FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
October 19-20, 2016
Room 7C13
441 G Street, NW
Washington, D.C. 20548

Wednesday, October 19, 2016

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter (chairman), Ms. Bronner, Messrs. Dacey, Granof, McCall, Scott, and Smith. Ms. Ho and Mr. Reger were present with brief absences during which they were represented by Ms. Davis and Ms. Johnson, respectively. The executive director, Ms. Payne, and general counsel, Ms. Motley, were also present throughout the meeting.

Administrative Matters

- **Approval of Minutes**

The Board approved the August meeting minutes prior to the meeting.

- **Updates and Clippings**

Mr. Showalter noted the recent announcement that Patrick McNamee will be joining the Board on January 1. Mr. McNamee will be in attendance tomorrow and during the December meeting. The chairman acknowledged Mr. McCall's excellent service and that a luncheon in his honor would be held at the December meeting.

Mr. Showalter congratulated Mr. Granof and Scott Bell, from the Department of the Treasury (Treasury), on their article for the *Journal of Accountancy*. He also noted Mr. Granof's editorial regarding tax expenditures that was published in several papers.

Mr. Reger introduced Carol Johnson of the Office of Management and Budget (OMB). Ms. Johnson has contributed to FASAB's work over the years and will now support the OMB member.

Ms. Payne acknowledged Domenic Savini's continued communication with the public-private partnership (P3) community. The Institute for Internal Auditors published his P3 paper as a Knowledge Brief and hosted a webcast featuring Mr. Savini and members of the task force. He serves as a member of the Institute's American Center for Government Auditing. Mr. Savini also spoke about P3s at the Association for Budgeting and Financial Management conference.

Mr. Granof provided members with an update on the Governmental Accounting Standards Board (GASB). The GASB is doing the following:

- Updating its implementation guide
- Completing standards on asset retirement obligations
- Considering responses on standards proposed for fiduciary activities
- Finalizing an invitation to comment on the reporting model regarding the fund level statements
- Starting a project on revenue and expense recognition to consider whether the performance obligation approach adopted for the private sector can be applied
- Making editorial changes to the proposed lease standards

Mr. Dacey provided an update on the International Public Sector Accounting Standards Board (IPSASB). IPSASB current projects include the following:

- Addressing public sector combinations, finding that such combinations are not all similar to acquisitions of entities in the private sector
- Updating standards on financial instruments to align with new private sector standards
- Waiting for comments on a consultation paper regarding public sector specific financial instruments such as monetary gold and currency in circulation
- Developing an exposure draft (ED) on leases
- Considering issues related to revenues and nonexchange expenses
- Evaluating responses to the social benefits consultation paper
- Beginning work on public sector measurement concepts, infrastructure assets, and heritage assets
- Reviewing comments on cash basis standards

Members expressed their appreciation for the updates. Mr. Showalter acknowledged that staff continues to work with the staff from other boards and that FASAB should look for other opportunities to collaborate.

Agenda Topics

- **Land**

Turning to tab 1, Mr. Savini, assistant director, began the discussion by providing a brief overview of the topics thus far addressed by the task force, as well as the four questions for the Board on pages 3 and 39, respectively. In particular, staff noted that the task force is primarily composed of representatives from the preparer/chief financial officer (CFO) community. In addition, most of the issues being addressed are proving to be quite challenging, which could affect the proposed project timeline.

Most of the members generally agreed on two major points: (1) greater clarity and uniformity in land reporting seems warranted and would foster greater transparency and (2) additional information is needed from users before staff’s questions can be adequately answered.

Specifically, some members made the following observations:

- The importance of knowing how many acres an agency holds for the benefit of future generations
- Acreage information seems to be the common denominator needed by most, if not all, users
- The presentation of unit information alone has limited value
- Some level of audit assurance is needed
- A better grasp of overall user needs, including those of Congress, is warranted to help mitigate or reduce agency burden

Some members noted that a broader base of users would aid deliberations by allowing the Board to better explore what users need to make informed decisions. There seems to be competing interests among users. Specifically, there are users who desire better accountability over land reporting, users who desire specific property/parcel information for economic/financial exploitation, and users with local concerns over land holdings in their immediate jurisdictions.

Moreover, some of these members noted that obtaining state or county information could assist in understanding what the federal boundaries are in their respective jurisdictions, as well as provide survey information to complement agency information (such as acreage determinations). Other members expressed that a better understanding of who the users are, as well as their respective objectives, would facilitate deliberations and provide greater insight concerning the existing challenges surrounding the reporting of federal land, such as land valuation. These members felt that in-depth deliberations could not commence until they had a broader understanding of user needs.

However, other members noted that deliberations could begin by initially providing some clear guideposts or principles that were supported by task force discussions. For example, the Board could explore topics such as incorporation of non-financial information maintained by agencies and where such information should reside in the financial statements—as basic information, required supplementary information (RSI), or other information (OI). Additionally, members expressed that deliberations could also commence predicated on FASAB's reporting objectives. Simply put, discussions could be based on what the Board considers to be effective reporting. For example, the Board could discuss reporting the total inventory of an agency's land holdings from the standpoint of what citizen-users expect from their government: accountability and stewardship.

The Board also addressed the importance of having reliable non-financial information presented in the financial statements. Specifically, members discussed the difficulty some agencies might have in centrally compiling this information from disparate systems and geographically dispersed program offices; they also considered the impact on audit effort and related costs. Staff explained that the Department of the Interior, in its response to the Statement of Federal Financial Accounting Standards (SFFAS) 50 ED, noted the costs of compiling acreage information would be cost prohibitive. Members also broached whether an agency could reasonably demonstrate ownership to the satisfaction of its auditors and the possibility of incorporating by reference certain program information.

Lastly, certain members expressed interest in better understanding the role of cost information and its relative importance to users.

> **Conclusion and Action Items:** At the chairman's request, members agreed to have staff contact additional users to obtain additional (or more specific) information about their requirements/data points. This additional outreach to the user community will better guide future deliberations. Hopefully such information will be available for the next meeting.

- **Risk Assumed Project – Next Phase**

Robin Gilliam, assistant director, informed members that SFFAS 51, *Insurance Programs,* was ready for submission, and she delivered a hard copy to each sponsor representative on the Board. She explained that the review period ends on January 17, 2017. Staff expects to issue the Statement on January 18, 2017.

Ms. Gilliam then referred members to tab 2 to discuss the next phase of the risk assumed project. She reviewed the background, noting the risk assumed project started in 2011 taking a wide look at significant risk categories. Due to the breadth of the project, the Board divided it into phases; the insurance programs phase started in 2013 and will end with the issuance of SFFAS 51.

Ms. Gilliam reviewed the memo and how staff used the International Monetary Fund (IMF) studies on risk analysis and management as a backdrop for the high-level gap analysis presented in table 1: *Analysis of Federal Accounting Standards in Relation to the IMF Recommendations for Disclosing Fiscal Risks*.

Ms. Gilliam noted that FASAB does capture a number of risk shocks, as IMF calls them, in its standards, but they are siloed and do not present a comprehensive government-wide picture.

She also called members' attention to the additional handout—table 2 from the Australian Statement 8: *Statement of Risks*.

Ms. Gilliam stated that staff's intent for this session was to get approval for a gap analysis, expanding on the work started in table 1. A gap analysis will help to determine the risk information that the consolidated financial report of the U.S. Government (CFR) includes, the extent to which FASAB can align with enterprise risk management (ERM), and the Board's preference for presenting risk assumed information going forward.

Government-wide Approach

Ms. Ho was concerned about taking a government-wide approach. She noted that a broad, comprehensive risk statement like Australia's *Statement of Risks* may lose value at the government-wide level and not be useful to users. She expressed concern that there is still work to do on individual items, such as treaties, commitments by the federal government, and intergovernmental dependencies with state and local governments. Mr. Scott asked if there was a significant gap for treaties and whether FASAB should focus on this as opposed to the broader discussion.

Mr. Dacey responded that the contingent liability standards in SFFAS 5, *Accounting for Liabilities of The Federal Government*, are relatively clear; however, the question is how the Board gathers the data necessary to determine if treaties and agreements are adequately accounted for and disclosed under SFFAS 5. Currently, there is not a reliable process for collecting this information. Ms. Ho acknowledged that treaties could be a material weakness from an accounting perspective because Treasury does not know the entire population that should be accounted for in the contingent liability. Mr. Reger stated that if an existing treaty is material it should show up in annual financial statements. He agreed with Ms. Ho that there does not seem to be an inventory system/process to track treaties government-wide. FASAB's work may assist with keeping a better treaty inventory.

Mr. Showalter acknowledged the challenges that Ms. Ho had noted; however, he reminded members that the Board has often discussed how to account for the cost of "X," such as a Katrina-like event, going across the government. Statements today only provide a vertical view of what each agency is doing. A government-wide approach would show the total cost—a horizontal view—of a cross-cutting effort.

Mr. Showalter also said that he did not want to take too broad an approach because FASAB could go down a path that identifies everything as a risk. He explained that it would be interesting to lay a picture, such as Australia's table 2, on top of the CFR *Sustainability of Fiscal Policy* report to inform readers whether the federal government is able to continue providing services in certain categories and the effect these risks have on sustainability. He also noted that Australia is the size of California, and its specific report might not work for the U.S. He and Ms. Ho agreed that adding a 40-page report to the CFR is not recommended.

Ms. Ho added that she does not know how practical it is to develop a categorized report when FASAB does not know the categories. She was concerned with the time this could take in relation to the many years invested in trying to define a "program." She worried that this could create a statement of net cost by agency in the government-wide report, which would be duplicative.

Ms. Payne pointed out that staff would need to spend several Board meetings developing the gap analysis to find out what is at the agency level that can be included in categories. The reason staff would develop categories is to avoid focusing on agency information that may end up as immaterial when rolled up to the government-wide level.

Mr. Dacey agreed. He read through the entire Australian *Statement of Risks* to get a better understanding of its categories. To some extent, the risks address contingencies and litigations, which FASAB has covered.

Mr. Dacey said that FASAB needs to understand what pieces of information are covered under FASAB standards, what remaining pieces of information would be helpful to include in the CFR to understand risks, and what adds value for financial statement users. For example, while the litigation footnote reasonably conforms to the standards, the actual federal government spending on litigation losses is probably a lot less. On the other hand, some treaties and agreements might not need to be disclosed depending on materiality.

Mr. Dacey also questioned the benefits of disclosing very broad risks, such as an economic downturn where revenues generally go down and benefit-programs costs go up. He is concerned whether our reporting is transparent enough for estimates and uncertainty. This project can look at improving the quality of those disclosures to inform the reader of significant uncertainty.

Ms. Gilliam agreed that FASAB does not want to capture detailed information at the consolidated level. In relation to the reporting model, if there is detail, how do we drill down to it? Staff would like the opportunity to discover if there is a way to present summarized information at the government-wide level and again emphasized the need to do a gap analysis.

<u>Aligning with A-123 – Enterprise Risk Management (ERM)</u>

Ms. Ho noted that alignment to OMB's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, might be useful, but ERM is an agency-centric approach. If agencies do not report the information then the federal government cannot capture it at the consolidated level.

Mr. Reger agreed and explained that ERM focuses on an agency's ability to identify risks within its control. For example, Treasury has a very robust ERM structure around the federal government's cash flows, which is part of its core responsibility. The Department of Education (DOE) has implemented ERM around student loans, which is a very large number on the CFR balance sheet and a very big concern to a lot of people.

He also said that while some agencies, like Treasury and DOE, have made substantial progress in this respect, some have not started to implement ERM. Should this process play out before FASAB can actually address the government-wide materiality threshold? Maybe with the next set of budget documents that have goals, objectives, and risks, FASAB would have a starting place.

He noted that as each agency creates and implements ERM, material items will start to surface and be the driving force for the agency to question how it will manage and mitigate its risks, such as flood insurance. By the time FASAB had addressed flood insurance in the insurance programs project, the Department of Homeland Security had started to implement some solutions to address its risks. Mr. Reger questioned what items are material enough to rise to the attention of this Board for reporting.

Mr. Reger was also concerned that this FASAB approach might send the wrong message. OMB has emphasized that this is not just a CFO finance-focused project. He wanted to keep the focus on a holistic view managed by a risk-manager position at the department secretary level.

However, Mr. Reger is frequently asked what ERM means for the whole government. Who is doing the risk assumed project for the whole government?

Ms. Gilliam noted that staff is very aware that ERM is in an infancy state. However, it would be helpful for staff to keep up to date with how ERM implementation is progressing. Staff understands that this is also a culture shock for agencies that have not discussed risks in the past and now need to address and manage these risks. Staff understands this is a management tool and wants to discover how managing or not managing risks affects an agency's financial position in relation to performing its missions. Information included in financial statements may or may not be financial; without a gap analysis and full understanding of ERM, FASAB will not know.

To convey the correct message, Ms. Gilliam recommended that OMB and FASAB work together to present a united front and educate agencies. It will be important for OMB and FASAB to present at conferences to discuss the agencies' collaboration and their location within the process, acknowledging that they do not necessarily have all the answers. Mr. Reger agreed.

> **Conclusion and Action Items:** Mr. Showalter polled the members, and the Board agreed to staff completing a gap analysis. The Board anticipates the gap analysis spanning a number of future Board meetings.

Mr. Showalter concluded the session to stay on time for the following educational session.

- **Performance Reporting Educational Session – Fairfax County**

The Board discussed the Fairfax County, Virginia lines of business (LOB) project with two Fairfax County representatives: Deputy Director Christina Jackson from the Fairfax County Department of Management and Budget and Director Marijke Hannam of the Financial Management Division for Fairfax County.

Mses. Jackson and Hannam referenced the information at tab 3 as they explained that the LOB project is a multi-year process to determine the county's strategic direction and priorities. It is being conducted in two phases. The first phase involves educational sessions, where each agency presents its LOBs to the county board of supervisors (CBS). The second phase will involve an in-depth analysis to determine program changes or steps to improve efficiency. Mses. Jackson and Hannam provided the following insights.

Identifying LOBs

Each agency was responsible for identifying its LOBs. However, the county established a core group to develop instructions for the agencies. While the instructions provided structure, the CBS permitted a level of flexibility. For example, an agency may consider major programs because these are aimed at an intermediary mission and may have been the basis for the agency's financial structure. Program managers, external boards, and resident groups were also involved in the process, and they considered what would make sense to the readers of the information.

Next, a committee reviewed the agency LOBs. The committee consisted of 18 members from different areas of the organization, such as agency directors and staff members from some of the board offices. The committee could determine whether the agency needed to define the LOBs more granularly.

During the LOB discussions, the committee took part in some cross-cutting activities. In the next phase, the group plans to determine whether to redefine rules and responsibilities to improve efficiencies.

Citizen Reaction to LOBs

The county used different approaches to obtain feedback from residents regarding the LOBs. For instance, county staff coordinated community meetings, posted information on the county website and asked for feedback, and conducted a community survey. They observed that residents were not as informed about county services as they had expected, and the LOBs seemed to be terms of art. To encourage participation in the survey, county staff used agency groupings, which appeared to be more intuitive for the participants.

How the CBS Used the LOBs

The CBS sought to understand the LOBs and tried to determine whether there were LOBs that were outside of the county's core mission and the CBS' objectives. The LOBs helped the CBS determine how to prioritize programs and whether there would be service reductions or increases in the real estate tax rate.

Agencies were concerned about the potential for budget reductions based on the results of the LOB efforts. Consequently, the county informed agencies that the initial phase was only an educational exercise.

Budget and Cost Information for LOBs

Incremental budgeting is used and agencies present their LOBs for three years—two years of actuals and the current year adopted budget. Agencies submit performance measures with their budget. However, the measures may not be consistently used, and different agencies are at different levels of maturity with respect to performance information. In addition, the county budget document presents county-wide performance measures and, for each vision element, the budget shows a few performance measures. Improving performance reporting will be considered in the next phase.

The chairman thanked Mses. Jackson and Hannam for their informative presentation.

The meeting adjourned for lunch.

- **Performance Reporting Educational Session – King County**

Michael Jacobson presented insights from his performance reporting experience with King County, Washington. Mr. Jacobson is the deputy director for performance and strategy at the King County Office of Performance, Strategy and Budget in King County, Washington. His biography can be found at tab 4. Mr. Jacobson joined the meeting via WebEx and provided the following perspectives for the Board's consideration.

In the early years, Mr. Jacobson's organization focused internally and progressed from a departmental structure to themes, then finally into a county-wide strategic plan. Measurement efforts always included program outputs. Consequently, the organization was able to leverage that structure to build a performance measurement program.

Performance measurement and public reporting preceded performance management and executive discussions. Initially, the county focused on department goals and scorecards. These scorecards presented short-term targets (goals county officials wanted to accomplish in the next five years) and long-term outcome targets (the ultimate goal they were trying to accomplish). Acknowledging the limits of the county's control, they also separated agency performance measures from performance indicators. While the agency contributed to the indicators, they believed it was important to distinguish them from the agency's performance measures.

At the executive level, the county presented performance data in an appendix to the budget and subsequent reporting featured a scorecard. The scorecard provided a high-level snapshot of performance.

In 2006, the county started the "Stat Program." The county executive was focused on higher level outcomes, so the county used logic models to link program work and outputs to key outcomes. Next, county staff started measuring those outcomes, the basis of the conversations between the executive and other executive leadership.

The county later developed a report titled *Aims High for Annual Indicators and Measures*. The report accompanied the budget and presented historical information on the county's level of performance. The report did not present performance in the context of the budget—the county would provide "X" dollars and "X" projects would be accomplished with the funds.

Subsequently, the county conducted research involving citizen focus groups and developed a four-page presentation for the public. The presentation used different colors to indicate the level of progress.

In 2010, the county developed a county-wide strategic plan based on eight goals. The county measured the objectives of the plan at the community-indicator level and the strategies of the plan with agency performance measures. While the plan was comprehensive, the level of effort was not sustainable. Currently, the county has defined and is focusing on four executive priorities.

The county is now doing well on strategic planning and LOB planning, performance measurement and reporting, evaluation, and management of data. However, budgeting and performance integration is an area needing improvement.

<u>Lessons Learned</u>

The focus group discussions with King County residents yielded the following points:

- Performance reports should use plain language rather than technical jargon.

- Performance reports should present actual data relative to a target, as well as historical trends.

- Performance reports should present the impact the government is making—program outcomes.

Additional lessons learned included the following:

- In addition to residents, the audience for performance reports could include other jurisdictions, performance professionals, good government groups, newspapers, and bond rating agencies.

- The county received an award for its performance report, demonstrating that the county had met a national standard. The resulting level of attention helped facilitate changes within the organization.

- Guidance was helpful because it reflected matters others had already experienced and learned from. However, the core issue with guidance is that reporting can be accomplished without using the data, and using the data can be accomplished without publicly reporting. How does government engender both the use and the visibility of the performance data?

Other Comments

In response to a question, Mr. Jacobson indicated the information could be audited. The audit could assess the adherence to standards, the reliability of the data, the quality of the measures, or the appropriateness of what is being measured.

Regarding the placement of the performance reporting function, Mr. Jacobson noted the function could be in an environment similar to OMB.

The chairman thanked Mr. Jacobson for his informative presentation.

- **Tax Expenditures**

Mr. R. Alan Perry, of the Government Accountability Office (GAO), opened the discussion of the responses to the ED regarding tax expenditures. He planned to seek member input on the views raised by respondents for each question for respondents (QFR) and referred members to the briefing material, located at tab 5, organized by question number.

QFR 1 states: "Do you believe that these proposed disclosure requirements related to the notes to the financial statements in the CFR will be helpful to readers? Do you believe the placement of the proposed disclosures in the notes to the financial statements is appropriate?"

Respondent 9, the Greater Washington Society of Certified Public Accountants Federal Issues and Standards Committee, agreed with the proposed disclosures but requested that the Board define “plain language.” Specifically, it suggested the following definition: “The ‘plain language’ definition should be (1) relatable and comprehensible to the financial statement user based upon a reasonable level of knowledge of economic and public sector operations and (2) free of jargon and technical terminology.”

Mr. Perry noted that existing concepts statements address this matter. Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, provides for understandability and SFFAC 3, *Management’s Discussion and Analysis*, discusses use of plain language in the management’s discussion and analysis (MD&A) section. Further definition of plain language would be redundant.

Members agreed not to add a definition of plain language.

Respondent 10, Sid Ewer, noted that citizens would be confused by the term “tax expenditure.” Mr. Perry agreed that some may be confused by the term if it is read in isolation. However, he noted that understandability does require that users are willing to study the information provided with a reasonable level of diligence and that the surrounding disclosures would enable such understanding.

Members agreed not to change the term “tax expenditure.”

One member asked about the comment from Senator Michael Enzi on QFR 1. Mr. Perry indicated that he agreed with the input and planned to make edits as a result. These edits were identified in the briefing material.

QFR 2 states: “Do you believe that these proposed requirements related to MD&A will be helpful to readers? Do you believe the placement of the proposed requirements in MD&A in the CFR is appropriate?”

Respondent 1, Harold Steinberg, suggested that the six types of tax expenditures be identified in the MD&A section. Mr. Perry noted that these are already mentioned in the disclosure requirement. He suggested repeating that wording in the MD&A section as follows: “MD&A should include…examples of the types of tax expenditures, such as…”

After some discussion of the flexibility afforded by the use of examples, members agreed to this change.

QFR 3 states: “Do you believe that the proposed information, as outlined in paragraphs 19-20 and subparagraphs 20.a-20.c would be helpful to readers? Do you agree with the Board’s rationale for encouraging the presentation of the proposed information as OI in the CFR, as provided in paragraphs A9-A12?”

Mr. Perry summarized the comments as being divided into three groups: those who approved of the proposed information being encouraged as OI, those who desired that it be located in RSI, and those that believed the information could be confusing to users. He did not see a way to resolve these differences and suggested that the basis for conclusions explain the costs and benefits that influenced the Board’s conclusion. He also suggested that the Board explain its intentions regarding future efforts on tax expenditure reporting.

Members generally believed the ED adequately explained the Board’s decision regarding encouraging the presentation of the proposed information as OI, as well as its plans for the future.

Ms. Ho asked about respondent concerns that the illustration may not adequately explain the limitations of the proposed information. She indicated that some respondents had raised this matter.

Mr. Perry noted that the illustrations are non-authoritative and that Treasury would have flexibility in resolving such concerns. Members agreed that Treasury has the expertise needed to resolve the concerns, and the standards afford the flexibility to do so. Members suggested making this point clear in the final Statement.

Ms. Payne asked Ms. Ho whether Treasury believed the illustration would be helpful and should remain in the final Statement. Because it is not authoritative, it could be removed with no significant consequences. Alternatively, staff could revise the final illustration so that respondents’ concerns are addressed.

Members were polled by the chairman and the majority approved removing the illustration. No member objected to removing the illustration. Mr. Perry noted that, as a result, review of the suggested edits to the illustration that were provided by respondents was no longer necessary, and illustration changes discussed prior to the decision to remove it are no longer applicable.

There was a general discussion of the flexibility afforded to Treasury due to encouragement of proposed information as OI. Members emphasized that Treasury should convey the magnitude of the tax expenditures and present a selection of major tax expenditures through presentation of OI.

QFR 4 states: “Are there any other changes that you believe should be made to the proposed Statement?”

Mr. Dacey inquired regarding the basis for the concern with the effective date posed by the Department of Labor (Labor). Members and staff noted that there are no component reporting entity requirements in the Statement.

Treasury staff explained that Labor is involved in excise and payroll tax matters. However, the definition of tax expenditures is limited to income tax preferences. Members asked that staff emphasize that in the revised Statement.

Respondent 1, Mr. Steinberg, suggested that component reporting entities be required to identify certain tax expenditures as well. Mr. Perry suggested that the basis for conclusions be enhanced to explain why the Statement does not impose any reporting requirements on component reporting entities. Members agreed.

Respondent 6, Messrs. Dubay and Burton, expressed concern regarding the definition of tax expenditures, including how the normal tax system is constructed by Treasury and the Joint Committee on Taxation. Members noted that challenge inherent in the definition but agreed not to make revisions in response to these comments. Treasury is provided the flexibility to include suitable amounts of detail, context, and explanations regarding judgments and limitations of any estimates presented. However, overly-detailed and technical discussion regarding the normal tax system may have unintended negative impacts on the conciseness and understandability of the information presented.

> **Conclusion and Action Items:** Staff will provide the Board a draft SFFAS for review and approval at the December meeting.

Adjournment

The Board meeting adjourned for the day at 3:30 p.m.

Thursday, October 20, 2016

Agenda Topics

- **Performance Reporting Educational Session – IPSASB**

The Board discussed the IPSASB *Recommended Practice Guide on Reporting Service Performance Information* with Gwenda Jensen. Ms. Jensen is a principal with the IPSASB and her biography can be found at tab 7.

<u>The IPSASB</u>

The IPSASB develops international public sector accounting standards (IPSAS). Different countries usually adjust the IPSASs because most governments are reluctant to relinquish their right to set standards for financial reporting, an area which is quite sensitive. Also, the accounting practices of countries are diverse, and they may focus on different types of services. IPSASB's strategy is to strengthen public financial management and knowledge and to increase accrual accounting standards.

<u>Why IPSASB Developed Service Performance Reporting Guidance</u>

The IPSASB's concepts discussed the need for information about service performance in the public sector. The bottom line is the public sector is not making a profit. Rather, it is focused on information about the services provided. Service performance is the most important topic that captivates the public. The IPSASB's service performance guidance provides a framework for making decisions about reporting on services and is intended to facilitate consistent terminology.

The service performance reporting guidance is a recommended practice guide. Because adopting the guidance is voluntary, a country can claim IPSAS compliance without adopting all elements of the service performance guidance.

<u>Key Issues and Highlights of the Service Performance Reporting Guidance</u>

Defining terms was a challenge. The IPSASB members kept debating definitions of economy, efficiency, and effectiveness. The IPSASB also discussed what should be reported without being specific and decided to develop principles. Countries may view specific guidance as a requirement to present specific types of performance indicators.

In addition, some jurisdictions have a very strong belief that reporting should be about outputs or outcomes. Thus, a national jurisdiction that believes outputs are the focus could adopt the IPSASB guidance and be more specific in requiring output reporting.

The IPSASB discussed whether to address cost per service or cost per groups of services and decided not to make the requirements too difficult because some countries are at a very early stage of maturity. Although users want to know the cost of services, the IPSASB would not specify how to cost them. IPSASB saw guidance on how to cost the services as management accounting.

While some jurisdictions believe that service performance is integral to financial statements and the budget, other jurisdictions may not. Thus, the IPSASB had to allow for different concepts about what the service performance information means. The IPSASB guidance explicitly says performance information can be part of the same report as the financial statements or in another report. It is more common to present the service performance information in a separate report.

Advancing Service Performance Reporting

The Board discussed the progress and challenges in moving forward with service performance reporting. Ms. Jensen discussed her New Zealand background and noted the country moved forward at a time of significant economic restructuring. There was a sense that the country could and had to make the necessary changes.

Ms. Bronner discussed that there are areas of innovation at the state and local level. State and local governments are using technology and data analytics, and citizens are demanding stewardship and accountability at a very granular level. State and local governments are also engaged in performance-metric development and measurement, some of which is linked to federal funding. Mr. Reger expressed that the federal government is releasing large quantities of information that it has collected about different topics, and public consumption is driving questions and concerns about these topics.

Mr. Dacey noted most agencies separately report performance information from the financial statements, and they present a summary of performance information in the MD&A section of financial reports. Agencies also present performance and financial information in their summary reports on performance and financial information.

The chairman thanked Ms. Jensen for her informative presentation.

- **Budget to Accrual Reconciliation**

Grace Wu, project manager, and members of the budget and accrual reconciliation (BAR) working group debriefed the Board on the new BAR format and the second run pilot results, using the information located at tab 8. After the August Board meeting, an additional seven federal agencies joined the six pilot agencies engaging in the new BAR pilot process. With the assistance of the first draft crosswalk instruction, a majority of the agencies completed their reconciliation in one month—a quick turn-around time with insignificant unreconciled differences. The second run agencies reported similar positive feedback. Both pilot results provide strong support for the issuance of the BAR ED. The Board concurred with the BAR ED's general content, and the members discussed their comments on the draft.

During the discussion, Mr. Dacey asked if the term "net cost" should be used versus the "net cost of operation" in the Statement, as the agencies usually refer to the net cost used in the BAR reconciliation as the "net cost." Ms. Payne pointed out that the ED paragraph will be part of SFFAS 7, *Accounting for Revenue and Other Financing*

Sources and Concepts for Reconciling Budgetary and Financial Accounting, as amended; the Board used the term "net cost of operation" across SFFAS 7 to refer to the net cost. Thus, there will be inconsistency if the term "net cost" is used in this Statement. Members agreed that a note should be added in the document to state that those two terms are used interchangeably. Another member questioned whether guidance should be provided to reduce the possibility of large numbers being reported as "other." After some discussion, the members agreed that a sentence should be added to explain that material reconciling items for an agency should be broken out separately in the BAR reconciliation, even if they are not currently listed in the illustration line items in the ED.

Mr. Granof urged that numbers should be used in the illustrated reconciliation because it is hard to get the relationship among various accounts without numbers. Members discussed that this is an amendment to SFFAC 2; the existing illustrations in SFFAC 2 do not have numbers, so there would be consistency issues if the numbers were added. In addition, Mr. Dacey noted that because this Statement involves an increase or decrease in the numbers, real numbers with brackets might be wrongly viewed by the readers as the direction that the numbers should go. In the end, members agreed that the current illustration was proven to work without numbers in the pilot process, so the illustration will remain in the format as it is.

The members concurred on the ED being effective for periods beginning after September 30, 2017, with early adoption permitted. This assumes Treasury's work on the crosswalk is completed in time. Respondents to the ED will be asked to provide feedback on the proposed timing during the ED comment period.

Lastly, Mr. Dacey questioned whether non-cash outlays, such as interest accrued on public debt, would be picked up as separate line items on this presentation. The non-cash outlays are relevant to Treasury in coming up with the government-wide second schedule reconciliation, the Statements of Changes in Cash Balance from Unified Budget and Other Activities. Members agreed that the staff would draft language on this topic for the Board to review and approve before voting on the pre-ballot ED.

> **Conclusion and Action Items:** The Board agreed that the pilot result is encouraging, and staff will update the draft ED based on the discussion. An edited version of the draft ED will be provided to members before the December meeting with the expectation to be able to discuss the pre-ballot ED at the December meeting. If the members have any remaining technical concerns to discuss, the pre-ballot will be delayed until after the December meeting.

- **Annual Report and Three-Year Plan**

Ms. Payne thanked members for their feedback on earlier drafts of the annual report and three-year plan and noted that a hard copy with resulting changes was distributed to members during the meeting. This information can be found at tab 9. Most of the changes were editorial. The most substantive change was to include the announcement of Mr. McNamee's appointment effective January 1, 2017. Ms. Payne also thanked the

Treasury, OMB, and GAO members for their efforts to obtain final signatures on Mr. McNamee's appointment in time to mention in the annual report.

Regarding the surveys, Mr. Simms had tested the reporting model and performance reporting surveys with a few members of the performance measurement community. Their feedback was included in the hardcopies provided at the meeting.

Mr. Showalter requested member comments on the revised drafts by October 28. Comments are to be directed to Mr. Simms. Staff committed to providing soft copies with the following changes by October 21:

- Three-year plan survey, risk assumed – clarify the phases of the project
- Three-year plan survey, item seven – add:
    - a question that will indicate relative importance of the projects for which additional guidance is needed
    - the factors the Board considers in setting its technical agenda
- Performance reporting survey – ask about information needed before asking whether it should be placed in financial reports
- For both surveys, expand the explanations of the surveys' purpose

In response to a question about how the reporting model portion of the second survey differs from the recently issued ED, Mr. Simms indicated that staff hoped to learn more about next steps in the project from individuals or organizations who may not review the ED. Groups he suggested included the Performance Improvement Council, the public performance management reporting network, academics, and those in state, local, and federal government who would be open to reporting on performance measures.

Mr. Showalter noted that a soft copy of the revised documents would be sent on Friday, October 21 with comments due by October 28. He reminded members this would be their last opportunity to review and provide comments on the documents.

Adjournment

The Board meeting adjourned at 11:30 a.m.