA report</u> discussing agency evaluation of their internal control using OMB guidelines.
<p><u>Sub-objective 1</u></p> <p>Federal financial reporting should provide information that helps the</p>	<p>The Statement of Budgetary Resources (SBR) and related disclosures provide information</p>

ATTACHMENT I

SUMMARY OF HOW FEDERAL FINANCIAL REPORTING CONTRIBUTES TO THE BUDGETARY INTEGRITY OBJECTIVE

Segments of the Budgetary Integrity Objective	Contributing Component of Federal Financial Reporting
<p>reader to determine how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.</p>	<p>about how budgetary resources were made available as well as the status of those resources at the end of the period. This statement results in budget execution information being subject to audit.</p>
<p><u>Sub-objective 2</u></p> <p>Federal financial reporting should provide information that helps the reader to determine the status of budgetary resources.</p>	<p>The SBR addresses the status of budgetary resources broadly by displaying:</p> <ul style="list-style-type: none"> ▪ Obligations incurred ▪ Unobligated balances that are apportioned, exempt from apportionment, or otherwise available ▪ Unobligated balances available <p>In addition to the SBR, the following disclosures are required:</p> <ul style="list-style-type: none"> ▪ The amount of budgetary resources obligated for undelivered orders at the end of the period; ▪ Available borrowing and contract authority at the end of the period; ▪ repayment requirements, financing sources for repayment, and other terms of borrowing authority used; ▪ adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation thereof; ▪ existence, purpose, and availability of permanent indefinite appropriations; ▪ information about legal arrangements affecting the use of unobligated balances of budget authority such as time limits, purpose, and obligation limitations;

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Segments of the Budgetary Integrity Objective	Contributing Component of Federal Financial Reporting
	<ul style="list-style-type: none"> ▪ explanations of any material differences between the information required by paragraph 77 and the amounts described as “actual” in the <u>Budget of the United States Government</u>; ▪ the amount, and an explanation that includes identification of balance sheet components, when recognized unfunded liabilities do not equal the total financing sources yet to be provided; and ▪ the amount of any capital infusion received during the reporting period. (See SFFAC 7, par. 79)
<p><u>Sub-objective 3</u></p> <p>Federal financial reporting should provide information that helps the reader to determine how information on the use of budgetary resources relates to information on the costs of programs operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.</p>	<p>The Statement of Financing presents the reconciliation of proprietary and budgetary activity and balances.</p>