



December 7, 2012

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model – **TAB B**¹

MEETING OBJECTIVE

The objectives of the meeting are to discuss (a) the final recommendation of the task forces organized to determine improvements in reporting cost, budget and performance information in financial reports, (b) individual task force member priorities, and (c) results of focus group discussions with citizens.

BRIEFING MATERIALS

The briefing materials include the following:

TAB B-1: Summary of Task Force Discussions. This tab presents the final recommendation from the cost, budget, and performance task force discussions. The Board discussed the draft recommendation during the October 2012 meeting and there have been no changes subsequent.

TAB B-2: Summary of Individual Task Force Member Responses and Staff Recommendations. This tab presents the responses to follow-up questions asked of task force members, FASAB staff recommendations, and questions for the Board.

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

TAB B-3: Citizens Focus Group Discussions. This tab presents the results of focus group discussions conducted to obtain citizens views on the illustrative schedules presented in the task forces' report.

BACKGROUND

During the October 2012 meeting, FASAB discussed the preliminary recommendation of the task forces organized to determine improvements in reporting cost, budget, and performance information. The task forces recommended that FASAB revisit Statement of Federal Financial Accounting Standards (SFFAS) 4, Managerial Cost Accounting Standards and Concepts, to help ensure that the guidance is updated to support users of budget and performance information and provide cost information that meets the expectations of financial information users. The task forces noted that as part of the SFFAS 4 project, FASAB should consider the following:

1. Recent changes in legislative and administrative directives with respect to performance reporting;
2. Past implementation challenges related to linking cost, performance, and budget information;
3. The need to advance the appropriate use of terminology and economic measurement approaches regarding the use of resources and incurrence of liabilities; and
4. Approaches for requiring supplementary information where the benefits of providing the information will outweigh the costs of collecting and reporting such information, given the complexities of federal agencies and the different needs of stakeholders. Also, individual task force members provided additional matters for FASAB to consider in proceeding with the project. TAB B-1 presents the task forces' final report.

Upon discussing the recommendations, FASAB members determined that they needed to know the most important items of information that task force members expect from financial statements. Staff inquired of task force members using a questionnaire and TAB B-2 presents the responses, staff recommendations, and questions for the Board.

Also, the task forces' report included illustrations that could be required to help inform users on matters such as the cost of major programs and why the entity incurred the costs. FASAB staff, with assistance from the Government Accountability Office (GAO) Applied Research and Methodology (ARM) staff, conducted two focus group discussions to obtain citizens views on the schedules and TAB B-3 presents the results of the discussions.

MEMBER FEEDBACK

If you require additional information, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at (202) 512-2512 or by email at simmsr@fasab.gov with a cc to paynew@fasab.gov.

QUESTIONS FOR THE BOARD

Questions for the Board are presented in TAB B-2, page 16.



December 7, 2012

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Federal Reporting Model: Task Forces Report – **TAB B-1**¹

MEETING OBJECTIVE

The objective of the meeting is to present the final recommendation of the task forces organized to determine improvements in reporting cost, budget, and performance information in financial reports.

BRIEFING MATERIALS

Attachment I – Summary of Task Force Discussions. The summary presents the final results from the task forces discussions.

BACKGROUND

During the October 2012 meeting, FASAB discussed the preliminary recommendation of the task forces organized to determine improvements in reporting cost, budget, and performance information. The task forces recommended that FASAB revisit Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, to help ensure that the guidance is updated to support users of budget and performance information and provide cost information that meets the

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

expectations of financial information users. The task forces noted that as part of the SFFAS 4 project, FASAB should consider the following:

1. Recent changes in legislative and administrative directives with respect to performance reporting;
2. Past implementation challenges related to linking cost, performance, and budget information;
3. The need to advance the appropriate use of terminology and economic measurement approaches regarding the use of resources and incurrence of liabilities; and
4. Approaches for requiring supplementary information where the benefits of providing the information will outweigh the costs of collecting and reporting such information, given the complexities of federal agencies and the different needs of stakeholders. Also, individual task force members provided additional matters for FASAB to consider in proceeding with the project.

Upon discussing the recommendation, FASAB members determined that they needed to know the most important items of information that task force members expect from financial statements. Staff conducted a follow-up inquiry of task force members and TAB B-2 provides the results. Attachment I: Summary of Task Force Discussions provides the final task forces report.

MEMBER FEEDBACK

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 I: Summary of Task Force Discussions

Summary of Task Forces Discussions

December 7, 2012

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December 7, 2012

Federal Accounting Standards Advisory Board
441 G Street NW
Washington DC 20548

FASAB engaged the statement of net cost, budgetary information, and performance information task forces to help it determine how to proceed with projects to improve cost, budget, and performance reporting. FASAB develops accounting standards for federal financial reporting after considering the information needs of users, and FASAB supports budgetary and performance reporting.

Cost data would be helpful in informing a range of issues, from the fiscal challenges that the United States faces, to day-to-day operations. However, departments and agencies¹ employ different terms and measurement approaches to describe, aggregate, and analyze costs, potentially undermining user understanding and minimizing data relevance and value. For example, the use of different measurement approaches does not permit adequate comparison of actual costs among federal entities.

It has been over 20 years since the Chief Financial Officer's (CFO) Act required the development of integrated financial management systems that provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and Congress in the financing, management and evaluation of federal programs.² The CFO Act explicitly called for the systematic measurement of performance, the development of cost information, and the integration of accounting, program and budget systems and information. The foundation for the CFO Act was laid by the Government Accountability Office's (GAO) 1985 two-volume report, *Managing the Cost of Government – Building an Effective Financial Management Structure*, which established a conceptual framework for improving federal financial reporting, controls and systems.³

In the mid-1990s, FASAB developed and issued cost accounting standards – Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*. Those standards permitted flexibility so that cost accounting could be tailored to the unique needs of agencies. Further, in 1998, the Joint Financial

¹ Hereafter, the terms department and agency are used interchangeably.

² Public Law 101-576.

³ GAO, *Managing the Cost of Government – Building an Effective Financial Management Structure*, GAO/AFMD-85-35 and 35B, February 1985. Also, Association of Government Accountants Corporate Partner Advisory Group Research Series Report No. 31, *Government-wide Financial Reporting*, July 2012.

Management Improvement Program issued the *Managerial Cost Accounting System Requirements* (Federal Financial Management System Requirements – 8) and the CFO Council published the *Managerial Cost Accounting Implementation Guide*. At the foundation of the Government Performance Results Act of 1993 (GPRA)⁴ is an expectation that cost measurement will be an important part of the equation in reporting on results. Despite the early emphasis on the importance of cost information and the tools provided, task force members noted that cost accounting is not being used broadly today or to the extent that FASAB originally envisioned.

Over the past 20 years, while there has been some progress in developing managerial cost information, efforts have been largely sporadic and episodic. Consequently, progress has been nowhere near what was expected by the CFO Act and GPRA and needed to help address the fiscal challenges now faced across the federal government.

Some of the apparent reluctance to more broadly implement cost accounting requirements may be due to the nature of our current environment for decision making. Decision makers, including the Congress, often do not make decisions based on the cost or performance information provided to them by agencies. In turn, with all of the other demands they face, managers may not wish the additional accountability that may arise when there is a clear focus on the cost of operations and services. The primary focus has historically been on program delivery and achieving the mission and not on the cost of doing so and whether there are less costly alternatives. Managers do not have the requisite incentive to invest resources in developing cost information that may not be requested or used by decision makers. Managers may also be concerned that cost accounting could add another layer of oversight on the results of their programs and operations. The result is an environment where, typically, managers focus on managing their budgets rather than managing based on their budget *and* the full costs of their programs and justifying the next budget. Also, since FASAB finalized SFFAS 4, there have been changes in the technology used to prepare and access information and in legislative requirements affecting the reporting of cost data.

For example, FASAB has said that measuring cost is an important component of measuring performance and reporting results.⁵ Since FASAB developed guidance for measuring and reporting costs, Congress passed the GPRA Modernization Act of 2010, reinforcing the mandate in GPRA. The Act is intended to help advance the use of performance information in policy decisions such as budget allocations and requires: new products and processes; new roles for department and agency officials; data on cross-cutting areas; performance information in a machine-readable format; making performance information available on a public website; and a central inventory of federal programs to help citizens understand the range of services the federal government

⁴ Public Law 103-62, 107 Stat. 285, August 3, 1993.

⁵ Statement of Federal Financial Accounting Concepts 1, Objectives of Federal Financial Reporting, par. 193.

performs.⁶ Also, on August 3, 2012, the Office of Management and Budget (OMB) expanded its administrative directives with respect to performance reporting. Among other things, the directives include requirements for department and agency leaders to conduct quarterly data-driven reviews to improve performance outcomes and reduce costs and permit them to define programs “consistent with the manner in which the agency uses programs to interact with key stakeholders and to execute its mission.”⁷

In light of FASAB’s role, the current environment, and significant legislative changes that have taken place since the mid-90s, we recommend that FASAB initiate a project to revisit SFFAS 4. This approach would leverage the Board’s existing capabilities to address immediate financial reporting concerns.

At a minimum, the SFFAS 4 project should consider:

- changes needed to help support the CFO Act requirements and recent legislation and administrative directives impacting the reporting of cost information;
- department and agency implementation challenges;
- the appropriate use of financial terms such as cost, outlays, and obligations and related measurement approaches; and
- approaches for presenting supplementary information to facilitate context and provide additional detail for analysis, given the complex nature of federal agencies and that a one-size-fits-all approach may not be feasible.

Also, individual task force members provided additional matters for FASAB to consider in proceeding with the project, including suggestions for specific requirements. Revisiting SFFAS 4 would help ensure that financial information adequately meets the current information expectations of users and helps the federal government better manage its cost in line with the expectations of the framers of the CFO Act and GPRA.

The three FASAB Task Forces, which provided input to the project that led to this report and recommendation, and the members of each task force follow.

⁶ Public Law 111-352.

⁷ OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*.

Statement of Net Cost Task Force

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Establishment of Task Forces

The objective of the statement of net cost, budgetary information, and performance information task forces was to help FASAB determine how to proceed with projects to improve cost, budget, and performance reporting. During its discussions, the task forces considered various matters, such as the following:⁸

- One basic principle of managerial cost accounting is that there are different costs for different purposes and aggregating costs into a single number greatly limits the potential uses of that cost information. It is likely not practical to have such a detailed breakdown of costs to be able to meet all analytical needs. Nevertheless, some thought needs to be given to the appropriate degree of granularity of reported cost information that balances affordability and practicality on one hand, with analytical value on the other.
- Agencies have multiple stakeholders and each may seek to review financial information aggregated in different ways, such as aggregated costs by organization or program.
- Attempting to address the various information needs of different stakeholders in general purpose financial statements is a substantial challenge and likely not very valuable. Also, analysts seek less aggregated information to design their own reports.
- Citizens may not be likely to understand organizational titles and the titles alone may not adequately describe the mission of the entity. Also, some line items on the statement of net cost (SNC) are broad descriptions of the services provided. These descriptions and the meaning of the descriptions can change over time. Thus, aligning financial measures with organizational titles and broad descriptions may limit a user's ability to make inter and intra agency comparisons and develop a comprehensive understanding of how departments and agencies use their resources.
- Users seek a track-record or trends to help assess whether a program is meeting its objectives and performing as intended. Achieving this objective requires comparable data.
- FASAB's standards can only be enforced by an auditor's opinion on the agency's financial statements and agency financial statements tend to present highly aggregated information.

⁸ The matters are not listed in any priority and some could be combined.

- Users may say that they want spending information; however, the term “spending” has different meanings. The user could be requesting information about cost, outlays, or obligations, depending on the issue being addressed.
- Citizens are likely to access financial information electronically from the Internet. Through effective use of electronic links, it is possible to display financial information suited to a variety of audiences at once. Starting with a high level presentation, an individual could click on links to underlying, finer data. The finer data can be arrayed in a variety of ways for those users seeking more information. Similar considerations for aggregation/disaggregation may also apply for the delivery of budget and performance information.
- While the goal of integrating data (cost, budget, and performance) has been acknowledged, progress toward achieving that goal has been challenging. Some of the challenges include:
 - Defining and identifying “programs” has sometimes been difficult⁹
 - Strategic goals may change over time
 - Many programs align with more than one strategic goal and outcomes or outputs are often the result of multiple programs (including external factors)
 - Costs are associated with a specific time period but outputs, and especially outcomes, are often not the result of the specific time period’s activities (instead there may be a time lag or a cumulative impact related to several periods of activity)
 - Availability of high quality performance information is not universal and is sometimes not accessible without significant investment in data collection or program evaluations.
 - Use of terms—particularly financial terms—is inconsistent

The task forces formally met four times and discussed these and other issues during the months of May, June, July, and August - 2012. Each task force member was selected based on their respective well-established backgrounds in federal financial, budget or performance management and reporting, primarily while in federal

⁹ The GPRA Modernization Act has required OMB to work with agencies to publish a list of federal programs. OMB has released guidance for the creation of the Federal Program Inventory (FPI) in Part 6 of OMB Circular A-11.

government service, including top financial management leadership positions in OMB, Treasury, GAO, and agencies.

Overview of the Complexities in Reporting Information on Costs and Federal Performance

Federal agencies are extremely complex organizations and that complexity can have a broad impact on reporting cost information from both the individual agency and government-wide perspectives. The level of complexity can be illustrated by the:

- range of goods and services that an agency delivers;
- degree to which an agency's organizational structure is decentralized;
- reliance on other entities or organizations to deliver products and services; and
- need to simultaneously serve a wide range of diverse stakeholders.

The types of goods and services that agencies provide range from tangible, more easily quantified and commonly understood, to intangible, more difficult to quantify or subject to various interpretations that could change over time. For example, while agencies like the Bureau of Engraving and Printing design and produce physical items, e.g., currency, numerous other agencies provide services that may not be readily measured or understood without some context, such as the following:

- The Department of Agriculture intends to “ensure that all of America’s children have access to safe, nutritious, and balanced meals.”¹⁰
- The Department of State seeks to achieve “peace and security” and promote “international understanding.”¹¹
- The Environmental Protection Agency seeks to provide “healthy communities and ecosystems.”¹²

In addition, some federal agencies have a decentralized organizational structure and are responsible for administering numerous programs that have different objectives and require a broad array of activities to accomplish them. For example, the Department of Health and Human Services (HHS) has 11 operating divisions and

¹⁰ Department of Agriculture, Statement of Net Cost for the Years Ended September 30, 2011 and 2010.

¹¹ Department of State, Statement of Net Cost for the Years Ended September 30, 2011 and 2010.

¹² Environmental Protection Agency, Statement of Net Cost for the Years Ended September 30, 2011 and 2010.

over 300 programs that perform tasks and provide services such as research, public health, health insurance, food and drug safety, and grants and other funding.¹³

Also, some federal agencies may depend on other entities to actually carry-out the programs and deliver these goods and services to the public, such as private sector and not-for-profit organizations and other public sector entities like state and county government agencies. For example, the National Nuclear Security Administration (NNSA) is a component of the Department of Energy and is responsible for ensuring that “the nuclear warheads and bombs in the U.S. nuclear weapons stockpile are safe, secure, and effective in order to provide the nation with a credible nuclear deterrent.”¹⁴ NNSA utilizes about 34,000 contractors and about 2,400 federal employees to provide its services to the nation.¹⁵

In presenting cost and performance information, departments and agencies must serve multiple stakeholders simultaneously. Agencies may consist of several subunits that administer several programs, and each subunit and program could have its own group of stakeholders. For example, the National Institutes of Health (NIH) is a component of HHS and is responsible for medical research. The American public benefits from NIH’s research, and NIH alone is subject to the jurisdiction of eight congressional committees and seven subcommittees.¹⁶ Also, over 300,000 researchers across the world have an interest in NIH’s funding.¹⁷ Thus, the range of stakeholders and the manner in which they would like to see cost information aligned could be diverse.

Existing Presentations Related to Cost, Budget, and Performance Information in Government-wide and Agency Level Financial Reports

Despite the complexities, federal agencies have a responsibility to report on their actions and FASAB provides concepts, standards, and other guidance for presenting cost, budget, and performance information in annual federal financial reports. Agencies establish systems and internal controls to prepare the reports in conformity with FASAB requirements and the reports are subject to audit and other procedures required by generally accepted government auditing standards (GAGAS). Subjecting the financial information to audit and other GAGAS procedures enhances user confidence in the reliability of the data presented in the annual financial reports and other reports provided by the systems.

¹³ <http://www.hhs.gov/about/> accessed July 30, 2012.

¹⁴ <http://nnsa.energy.gov/ourmission/managingthestockpile> accessed August 8, 2012.

¹⁵ Government Accountability Office, *Modernizing the Nuclear Security Enterprise: Strategies and Challenges in Sustaining Critical Skills in Federal and Contractor Workforces*. GAO-12-468. April 2012. p.2.

¹⁶ <http://olpa.od.nih.gov/committees/> accessed July 30, 2012.

¹⁷ <http://www.nih.gov/about/budget.htm> accessed July 30, 2012.

FASAB also requires various presentations in the reports due to differences in:

- financing the government as a whole versus agencies;
- measuring cost and budgetary information; and
- measuring budgetary information for the government as a whole versus agencies

FASAB requires reconciliations to help users understand the differences between cost and budgetary measures, and FASAB permits flexibility in presenting cost information so that management can report the information in a manner that is best suited for their environment and the expectation of stakeholders. Table 1: Financial Report Components Regarding Cost, Budget, and Performance Information summarizes the financial report components that present cost, budget, and performance information for the government as a whole and for agencies.

In developing guidance, FASAB distinguishes between what information should be presented for the government as a whole and what information should be presented at the component entity or agency level. The reason for this distinction is the differences in the source of financing. The government as a whole receives revenue and borrows from the public, while agencies receive appropriations and other budget authority to incur obligations.¹⁸ Accordingly, FASAB requires different presentations for government-wide and agency level financial reporting.

In addition, FASAB standards require cost, budget, and performance information to help meet federal financial reporting objectives and the information needs of various potential users. Consequently, FASAB requires various presentations to distinguish the different perspectives and approaches required for measuring cost and budgetary information. Cost is measured when economic events occur, and because of the differences in financing sources, budgetary information is measured differently at the government-wide versus agency levels. For government-wide budgetary reporting, events are generally measured when cash is paid or received. However, at the agency level events are measured when an obligation is incurred or a service is ordered.

FASAB also requires reconciliations that clarify the relationships among the different measurement approaches. For the government as a whole, FASAB requires a reconciliation of net operating cost and unified budget deficit to help users understand the differences between the accrual basis net costs and the cash basis deficit. For agencies, FASAB requires a disclosure that presents information to help

¹⁸SFFAS 24, *Selected Standards for the Consolidated Financial Report of the U.S. Government*, pars. 22 and 23.

users understand how budgetary resources finance the cost of the agency and affect its assets and liabilities.¹⁹

With respect to costs, FASAB requires financial reporting entities to prepare a SNC to help users analyze how much of federal services were financed by taxpayers. While the federal government provides a broad range of goods and services, most of those goods and services are financed by taxes. The fundamental elements of the SNC include:

1. gross cost of the goods and services provided at a price;
2. amount of related exchange revenue;
3. resulting shortfall, or net cost;
4. gross cost of the goods, services, transfers, and grants not provided at a price;
5. costs that cannot be assigned to specific outputs or programs; and
6. exchange revenues that cannot be attributed to specific outputs or programs.²⁰

Financial reporting concepts and standards permit flexibility in classifying and displaying costs in the SNC. Entities may classify costs by sub-organization (responsibility segment), program, or the nature of the goods and services acquired (object class).²¹ Because of the range of goods and services agencies were established to provide, their SNCs may appear to align costs with inherently intangible items. For instance, the previously mentioned Department of State, Environmental Protection Agency, and Department of Agriculture present the cost of services that are broad in scope and it may be challenging to assess how they have been achieved. Also, at the government-wide level, the Financial Report of the United States Government includes a consolidated SNC. The statement categorizes costs by significant entity.

¹⁹ The Association of Government Accountants (AGA) Corporate Partner Advisory Group recently recommended an additional reconciliation. Agencies compile and submit budgetary information to the Department of the Treasury (Treasury) and they report this information in the audited statement of budgetary resources (SBR). However, the Treasury generates the government-wide level budgetary information independent of this process. Consequently, the AGA Corporate Partner Advisory Group recommended a reconciliation of the two processes. The reconciliation would involve reconciling gross receipt and outlay data in Treasury's central accounting system with budgetary data reported in agency SBRs. See AGA Corporate Partner Advisory Group Research Series, *Government-wide Financial Reporting*, Report No. 31, July 2012 for additional information.

²⁰ FASAB, *Implementation Guide: Accounting for Revenue and Other Financing Sources*, June 1996.

²¹ SFFAC 2, Entity and Display, par, 87.

Table 1: Financial Report Components Regarding Cost, Budget, and Performance Information

Financial Report Component	Government as a Whole	Agency
Management's Discussion and Analysis (MD&A)	Presents cost and budget information and provides an analysis of the information presented in the report.	Presents cost, budget, and performance information; discusses performance; and provides an analysis of the information presented in the report.
Financial Statements	<ul style="list-style-type: none"> • Statement of Net Cost (SNC) – Presents the cost of services financed by taxpayers. The government as a whole presents net cost of services by significant entity, such as HHS, Social Security Administration, Department of Defense, etc. See Appendix I: Example Government-wide Statement of Net Cost for an example of the presentation. • Reconciliation of Net Operating Cost and Unified Budget Deficit – Presents the differences between accrual basis net operating cost and the cash basis unified budget deficit. See Appendix III: Example Reconciliation of Net Operating Cost and Unified Budget Deficit for an example presentation. 	<ul style="list-style-type: none"> • SNC – Presents the cost of services financed by taxpayers. Agencies present net costs in different ways, such as strategic goal, sub-organization, or program. See Appendix II: Example Agency Statement of Net Cost for an example SNC which shows the cost of the Nuclear Regulatory Commission's (NRC) programs. • Statement of Budgetary Resources (SBR) – Presents the budgetary resources made available for obligation; the status of those resources;²² and payments made to liquidate obligations (outlays). See Appendix IV: Example Statement of Budgetary Resources for an example presentation.
Disclosures		<ul style="list-style-type: none"> • Schedule of Financing – Shows how budgetary resources obligated during the period relate to net costs. See Appendix V: Example Reconciliation of Cost and Budgetary Information for an example.

²² According to SFFAC 2, the status of budgetary resources consists of obligations incurred; the unobligated balances of multi-year and no-year budget authority that are available; and the unobligated balances of one-year and multi-year lapsed budget authority that are not available but have been carried forward for various purposes.

Recommendation: FASAB Should Revisit SFFAS 4

FASAB should revisit SFFAS 4 to help ensure that the guidance is updated to support users of budget and performance information and provide cost information that meets the expectations of financial information users. As part of the project, FASAB should consider the following:

1. Recent changes in legislative and administrative directives with respect to performance reporting;
2. Past implementation challenges related to linking cost, performance, and budget information;
3. The need to advance the appropriate use of terminology and economic measurement approaches regarding the use of resources and incurrence of liabilities; and
4. Approaches for requiring supplementary information where the benefits of providing the information will outweigh the costs of collecting and reporting such information, given the complexities of federal agencies and the different needs of stakeholders. Also, individual task force members provided additional matters for FASAB to consider in proceeding with the project.

Changes in Legislation and Administrative Directives since the Issuance of SFFAS 4

FASAB should consider legislative and administrative directive changes that have occurred since the issuance of SFFAS 4. For example, FASAB intended that SFFAS 4 would support performance reporting; however, both Congress and OMB have issued new requirements in this area. The new performance reporting requirements discuss issues such as government-wide or cross-agency reporting, which were not conceptually addressed in existing SFFAS 4 guidance. Considering such changes would ensure that the concepts, terms, examples, wording, and requirements remain appropriate for the current performance reporting environment. Appendix VI: Key Aspects of SFFAS 4 and Recent Legislative and Administrative Directives Regarding Performance Reporting discusses key requirements of SFFAS 4 and the recent legislative and administrative directives regarding performance reporting.

Implementation Challenges

The recommended project should also consider challenges that reporting entities have experienced in implementing the SFFAS 4 standards in the past. Task force members were concerned that, although the requirements have been in effect for

over 15 years, cost accounting is not being performed consistently throughout various agencies and, in instances where cost accounting is performed, the standard permits organizations to use different costing methodologies. If different agencies are costing activities of the same nature differently, it makes it difficult to compare those activities. Ultimately, agency management and stakeholders may not fully realize some of the benefits that cost accounting could offer.

Also, in SFFAS 4, FASAB expressed that dividing agencies into responsibility segments would provide “an accounting mechanism to capture data generated in operations by various components of an organization in its existing structure”²³ and would help in reporting on the cost of services that the segment delivers.²⁴ However, measuring the services that government agencies deliver may be complicated because of the following:

- the work performed may be esoteric, e.g., a physicist developing a theory;²⁵
- some programs do not deliver a readily measurable product or service;²⁶ and
- federal programs often take years to achieve the full scope of their goals.²⁷

Some task force members noted that the challenges in implementing the standard may also be attributed to the culture of managing to the budget rather than to full costs. That is, managers tend to prioritize obligation rate and timing over managing to and reporting on the full cost of goods and services, including both direct and indirect costs. Also, program managers could be more familiar with referring to funding in terms of budget authority as part of the federal budget formulation and execution process. They typically consider the amount of funding for the program in a congressional authorization and appropriation, when distributing funding to and throughout the program, and in negotiating contracts or issuing grants.

Advancing Appropriate use of Terminology and Economic Measurement Approaches

Uniform use of terms and related measurement approaches could help ensure that financial data adequately meets the information expectations of multiple users. Various financial terms are being used to help inform users on the amount of resources consumed to provide services or liabilities incurred. While terms like

²³ SFFAS 4, par. 190.

²⁴ SFFAS 4, par. 82.

²⁵ James Q. Wilson, *Bureaucracy: What Government Agencies Do and Why They Do It*, New York: Basic Books, Inc. 1989, p. 159.

²⁶ Government Accountability Office, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38, March 2004, p.90.

²⁷ *Ibid*, p. 88.

cost, disbursement, expenditure, obligation, outlay, and spending are at times being used interchangeably to represent consumption of resources and the incurrence of liabilities, only disbursement, expenditure, and outlay are generally interchangeable.²⁸ Users may not be aware that the terms have different meanings and purposes and, consequently, they apply the same term to dissimilar approaches to measuring economic events. If the differences are not adequately explained, diverse measurement approaches could ultimately lead to confused users.

Table 2: Terms Used to Report on Resources Consumed defines each term, cites the definition source, and explains how related economic events would be measured. Although the terms cost, expense, outlay, and obligation may be used interchangeably, cost and expense are the only terms that refer to recording an economic event when a resource is used or liability is incurred in providing goods and services to the public. Also, recording a cost and an expense when a resource is used or a liability is incurred reduces the risk of interperiod distortions caused by delaying or accelerating the processing of transactions.²⁹ Additionally, the term “*spending*” is a broad term that could refer to any of the other terms, depending on the context. For example, spending could refer to cost if the user is seeking information on the amount of resources consumed to provide national security. However, spending could also refer to *obligations* if the user is seeking information on the amount of contracts awarded or orders issued for materials and services that could be used in the future.

Table 2: Terms Used to Report on Resources Consumed

Term	Definition	In general, the term refers to an economic event that is recorded when...
Cost	Defined in SFFAC No. 1, Objectives of Federal Financial Reporting as the monetary value of resources used (para. 195). Defined more specifically in SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, as the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service (page 105). Depending on the nature of the transaction, cost may be charged to operations immediately, i.e., recognized as an expense of the period, or to an asset account for	a resource is used or a liability incurred

²⁸ Government Accountability Office, *A Glossary of Terms Used in the Federal Budget Process*, Washington DC, September 2005.

²⁹ Government Accountability Office, *Managing the Cost of Government: Building an Effective Financial Management Structure*, GAO/AFMD-85-35-A, February 1985, p. 16.

Term	Definition	In general, the term refers to an economic event that is recorded when...
	<p>recognition as an expense of subsequent periods. In most contexts within Accounting for Revenue and Other Financing Sources, "cost" is used synonymously with expense.</p> <p>Source: FASAB Handbook, Appendix E: Consolidated Glossary.</p>	
Disbursement	<p>Amounts paid by federal agencies, by cash or cash equivalent, during the fiscal year to liquidate government obligations. "Disbursement" is used interchangeably with the term "outlay." In budgetary usage, gross disbursements represent the amount of checks issued and cash or other payments made, less refunds received. Net disbursements represent gross disbursements less income collected and credited to the appropriation or fund account, such as amounts received for goods and services provided.</p> <p>Source: Government Accountability Office, <i>A Glossary of Terms Used in the Federal Budget Process</i>, Washington DC, September 2005.</p>	cash is paid
Expenditure	<p>The actual spending of money; an outlay.</p> <p>Source: Government Accountability Office, <i>A Glossary of Terms Used in the Federal Budget Process</i>, Washington DC, September 2005.</p>	cash is paid
Expense	<p>Outflows or other using up of assets or incurrences of liabilities (or a combination of both) during a period from providing goods, rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period.</p> <p>Source: FASAB Handbook, Appendix E: Consolidated Glossary.</p>	a resource is used or a liability incurred
Obligation	<p>A definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future.</p> <p>Source: Government Accountability Office, <i>A Glossary of Terms Used in the Federal Budget Process</i>, Washington DC, September 2005.</p>	an order is issued or contract awarded
Outlay	<p>The issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation. Outlays also occur when interest on the Treasury debt held by the public accrues and when the government issues bonds, notes,</p>	cash is paid

Term	Definition	In general, the term refers to an economic event that is recorded when...
	<p>debentures, monetary credits, or other cash-equivalent instruments in order to liquidate obligations. Also, under credit reform, the credit subsidy cost is recorded as an outlay when a direct or guaranteed loan is disbursed. An outlay is not recorded for repayment of debt principal, disbursements to the public by federal credit programs for direct loan obligations and loan guarantee commitments made in fiscal year 1992 or later, disbursements from deposit funds, and refunds of receipts that result from overpayments.</p> <p>Source: Government Accountability Office, <i>A Glossary of Terms Used in the Federal Budget Process</i>, Washington DC, September 2005.</p>	
Spending	Broad term whose meaning depends on the context. Can refer to budget authority, i.e., <i>direct</i> spending. Also can refer to outlays from budget authority, i.e. <i>discretionary</i> spending. Additionally, can refer to expenses (outflows or other using up of assets or incurrences of liabilities (or a combination of both) during a period.)	Depends on the context.

FASAB has noted that “consistent and uniform use of terminology can help avoid confusion and miscommunication among organizations and individuals.”³⁰ Also, uniform terminology could help ensure that measurement approaches are applied appropriately and facilitate analysis of cost trends within and among similar programs. The FASAB *Handbook of Accounting Standards and Other Pronouncements, As Amended* provides a glossary of terms to help with developing consistent terminology within the federal government. It also requires a reconciliation of cost to budgetary information to help users understand the differences in how economic events are measured.

FASAB should also consider developing disclosure guidance to help ensure that users understand the terms and related measurement approach being used. For example, in an electronic presentation, disclosures could include links to explanations of the term and measurement approach. Also, to increase awareness and use of existing tools, FASAB should offer training on: the different terms and related economic event measurement approaches and the merits of the required reconciliation.

³⁰ SFFAS 4, par. 26.

Approaches to Supplementary Information

Some task force members believed that the project should consider approaches to supplementary information to provide greater context and additional detail to facilitate analyses. Under current FASAB standards, a reporting entity's SNC should provide a user with "an understanding of the net costs of each organization and each program that the government supports with taxes and other unearned monies."³¹ However, users may seek cost information aligned or aggregated in a variety of ways, e.g., by strategic goals, strategic objectives, program, or activity. Accordingly, agencies may present cost information aggregated by strategic goals or programs; major programs; products and services; lines of business; or offices, operating units, branches, and divisions.³²

However, some aggregations of cost information in the SNC limit users' ability to perform analyses and gain an understanding of the costs of an agency and its programs. In particular, SNCs typically present cost information at a highly aggregated level. In addition, some of those cost alignments can be perceived as ambiguous and subject to a range of interpretations. For example, some CFO Act agencies report costs aligned by strategic goals. While the amount of resources used to achieve goals, such as peace and security, may inform some discussions, such items can change over time and can have different meanings to different users.

Providing supplementary information may help users understand the various alignments being used, make comparisons, and perform other analyses. For example, Appendix VII: Illustrative Presentations, presents the following potential approaches to providing supplementary information, although these presentations need not necessarily be delivered through agency financial statements:

- Illustrative Presentation 1. This illustration acknowledges that a one-size-fits-all approach may not satisfy the diverse needs of various users. Thus, the illustration provides users with disaggregated data so that they can perform their own aggregations and analysis. It presents costs, obligations incurred, and outlays by major program and object class. Also, it includes a column for the "Adjustment for Accruals" and allows for references to explain the difference between costs and outlays.
- Illustrative Presentation 2. This illustration presents budgetary information using plain English. It is primarily intended to help citizens understand federal spending and shows what budgetary resources were available and how those resources were obligated. It also provides categories to show the types of federal funding recipients, e.g., for-profit organizations, individuals, and

³¹ Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, par. 86.

³² Staff Managerial Cost Accounting Project Issue Paper for June 2010.

governments, and how much each type received. Additionally, the illustration shows how the agency issued the funds, e.g., contract, grant, and loan.

- Illustrative Presentation 3. This illustration presents obligations and outlays by strategic goal and strategic objective.
- Illustrative Presentation 4. This illustration presents costs, obligations, and outlays by strategic goal, strategic objective, and program that contribute to achieving the strategic objective.

The determination of whether to require supplementary information and which approach should be recommended requires further study and evaluation. Consequently, FASAB should study and evaluate:

- what information is currently available in other reports and documents and in what formats they are provided;
- what information would be most useful for various stakeholders;
- how the information would be used by agency managers; and
- the estimated cost of collecting and presenting the information.

FASAB may also wish to consider a phased approach to implementing any new requirements in standards or other guidance, where more aggregate approaches are considered in the near-term (such as Illustrative Presentation 3), and additional detail is considered for the longer-term (such as Illustrative Presentation 4).

Some task force members noted that agencies and the government as a whole present additional data in other documents such as the annual Budget of the U.S. Government (President's Budget) and agency budget justifications. They noted that fuller use of these documents should be promoted rather than requiring additional data in financial reports. Requiring references or links would be one way of promoting use of these documents. Furthermore, a richer understanding can be gained by presenting both narrative (qualitative) and quantitative information.

Additional Considerations for Revisiting SFFAS 4

In determining how to conduct the project to revisit SFFAS 4, individual task force members offered additional considerations which should be considered after reviewing existing legal and current policy standards that have changed significantly

in recent years. Table 3: Additional Consideration presents the considerations, including more specific requirements for agencies.³³

³³ The additional considerations are not listed in any particular order and some items could be combined.

Table 3: Additional Considerations

Additional Considerations	
a.	Focus on programs that involve tangible outputs and determine possible best practices as well as most reasonable cost.
b.	Determine how entities could cost certain programs, especially those that involve several agencies, and how one would cost activities or support functions, i.e. grant processing. Also, consider whether agencies are achieving key stakeholders' minimum needs for cost reporting. For instance, assess whether agencies are able to compare their current performance with their past performance in the context of costs. This could require reporting current and past performance and associated costs.
c.	Consider how entities could cost the strategic goals and strategic objectives without requiring significant investments to do so. This could provide agency managers, Congress, and stakeholders cost information useful for strategic decision making and performance management, without requiring the detailed alignment of cost information and program outputs. As many strategic goals and objectives cover the funding and effort invested over several years, this should include matching the goal's timeframe for achievement with the same number of years for which the costs have been aggregated.
d.	Consider maximizing existing systems and data and maximize the potential of electronic reporting, especially considering the current statutory requirements for machine-readable formats of performance reporting.
e.	Consider the present environment when developing expectations for what the standard should achieve. For instance, fully consider the complexities involved in performance measurement and the limited resources that agencies may have available to commit to new requirements. Also, consider the level of demand for cost information.
f.	Consider a requirement for agencies to report on their ability to conduct performance tracking and reporting. There are generally, two types of performance information – that used for policy decisions and that used during the year to manage programs. When reporting on goals, the agency could also report on whether managers have appropriate and useful performance and cost data. Currently, auditors report on whether agencies are complying with laws and the Federal Financial Management Improvement Act of 1996 ³⁴ requires the CFO Act agencies to implement and maintain financial management systems that comply substantially with federal accounting standards. Note that OMB policy currently requires agencies to report on their management reviews and to address verification and validation of the agency's performance information that is published. Agencies are also required to identify where there are gaps in performance information. (OMB Circular A-11, Part 6, Section 210)
g.	First identify and discuss the various uses for cost estimates. A major distinction should be made as to what is needed for estimating past costs as distinct from future costs. For example, past costs are used for accountability purposes and as a basis for making estimates of future costs. Estimating future costs is considerably more difficult, particularly for options that differ considerably from options that are similar to those for which historical cost are available. And of course, historical data are increasingly uncertain for estimating costs the further out into the future are the cost estimates.

³⁴ Public Law 104-208, div. A., sec. 101(f), title VIII Stat. 3009-389, September 30, 1996.

Financial cost statements, such as those in budget documents, provide historical costs and may provide the most recent previous year and sometimes showing one or more previous years as well. Showing past years should be encouraged since this enables public officials to spot time trends.

It should be made clear that one size will not fit all programs or agencies. Cost estimation guidance will need to have room for differences; both because of the particular use intended for the information and the type of program/activity for which the cost estimates are being made. The cost estimation guidance should identify such differences wherever possible and provide examples of how the cost estimating procedures will differ. (Some examples are given in some of the items discussed below.)

Guidance is, of course, needed on the extent to which, and how, "overhead/indirect" costs should be included (costs not directly associated with particular programs or activities). When is it sufficient to consider only direct costs? When and how should overhead costs be allocated? On what basis should such allocations be made?

For example, should certain overhead costs (such as an agency's human resources or information technology costs) be spread among programs by each program's proportion of total agency programs personnel (full-time equivalent employees)? Should certain overhead activities be spread among programs based on each program's proportion of all the agency programs' direct cost? Or should some other, likely more complex, algorithm be used? Individual agencies are likely to be able to make good cases for various alternatives depending on particular services.

If an overhead office does special work for a program that requires significant extra costs, procedures should be put into place to charge the program or agency for that added cost.

If the issue involves comparing the relative costs of options for service delivery approaches with little likelihood of directly affecting significantly these overhead costs, it may not be necessary to consider overhead. This will likely be the case if the program for which the costs are being estimated is small. However, if the cost estimates are being used to derive an overall cost of a collection of programs, overhead allocations will likely be needed. This reflects the need to distinguish between situations in which marginal costs are relevant.

The adequacy of the cost data quality was a theme many of the task force representatives raised. Basic needed improvements should be identified and prioritized. For example, cost data will be questionable for programs where many individual employees work on different projects and do not keep time records, or are not careful in reporting their times to particular activities.

However, some of these problems can be tempered by accepting tolerable ranges of error in the cost estimates. For many decisions in making choices, zero-error tolerance is not needed (and usually not achievable). For some choices, for example, errors of plus or minus 10 percentage points may not present a problem. This is particularly likely to be the case with estimates of future-year costs (and the further out the estimates are for, the greater the uncertainty).

For budgeting and strategic planning use, significant cost implications beyond the budget year should be identified. Guidance should be provided to agencies in making such estimates. Probably, sample lists of cost elements for major types of programs should be provided to help assure that life-cycle costs are considered. Costs that can be neglected include: (1) the need to replace periodically, or to rehabilitate, capital stock; (2) the need to provide for adequate recurring maintenance of investment items; (3) the timing of obsolescence and need for replacement cost; and (4) the costs of employee turnover. Such costs are likely to be particularly important when public officials are considering a variety of policy or program options.

For making decisions that have important out-year implications, clearly information should be included that provides estimates of out-year implications for both costs and outcomes, at least for major programs with substantial implications beyond the budget year. This would need to include

assumptions for such factors as inflation and rising costs for workforce, healthcare, energy resources, building materials, etc. (Such information might be provided by using hyperlinks.)

Similarly, it is important that information users are aware that the outcomes shown for a particular year (such as those shown in the most recent budget), may well not be related to the costs for that year because of lag times from when funds become available, when they are actually spent, and when outcomes can be expected to occur.

Some form of "sensitivity analysis" is desirable for some uses, to indicate the extent of uncertainty in some cost (or outcome) estimates, particularly when the level of uncertainty is high. For example, budget cost estimates for some programs are likely to be considerably affected by the size of the incoming workload for the year. Cost estimates can be calculated for the range of assumptions as to the likely size of the workload. (CBO, for example, has for some economic forecasts provided ranges of estimates on important fiscal indicators.) Probabilities can also be estimated for each such parameter. If an agency's budget is based on a number of such uncertainties, probabilistic models might be used to derive an overall most likely cost estimate. (CBO in the past has used "probabilistic scoring" in order to provide one number to Congress.)

A key, and particularly difficult, cost analysis issue is the relation between costs and outcomes. It is relatively easy to provide reasonable estimates of how much it costs to produce additional units of output (or how much might be saved if output is cut back). However, the situation generally changes radically in relating costs to outcomes. Considerably more work will be needed and it may at best involve large uncertainties. For example, how much will it cost to get an additional 100 people employed or to bring citizen satisfaction levels up five percentage points? For some intermediate outcomes, such as response times, making such estimates will be relatively easy.

Clearly, strengthening cost estimation and analysis in the federal government, is a long-run continuing, and probably never ending process. Some programs may have particularly intractable cost-estimating problems, such as estimating the budgets needed for environmental cleanups (such as oil spills or industrial underground contamination). The effort to improve cost estimation should seek to identify those categories of programs where the most value is likely to be obtained from improved cost estimates.

Even if nothing else is done, each agency, and each of its major programs, should be asked to report on the quality of their cost data and identify plans to improve it.

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- h. Consider requiring activity-based costing (ABC). FASAB has acknowledged that ABC encourages management to evaluate the efficiency and cost-effectiveness of activities.³⁵
 - i. Study the work of other accounting standards-setters – government, private sector, and international – regarding performance measurement and evaluate whether their results would provide a reasonable model for the U.S. government.
 - j. Recognize the desire of some stakeholders to perform their own analysis. Agencies cannot present detailed authoritative information in a format that will satisfy the diverse needs of all stakeholders and some stakeholders are interested in accessing the data underlying financial reports to perform their own analyses. The data underlying financial reports has a level of reliability and accuracy, given the internal controls used in preparing the reports and that the reports are subject to audit. Consequently, FASAB could encourage agencies to provide reliable data to stakeholders to facilitate analyses. Also, FASAB could help users understand the reliability and accuracy of the data underlying financial reports by requiring agencies to: (1) state their formal financial reporting requirements; and (2) explain what information is subject to audit and what data they are responsible for providing any stakeholder for their analytical use.
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³⁵ SFFAS 4, par. 153.

APPENDICES

Appendices

The Appendices present the following examples of financial statements and other financial report presentations discussed in the report and additional details of reporting requirements:

Appendix I: Example Government-wide Statement of Net Cost – shows the elements of the financial statement that presents net cost at the government-wide level. The statement presents net cost by significant entity. (See p. 30)

Appendix II: Example Agency Statement of Net Cost – shows the elements of the financial statement that presents net cost at the agency level. This agency, the NRC, presents net cost by program. (See p. 31)

Appendix III: Example Reconciliation of Net Operating Cost and Unified Budget Deficit – shows the elements of the government-wide level financial statement that helps explain the difference between net operating cost and the unified budget deficit. (See p. 32)

Appendix IV: Example Statement of Budgetary Resources – shows the elements of an agency level financial statement that presents the status of the agency's budgetary resources. (See p. 33)

Appendix V: Example Reconciliation of Cost and Budgetary Information – presents the elements of an agency level disclosure that helps explain the differences between cost and budgetary information. (See p. 34)

Appendix VI: Key Aspects of SFFAS 4 and Recent Legislative and Administrative Directives Regarding Performance Reporting. This appendix presents key requirements of SFFAS 4, which helps support performance reporting, and recent legislation and administrative directives regarding performance reporting. (See p. 35)

Appendix VII: Illustrative Presentations – presents illustrative schedules that could accompany financial statements. (See p. 37)

Appendix I: Example Government-wide Statement of Net Cost

(In billions of dollars)	Gross Cost	Earned Revenue	Subtotal	(Gain)/Loss from Changes in Assumptions	Net Cost
Department of Health and Human Services.....	943.4	66.4	877.0	0.1	877.1
Social Security Administration	782.9	0.4	782.5	-	782.5
Department of Defense	828.7	78.0	750.7	(32.0)	718.7
Interest on Treasury Securities Held by the Public	250.9	-	250.9	-	250.9
Department of Veterans Affairs	124.3	4.7	119.6	58.9	178.5
Department of Agriculture.....	154.2	9.4	144.8	-	144.8
Department of Labor.....	132.8	-	132.8	-	132.8
Department of the Treasury.....	115.2	30.6	84.6	-	84.6
Department of Transportation.....	77.9	0.7	77.2	-	77.2
Department of Housing and Urban Development.....	60.8	1.2	59.6	-	59.6
Department of Education.....	69.7	15.0	54.7	-	54.7
Department of Homeland Security	58.9	9.4	49.5	0.4	49.9
Department of Energy	52.5	7.9	44.6	-	44.6
Department of Justice.....	31.3	1.3	30.0	-	30.0
Office of Personnel Management.....	43.7	19.1	24.6	0.3	24.9
Department of State	27.0	3.4	23.6	0.4	24.0
Department of the Interior.....	23.8	2.7	21.1	-	21.1
National Aeronautics and Space Administration	18.8	0.1	18.7	-	18.7
Agency for International Development	12.1	0.7	11.4	-	11.4
Railroad Retirement Board	17.0	5.9	11.1	-	11.1
Environmental Protection Agency	11.3	0.5	10.8	-	10.8
Federal Communications Commission.....	9.3	0.4	8.9	-	8.9
Department of Commerce	11.3	2.5	8.8	-	8.8
National Science Foundation.....	7.1	-	7.1	-	7.1
Pension Benefit Guaranty Corporation.....	12.8	7.4	5.4	-	5.4
Small Business Administration	3.6	0.4	3.2	-	3.2
Smithsonian Institution	0.7	-	0.7	-	0.7
U.S. Nuclear Regulatory Commission	1.0	0.8	0.2	-	0.2
Farm Credit System Insurance Corporation	-	0.1	(0.1)	-	(0.1)
Export-Import Bank of the United States.....	0.6	0.7	(0.1)	-	(0.1)
General Services Administration	0.4	0.6	(0.2)	-	(0.2)
Tennessee Valley Authority.....	11.5	11.8	(0.3)	-	(0.3)
Securities and Exchange Commission.....	1.1	1.6	(0.5)	-	(0.5)
National Credit Union Administration	0.2	3.1	(2.9)	-	(2.9)
U.S. Postal Service.....	56.2	64.6	(8.4)	-	(8.4)
Federal Deposit Insurance Corporation	(2.1)	13.7	(15.8)	-	(15.8)
All other entities	47.4	0.5	46.9	-	46.9
Total	3,998.3	365.6	3,632.7	28.1	3,660.8

Source: 2011 Financial Report of the United States Government

Appendix II: Example Agency Statement of Net Cost

STATEMENT OF NET COST *(In Thousands)*

For the years ended September 30,	2011	2010
Nuclear Reactor Safety and Security		
Gross costs	\$ 857,569	\$ 882,591
Less: Earned revenue	(786,741)	(836,303)
Total Net Cost of Nuclear Reactor Safety and Security (Note 9)	70,828	46,288
Nuclear Materials and Waste Safety and Security		
Gross costs	239,350	257,862
Less: Earned revenue	(101,919)	(87,178)
Total Net Cost of Nuclear Materials and Waste Safety and Security (Note 9)	137,431	170,684
Net Cost of Operations	\$ 208,259	\$ 216,972

Source: Nuclear Regulatory Commission FY 2011 Performance and Accountability Report

Appendix III: Example Reconciliation of Net Operating Cost and Unified Budget Deficit

United States Government
Reconciliations of Net Operating Cost and Unified Budget Deficit
for the Years Ended September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Net operating cost.....	(1,312.6)	(2,080.3)
Components of net operating cost not part of the budget deficit:		
Increase in liability for military employee benefits (Note 15):		
Increase in military pension liabilities.....	98.6	85.6
(Decrease)/increase in military health liabilities.....	(62.4)	78.9
(Decrease) in other military benefits.....	(1.2)	(0.3)
Increase in liability for military employee benefits.....	35.0	164.2
Increase in liability for veteran's compensation (Note 15)	58.9	223.8
(Decrease)/Increase in liabilities for civilian employee benefits (Note 15):		
(Decrease)/increase in civilian pension liabilities.....	(13.2)	103.5
(Decrease)/increase in civilian health liabilities.....	(13.0)	3.3
Increase in other civilian benefits.....	4.2	8.3
(Decrease)/increase in liabilities for civilian employee benefits.....	(22.0)	115.1
Increase/(decrease) in environmental and disposal liabilities (Note 16):		
Increase/(decrease) in Energy's environmental and disposal liabilities.....	0.4	(17.5)
Increase/(decrease) in all others' environmental and disposal liabilities.....	2.4	(3.0)
Increase/(decrease) in environmental and disposal liabilities.....	2.8	(20.5)
Depreciation expense.....	68.4	57.5
Property, plant, and equipment disposals and revaluations.....	(4.6)	(9.8)
Increase in benefits due and payable.....	6.7	3.5
(Decrease)/increase in insurance and guarantee program liabilities.....	(13.9)	9.4
Increase in other liabilities.....	10.5	62.4
Seigniorage and sale of gold.....	-	(0.4)
(Decrease) in accounts payable.....	(9.5)	(0.3)
(Increase) in net accounts and taxes receivable.....	(11.7)	(7.1)
TARP yearend upward/(downward) re-estimate.....	23.3	(23.6)
Decrease in Non-TARP Investments in American International Group, Inc. due to valuation losses.....	9.9	2.7
(Decrease)/increase in liabilities to Government-sponsored enterprises.....	(43.7)	268.0
(Decrease)/increase in valuation loss on investments in Government-sponsored enterprises.....	(3.0)	8.1
Components of the budget deficit that are not part of net operating cost:		
Capitalized fixed assets:		
Department of Defense.....	(51.3)	(59.4)
All other agencies.....	(36.4)	(33.1)
Total capitalized fixed assets.....	(87.7)	(92.5)
Effect of prior year TARP downward re-estimate.....	23.6	110.0
(Increase) in inventory.....	(9.9)	(1.6)
(Increase) in investments in Government-sponsored enterprises.....	(20.8)	(52.6)
(Increase) in debt and equity securities.....	(0.8)	(5.8)
Decrease/(increase) in other assets.....	4.0	(24.7)
Credit reform and other loan activities.....	(10.5)	8.0
All other reconciling items.....	9.0	(7.6)
Unified budget deficit.....	(1,298.6)	(1,294.1)

Source: 2011 Financial Report of the United States Government

Appendix IV: Example Statement of Budgetary Resources

STATEMENT OF BUDGETARY RESOURCES *(In Thousands)*

For the years ended September 30,	2011	2010
Budgetary Resources		
Unobligated balance, brought forward, October 1	\$ 44,699	\$ 81,126
Recoveries of prior year unpaid obligations		
Actual	18,841	22,446
Budget authority		
Appropriation	1,054,219	1,066,859
Spending authority from offsetting collections		
Reimbursements earned-collected	12,439	10,086
Reimbursements earned-change in receivables	946	(424)
Change in unfilled customer orders-advance received	(3,506)	1,198
Change in unfilled customer orders-without advance	4,614	493
Subtotal-spending authority from offsetting collections	14,493	11,353
Permanently not available	(257)	(18,000)
Total Budgetary Resources	\$ 1,131,995	\$ 1,163,784
Status of Budgetary Resources		
Obligations incurred (Note 12)		
Direct	\$ 1,078,667	\$ 1,108,948
Reimbursable	4,818	10,137
Subtotal	1,083,485	1,119,085
Unobligated balance		
Apportioned	28,853	29,744
Exempt from apportionment	9,892	7,079
Subtotal	38,745	36,823
Unobligated balance, not available	9,765	7,876
Total Status of Budgetary Resources	\$ 1,131,995	\$ 1,163,784
Change in Obligated Balance		
Obligated balance, net		
Unpaid obligations brought forward, October 1	\$ 375,381	\$ 367,498
Obligations incurred, net	1,083,485	1,119,085
Gross outlays	(1,088,396)	(1,088,687)
Recoveries of prior year unpaid obligations, actual	(18,841)	(22,446)
Change in uncollected customer payments, from Federal sources	(5,560)	(69)
Obligated balance, net, end of period		
Unpaid obligations	359,402	383,154
Uncollected customer payments, from Federal sources	(13,333)	(7,773)
Total unpaid obligated balance, net, end of period	\$ 346,069	\$ 375,381
Net outlays		
Gross outlays	\$ 1,088,396	\$ 1,088,687
Offsetting collections	(8,933)	(11,284)
Distributed offsetting receipts	(910,901)	(909,514)
Net Outlays	\$ 168,562	\$ 167,889

The accompanying notes to the principal statements are an integral part of this statement.

Source: Nuclear Regulatory Commission FY 2011 Performance and Accountability Report

Appendix V: Example Reconciliation of Cost and Budgetary Information

For the years ended September 30,	2011	2010
Budgetary Resources Obligated		
Obligations incurred (Note 12)	\$ 1,083,485	\$ 1,119,085
Less: Spending authority from offsetting collections and recoveries	(33,334)	(33,799)
Less: Distributed offsetting receipts	(910,901)	(909,514)
Net Obligations	139,250	175,772
Other Resources		
Imputed financing from costs absorbed by others	50,534	40,812
Net Other Resources Used to Finance Activities	50,534	40,812
Total Resources Used to Finance Activities	189,784	216,584
Resources Used to Finance Items not Part of the Net Cost of Operations	(14,846)	(19,668)
Total Resources Used to Finance the Net Cost of Operations	174,938	196,916
Components of the Net Cost of Operations that will not require or generate resources in the current period	33,321	20,056
Net Cost of Operations	\$ 208,259	\$ 216,972

Source: Nuclear Regulatory Commission FY 2011 Performance and Accountability Report

Appendix VI: Key Aspects of SFFAS 4 and Recent Legislative and Administrative Directives Regarding Performance Reporting

In the mid-1990s, FASAB noted that users of financial information began placing more emphasis on the cost of programs, products, and activities. Also, the Chief Financial Officers Act of 1990 and the Government Performance and Results Act of 1993 required agencies to provide cost information. Accordingly, FASAB developed SFFAS 4 which requires reporting entities to perform the following:

- accumulate and report the cost of its activities on a regular basis;
- define and establish responsibility segments (to measure and report the costs of each segment's outputs);
- report the full costs of outputs in general purpose financial reports;
- incorporate the full cost of goods and services that it receives from other entities;
- accumulate costs by type of resource; and
- assign costs by using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable, (b) assigning costs on a cause-and-effect basis, or (c) allocating costs on a reasonable and consistent basis.³⁶

Since FASAB issuance of these requirements, there have been changes in legislative and administrative directive requirements. Most recently, Congress passed the GPRA Modernization Act of 2010. The Comptroller General of the United States noted that the Act:

- Adopts a more coordinated and crosscutting approach to achieving common goals.
- Addresses weaknesses in major management functions.
- Ensures that performance information is useful and used in making decisions.
- Instills sustained leadership commitment and accountability for achieving results.
- Engages Congress in identifying management and performance issues that should be addressed.
- Requires OMB, in coordination with agencies, to develop long-term, outcome-oriented goals for a limited number of crosscutting policy areas and, on an annual basis provide information on how these crosscutting goals will be achieved.

³⁶ SFFAS 4, *Managerial Cost Accounting Concepts and Standards*.

- Requires disclosure of information on the accuracy and validity of agency performance data, quarterly reporting of priority goals, and the posting of information on a government-wide website.³⁷

Accordingly, OMB issued new guidance for performance reporting. The guidance includes new definitions, processes, and reporting requirements. Also, the guidance establishes new roles for agency leaders. Some key aspects of the guidance include:

- Creation of Annual Performance Plans to communicate the agency's goals and objectives with other elements of the agency budget request. The plan describes how the goals will be achieved, identifies priorities among the goals and explains how the agency will monitor progress.
- Timelines for publication of Strategic Plans and new Agency Priority Goals in February 2014.
- Promotes increased use of performance information and evidence through reviews. Agency heads and OMB plan to review agency strategic objectives and will consider qualitative and quantitative evidence.
- Provides for development of a central website (Performance.gov) that will make performance information available to the public.
- Establishes a Federal Program Inventory as a central program list that has the potential to facilitate coordination across programs by making it easier to find programs that can contribute to a shared goal as well as improve public understanding about what federal programs currently operate and how programs link to budget, performance, and other information.³⁸

³⁷ Gene L. Dodaro, *GPRA Modernization Act Implementation Provides Important Opportunities to Address Government Challenges*, AABPA Spring 2011 Symposium, Washington DC, May 11, 2011.

³⁸ See OMB Circular A-11.

Appendix VII: Illustrative Presentations

Illustrative Presentation: 1 Major Program and Object Class

Major* Program	Category**	Costs Incurred FY 2011	A Amount Obligated FY 2012	B Outlays FY 2012	C Adjustment for Accruals FY 2012 (Including footnotes to explain adjustments)	Cost Incurred FY 2012 (Columns B+C)
Program ABC	Personnel Compensation & Benefits	XX	XX	XX	XX	XX
	Contractual Services	XX	XX	XX	XX	XX
	Acquisition of Assets	XX	XX	XX	XX	XX
	Grant and Fixed Charges	XX	XX	XX	XX	XX
	Other	XX	XX	XX	XX	XX
	Earned Revenue (e.g. Fees)	(XX)	(XX)	(XX)	(XX)	(XX)
Subtotal Program ABC		XX	XX	XX	XX	XX
Program XYZ	Personnel Compensation & Benefits	XX	XX	XX	XX	XX
	Contractual Services	XX	XX	XX	XX	XX
	Acquisition of Assets	XX	XX	XX	XX	XX
	Grant and Fixed Charges	XX	XX	XX	XX	XX
	Other	XX	XX	XX	XX	XX

Major* Program	Category**	Costs Incurred FY 2011	A Amount Obligated FY 2012	B Outlays FY 2012	C Adjustment for Accruals FY 2012 (Including footnotes to explain adjustments)	Cost Incurred FY 2012 (Columns B+C)
	Earned Revenue	(XX)	(XX)	(XX)	(XX)	(XX)
Subtotal Program XYZ		XX	XX	XX	XX	XX
Total Major Programs	All Categories except earned revenues	XX	XX	XX	XX	XX
	Earned revenues	(XX)	(XX)	(XX)	(XX)	(XX)
Net Major Programs		XX	XX	XX	XX	XX
Net Other Programs		XX	XX	XX	XX	XX
Net All Programs		XX	XX	XX	XX	XX

*An entity would present top or major programs. Guidance would need to be developed to help agencies determine which programs would be considered major for reporting purposes.

**A complete listing and description of budget object class codes (BOC) is provided in OMB Circular A-11 section 83.6. Also, research would be needed to determine an appropriate description for the "Earned Revenues" line item. A term would need to be identified to appropriately describe amounts presented in the accrual and budgetary columns. Earned Revenues only applies to the accrual amounts presented in the "Cost" columns.

Also, explanations would be needed for the terms used in the column headings. The explanations would help users understand why there would be different amounts for costs, obligations, and outlays.

Some expressed concerns that the value of providing the information displayed in Illustration #1 needs to be weighed against the effort of collecting, aggregating, and producing this additional information with financial statements. It will be important to consider the relative value of the different illustrations from the view of public and stakeholder interests.

Illustrative Presentation: 2

	FY 20XX	FY 20XX
What Money is Available to Spend?		
Total Resources	\$X,XXX,XXX	\$X,XXX,XXX
Less Amount Available but Not Agreed to be Spent	\$XX,XXX	\$XX,XXX
Less Amount Not Available to be Spent	\$X,XXX	\$XXX
Total Amounts Agreed to be Spent	<u>\$X,XXX,XXX</u>	<u>\$XXX,XXX</u>
How was the Money Spent?		
<i>Category ABC*</i>		
Personnel Compensation & Benefits	\$XXX,XXX	\$XXX,XXX
Contractual Services	\$XXX,XXX	\$XXX,XXX
Acquisition of Assets	\$XX,XXX	\$XX,XXX
Other	\$XX,XXX	\$XX,XXX
<i>Category XYZ*</i>		
Personnel Compensation & Benefits	\$XXX,XXX	\$XXX,XXX
Grant and Fixed Charges	\$XX,XXX	\$XX,XXX
Other	\$XX,XXX	\$XX,XXX
Total Spending	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>
Amounts Remaining to be Spent	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
Total Amounts Agreed to be Spent	<u>\$X,XXX,XXX</u>	<u>\$XXX,XXX</u>
Who did the Money go to?		
For Profit	\$XXX,XXX	\$XXX,XXX
Government	\$XXX,XXX	\$XXX,XXX
Higher Education	\$XX,XXX	\$XX,XXX
Individuals	\$XXX,XXX	\$XXX,XXX
Not-For-Profits	\$XX,XXX	\$XX,XXX
Other	\$XX,XXX	\$XX,XXX
Total Amounts Agreed to be Spent	<u>\$X,XXX,XXX</u>	<u>\$XXX,XXX</u>

How was the Money Issued?

Non-Financial Assistance Direct Payments	\$XXX,XXX	\$XXX,XXX
Contracts	\$XXX,XXX	\$XXX,XXX
Grants	\$XXX,XXX	\$XXX,XXX
Loans and Guarantees	\$XX,XXX	\$XX,XXX
Financial Assistance Direct Payments	\$XXX,XXX	\$XXX,XXX
Other Financial Assistance	\$XX,XXX	\$XX,XXX
Insurance	\$XX,XXX	\$XX,XXX
Interest and Dividends	\$XX,XXX	\$XX,XXX
Other Payment Types	\$XX,XXX	\$XX,XXX
Total Amounts Agreed to be Spent	<u>\$X,XXX,XXX</u>	<u>\$XXX,XXX</u>

* The BOC codes should be presented in categories that are meaningful for the entity (e.g. by Strategic Goal, Program, Appropriations, Sub-agencies or grouping of Sub-agencies, etc.)

Illustrative Presentation: 3 (potential near-term implementation)

Strategic Goal	Strategic Objective	Amount Obligated FY 2012	Outlays FY 2012
Strategic Goal 1	Strategic Objective 1	XX	XX
	Strategic Objective 2	XX	XX
	Strategic Objective 3	XX	XX
	Strategic Objective 4	XX	XX
Subtotal Strategic Goal 1		XX	XX
Strategic Goal 2	Strategic Objective 1	XX	XX
	Strategic Objective 2	XX	XX
	Strategic Objective 3	XX	XX
	Strategic Objective 4	XX	XX
Subtotal Strategic Goal 2		XX	XX
Total All Goals		XX	XX

Illustrative Presentation: 4 (potential long-term implementation)

Strategic Goal	Strategic Objective	Program	Costs Incurred FY 2012	Amount Obligated FY 2012	Outlays FY 2012
Strategic Goal 1	Strategic Objective 1	Program A	XX	XX	XX
		Program B			
	Strategic Objective 2	Program A	XX	XX	XX
		Program C	XX	XX	XX
	Strategic Objective 4	Program D	XX	XX	XX
		Program B	XX	XX	XX
Subtotal Strategic Goal 1			XX	XX	XX
Strategic Goal 2	Strategic Objective 1	Program E	XX	XX	XX
		Program F	XX	XX	XX
		Program B	XX	XX	XX
		Program G	XX	XX	XX
		Program H	XX	XX	XX
		Program I	XX	XX	XX
Subtotal Strategic Goal 2			XX	XX	XX
Total All Goals			XX	XX	XX



December 7, 2012

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Federal Reporting Model: Summary of Individual Task Force Member Responses and Staff Recommendations– **TAB B-2**¹

MEETING OBJECTIVE

The objective of the meeting is to inform the FASAB on the results of follow-up responses from individual task force members and obtain input on staff recommendations.

BRIEFING MATERIALS

This memo provides a summary of individual task force member responses and staff recommendations. Questions for the Board are found at page 16.

Attachment I – Questionnaire Responses. This attachment presents the individual task force member responses.

Attachment II - Figures. This attachment shows examples of different approaches being used to classify federal cost information.

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

Attachment III – Excerpt from Accounting for Revenue and Other Financing Sources Implementation Guide. The excerpt discusses the rationale for the statement of net cost and provides illustrations for presenting costs.

MEMBER FEEDBACK

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.

BACKGROUND

During the October 2012 meeting, FASAB discussed the preliminary recommendation of the task forces organized to determine improvements in reporting cost, budget, and performance information. The task forces recommended that FASAB revisit Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, to help ensure that the guidance is updated to support users of budget and performance information and provide cost information that meets the expectations of financial information users. The task forces noted that as part of the SFFAS 4 project, FASAB should consider the following:

1. Recent changes in legislative and administrative directives with respect to performance reporting;
2. Past implementation challenges related to linking cost, performance, and budget information;
3. The need to advance the appropriate use of terminology and economic measurement approaches regarding the use of resources and incurrence of liabilities; and
4. Approaches for requiring supplementary information where the benefits of providing the information will outweigh the costs of collecting and reporting such information, given the complexities of federal agencies and the different needs of stakeholders. Also, individual task force members provided additional matters for FASAB to consider in proceeding with the project.

Upon discussing the recommendations, FASAB members determined that they needed to know the most important items of information that task force members expect from financial statements. To address this question, staff developed a questionnaire which asked each task force member to provide their views on the priorities for the reporting model project and the important items that should be presented in financial statements. Staff chose this approach because of competing demands on task force members' schedules. For example, departments and agencies were finalizing various financial

presentations and the federal holiday season had begun. Consequently, the questionnaire approach provided the flexibility to accommodate the various schedules and gather the information needed in a timely manner.

However, the approach was not intended to present a statistical representation of the task forces' views. Instead, the questionnaire responses would provide qualitative information that could help the Board determine the next steps for the project. Also, to help ensure the understandability of the questionnaire, staff sent a trial version to six task force members and edited the document based on the comments.

Staff proceeded with the questionnaire approach to inquire of task force members and received responses during the period November 14, 2012 to November 29, 2012. These responses were considered in conjunction with results from the report of the task forces, FASAB's Reporting Model Task Forces report, focus group discussions, the 2010 citizen survey, inquiries of other countries, and FASAB's previous determinations. Attachment I: Questionnaire Responses presents the response from each individual respondent and one group response from the Office of Management and Budget task force members.

A Range of Proposals and Insights

The respondents provided a range of proposals and insights, some of which have been recurring since the inception of the project. Their views included an affirmation of the need to revisit SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and approaches for helping to better deliver the array of data that different users seek. One respondent noted that online reporting could be used to help provide the information that various users seek. This approach would likely help the reporting community to overcome the challenges of a static, one-size-fits-all approach and was also recommended by the reporting model task force.² Another respondent noted that a financial "information architecture" could show the information that the federal government has, where it resides, who is responsible for it, how it flows, and how it relates to other information. Our previous studies have noted that different users seek different levels of data aggregation and developing a financial information architecture could help improve the information needed and identify data/information redundancies.

In addition, a respondent noted that consistency in definitions and characteristics of cost data categories is very important. Those who use the information for analyses expect to examine trends and if the categories change over time, the information becomes "meaningless." Our earlier research³ and the report of the task forces confirm the view that consistency in the categories or line items is important to users. However, during the October 2012 Board meeting, FASAB members stressed the importance of ensuring consistency in methodology rather than line item consistency.⁴

² Report of the Financial Reporting Model Task Force, December 2010, accessible from <http://www.fasab.gov/accounting-standards/other-sources-of-information/other-reports-documents/>.

³ Staff Issue Paper October 2011.

⁴ FASAB October 2012 minutes.

Although FASAB members can consider these and other individual perspectives, such as requiring the reconciliation of net cost and outlays, staff observed the following themes:

- A. users expect program level information;
- B. users expect budget, accrual, and service performance information;
- C. reassess what information should be presented in conformity with generally accepted accounting principles (GAAP) or, in other words, streamline reporting requirements; and
- D. users need to know how the Board expects them to use the array of information in a financial report to assess the reporting entity.

These items are consistent with other research results and with previous Board determinations. Accordingly, addressing them could help improve the usefulness of financial reports.

A. The Expectation for Program Level Information

The respondents indicated that financial presentations should provide information about programs. Although the participants noted a range of information that should be presented (cost, obligations, earned revenue, and outlays), there appeared to be strong support for aggregating and presenting information about programs. The following are some of their views:

- *Most people have no idea what the federal government does or what programs it administers. To make government more understandable and to control costs, we need to array financial information/data in a manner that facilitates communication and understanding.*
- *This [cost of major programs] may not actually be particularly useful information per se, but it is probably the most important from the perspective of giving the financial statement credibility – i.e., most people would expect to see this in an agency's financial statement.*
- *Obligations by program is very important, not only because it helps map to other federal spending systems, but because programs are a more concrete, definable lens through which to view the more broad spending directives that appear in the budget. Ideally, programs would remain the same year after year, unless they were drastically changed or discontinued, not just if their political goals change slightly.*
- *Most members [of Congress], Hill staffers, and constituents are familiar with the names of government programs, but much less so with strategic goals/objectives. The major programs typically keep the same name/mission over time making historical budget or costs comparisons possible in most cases, which is very useful.*

- *All of FASAB's outreach to citizens and other users of government financial information have indicated that users want to know the cost of the war in Afghanistan, TARP, Medicare, food stamps, etc.*

The respondents' views are also consistent with other FASAB user needs inquiries, such as its citizens survey⁵ and focus group discussions.⁶ Additionally, their perspectives confirm that the Board's earlier views remain relevant today. For instance, FASAB's conceptual guidance states that

*As a result, most elected and appointed federal officials, and the groups to which they are responsive, have been interested primarily in information about **individual government programs**, functions, or activities. They have been less interested in information about the government as a whole and even less concerned about intermediate levels of reporting, such as individual departments.⁷ [Emphasis added]*

FASAB also noted that

*Federal financial reporting should provide information that helps the reader to determine the costs of providing **specific programs** and activities and the composition of, and changes in, these costs; the efforts and accomplishments associated with federal **programs** and the changes over time and in relation to costs; and the efficiency and effectiveness of the government's management of its assets and liabilities.⁸ [Emphasis added.]*

Additionally, FASAB acknowledged that other levels of aggregation, such as sub-organizations, have merits in some instances. However, the Board stressed that program level information should also be presented in some manner. For instance, the Board stated that

*With some organizations, and even suborganizations, the activities of one or more **programs** or other components are as important to the readers of the financial statements as are the activities of the entity as a whole. This would be particularly true for a Department composed of many bureaus, administrations, agencies, services, etc., and particularly if their programs are dissimilar. In those instances, consideration should be given to the preferability of reporting the assets, liabilities, revenues, expenses, etc. of both the significant components individually and of the entity in its entirety. Hence, larger organizations, and particularly those composed of many bureaus, administrations, agencies, etc., would prepare not only consolidated financial*

⁵ Staff Issue Paper April 2010 accessible from <http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/>.

⁶ See Citizens Focus Group Discussions at Tab B-3.

⁷ Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, par, 59.

⁸ SFFAC 1, pars. 126, 128, and 130.

statements for the organizational entity, but also provide information pertaining to their individual significant components.¹⁴ The information for the individual components could be provided with separate columns in consolidating financial statements [footnoted omitted] (with the information for the less significant components, and possibly the entity's management component, aggregated into a single separate column), in separate financial statements for each significant component, or in the accompanying footnotes. **The significant components can be suborganizations or programs. If they are suborganizations, information regarding programs should be provided in some manner.** [Emphasis added.]

¹⁴ Such components are similar to responsibility segments as referred to in SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, par. 78-81. Responsibility segments are used to accumulate costs and outputs for major lines of activity.⁹

However, existing FASAB standards permit flexibility in aggregating data. For example, SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, sets minimal requirements for presentation of exchange revenue with related gross costs to arrive at net cost. This allows for suborganization, program, or output presentation. In particular, the basis for conclusions for the standards states:

To be most useful, therefore, the gross costs and net cost of operations should be calculated by suborganization, program, or output. Suborganizations are generally equivalent to responsibility segments as defined by the standards on managerial cost accounting. [footnote omitted] Each responsibility segment must be able to assign full costs to the measurable outputs of its programs.²⁵ As a result, users of general purpose federal financial reports will be able to relate the net costs of a program to program outputs and outcomes. [Emphasis added.]

²⁵ SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, para. 89-104 and 116-143.¹⁰

So, while SFFAS 7 permits flexibility, it affirms the Board's ultimate expectation that users be able to learn about the financial and operational performance of programs. Specifically, the standards state, "As a result, users of general purpose federal financial reports will be able to relate the net costs of a program to program outputs and outcomes."¹¹ The SFFAS 7 implementation guide recognizes that the nature of the entity and its programs may influence presentation and illustrates alternative presentations.

⁹ SFFAC 2, *Entity and Display*, par. 75.

¹⁰ SFFAS 7, par. 122.

¹¹ SFFAS 7, par. 122.

Staff Recommendation

FASAB should assist preparers by making explicit the Board's and users' expectation that information be provided about programs. While FASAB has expressed that program level information should be presented to users, the Board's standards permit flexibility in the levels of reporting information and permitting flexibility results in different cost classification approaches among departments and agencies. This condition could present a challenge for a user starting with the financial report of the U.S. government (CFR) and trying to analyze the federal government's costs.

The Reporting Model Task Force noted that the CFR would likely be the starting place for a user developing an understanding about the U.S. government¹² and the statement of net cost for the U.S. government refers users to individual department and agency reports. However, individual department and agency SNCs, use a variety of classification approaches. We reviewed the fiscal year (FY) 2012 financial statements and disclosures for five departments with unqualified audit opinions and noted that two classified costs by programs, two classified costs by strategic goals and one presented programs that relate to its strategic goals. See Table 1 for details.

Table 1: Classification Approaches

Department	Classification Approach used for the Statement of Net Cost	Reference Attachment II: Figures
Education	Programs/Strategic Goal	Figure 1
Energy	Strategic Goal	Figure 2
Housing and Urban Development (HUD)	Program	Figure 3
State	Strategic Goal	Figure 5
Transportation	Program	Figure 6

Also, we observed that while two departments, HUD and Transportation, presented program costs in their financial statements, they also provided information by strategic goal. See Figures 4 and 7, respectively. As a result, the user would need to perform additional analyses to reconcile the differences among departments and agencies and develop comparable information.

To address this matter, the Board could develop a framework to illustrate appropriate approaches in different circumstances. The Board's *Accounting for Revenue and Other Financing Sources Implementation Guide* could be used as a basis for developing the framework. See Attachment III. The framework would not create new requirements but

¹² Report of the Financial Reporting Model Task Force.

could aid departments and agencies seeking to improve implementation of existing requirements. Over time, the Board could consider the need for standards based on the results.

B. The Expectation for Budget, Accrual, and Service Performance Information

The respondents indicated the expectation for budget, accrual, and service performance information. “It’s abstract,” was the comment that a focus group participant expressed upon viewing the billion-dollar cost of operations for a federal department. To make the figures more meaningful, the respondent stated that the presentation needed to show the “impact” of those costs. Also, other participants wanted to know how much the entity was authorized to spend or budgeted and how did the actuals compare with the budgeted. These views were shared in other focus group discussions, our citizens survey, and discussions with preparers. Thus, the respondents confirmed results about users’ expectations for each of the types of information in financial reports.

However, respondents noted that requirements for performance information in RSI could be improved. In particular, SFFAS 15, *Management’s Discussion and Analysis*, states

MD&A should contain sections that address the entity’s:

- *mission and organizational structure;*
- *performance goals, objectives, and results;*
- *financial statements; and*
- *systems, controls, and legal compliance.*¹³

*MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently known demands, risks, uncertainties, events, conditions and trends. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends. [footnote omitted] Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.*¹⁴

Respondents believed that additional criteria are needed to help users assess issues such as program efficiency and the consequences of costs the entity incurred. Also, another participant noted that performance risk should be delineated. The issue of better reporting performance information and related risks was also noted during our roundtable discussions¹⁵ and the Board acknowledged that the standard is “brief.”¹⁶

¹³ SFFAS 15, par. 2.

¹⁴ SFFAS 15, par. 3.

¹⁵ Staff Issue Paper February 2012.

¹⁶ SFFAS 37, *Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements*, par. A56.

Although FASAB expects the reporting of performance and related information on risks, staff observed a range of practices in financial reports. Anecdotally, we noted that one department presented performance information, management and performance challenges, and discussions on challenges and external factors with respect to achieving priority goals. However, another department presented performance information and management challenges but did not clearly identify performance challenges and risks to achieving goals.

In contrast to the support for providing additional guidance on performance reporting, it should be noted that during the cost, budget, and performance information task force discussions, participants expressed concern about FASAB's role with respect to performance reporting. It was noted that the OMB rather than FASAB establishes the framework for performance reporting and departments and agencies prepare a performance report that users can review. As a result, task force members focused on cost information because it was an area within the Board's direct purview.

Also, other accounting standards-setters encourage rather than require service performance reporting as part of GAAP. For example, the GASB provides suggested guidelines for voluntary service efforts and accomplishments performance information. Also, the International Public Sector Accounting Standards Board (IPSASB) is in the process of developing non-authoritative service performance reporting guidance.

Staff Recommendation

FASAB should:

1. Amend SFFAS 15 to include criteria from the Board's conceptual guidance, SFFAC 3. The Board implemented this approach when developing guidance for reporting social insurance information. SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements government-wide and entities with social insurance*, incorporates criteria from SFFAC 3. Accordingly, based on SFFAC 3, paragraphs 45 and 46, SFFAS 15 could be amended to include the following requirements:

2A. The discussion of performance should:

- discuss the strategies and resources the entity used to achieve its performance goals;
- discuss actual and planned performance across the entity; and
- explain the procedures that management designed and followed to provide reasonable assurance that the reported performance information is relevant and reliable;
- include both positive and negative results;
- present historical and future trends, if relevant ;
- be illustrated with charts and graphs, whenever helpful, for easy identification of trends;
- explain the significance of the trends;

- provide comparison of actual results to goals or benchmarks;
 - explain variations from goals and plans; and
 - provide other explanatory information that management believe readers will need to understand the significance of the indicators, the results, and any variations from goals or plans.
2. monitor the progress of the IPSASB and other countries and consider their results to inform any additional improvements in performance reporting. Other countries such as New Zealand require performance information in financial reports and learning about how the information is used in conjunction with financial statements may be helpful to determining what steps the Board could take.

C. The Need to Streamline Reporting Requirements

Respondents noted a need to determine what should be presented in conformity with generally accepted accounting principles (GAAP) and what should users be able to develop or access themselves. One respondent also added a condition that should be considered in solving this dilemma – what should be presented in conformity with GAAP that is not already provided in other documents required by legislation. Another respondent, a group response from all of the task force participants from the Office of Management and Budget (OMB), noted that the top priority for the project should be to streamline existing requirements.

The issue of determining “where to draw the line” between GAAP and other information that should be made available to users and streamlining reporting requirements was also expressed during our discussions with financial report preparers. They noted that decision-makers seek information on the full cost of programs and information to address specific issues; however, resources are used to comply with a number of competing reporting requirements¹⁷ and different reports are made available with the same information, e.g. financial reports contain budgetary information available in the President’s Budget. Also, the report, *Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General* recommended that:

The Congress should consider directing OMB, GAO, and the Federal Accounting Standards Advisory Board (FASAB), in consultation with CIGIE, to evolve the financial reporting model by examining the entire process with an eye toward how to further improve and streamline current reporting requirements and to better meet the needs of all stakeholders.

FASAB has a process for determining what information should be GAAP. When developing standards, FASAB considers “if an item of information is consistent with the

¹⁷ Preparers Focus Group Discussion, February 10, 2009, Washington, DC.

objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations.”¹⁸ Also, the process involves:

- *a timely, open, and thorough study of issues including consideration of the work of other standards-setters and the views of stakeholders; and*
- *participation by a variety of stakeholders throughout the standards-setting process.*¹⁹

In addition, included in the Board’s consideration of reporting requirements is the following pervasive constraint,

*Finally, as noted earlier, accounting and financial reporting cannot satisfy every need for information and accountability. For many purposes, other information sources and other techniques to maintain and demonstrate accountability are either essential or more cost-effective. This constraint pervades any discussion of the objectives of federal financial reporting.*²⁰

If the item of information meets the Board’s criterion, it then becomes a candidate for basic information, essential for conformity with GAAP, or required supplementary information (RSI).²¹ Consequently, the standards-setting process involves controls that recognizes the need for cost and benefit considerations and that not all user needs should be satisfied by financial statements. However, this does not mean that items of information found in other publically available documents should be eliminated from GAAP consideration.

For example, the Board decided that certain budgetary items should be GAAP, although the items are available in other publically available documents such as the President’s Budget. The Board reasoned in part that the information was complementary to accrual accounting and financial statements should help users relate the two important but different types of information.²² Also, when presenting department and agency level financial statements, it is important for users to understand that the budget ultimately controls their expenditures²³ and the budget makes resources available to finance those expenditures.²⁴ Also, citizens continue to seek both budgetary and accrual type information today.²⁵

¹⁸ Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, par. 73A.

¹⁹ FASAB Facts, accessible from <http://www.fasab.gov/about/mission-objectives/>.

²⁰ SFFAC 1, par. 155.

²¹ SFFAC 2, par. 73B and 73D.

²² Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, par. 26.

²³ SFFAS 7, par. 208.

²⁴ Ibid.

²⁵ Tab B-3, Citizens Focus Group Discussions.

Staff Recommendation

Because FASAB's role does not include administrative directive requirements, the Board should focus on its accounting guidance and consider the following:

1. Review the language of existing guidance and determine whether the guidance would require data that is not necessarily needed for a presentation of financial position, financial condition, and results of operations. For example, consider whether requirements for "additional details" or information to make the financial statements "more informative" are needed to present the financial position or financial condition of an entity. FASAB could focus on whether non-authoritative sources could be used to meet user needs and facilitate user understanding, such that standards could be streamlined.
2. Examine Chief Financial Officer Act agency reports for redundancies in information presented in the MD&A and disclosures and develop approaches for resolving them. For example, we observed that departments discuss entity background, mission, and organizational structure information in the MD&A and Disclosures: Summary of Significant Policies. Two unlinked discussions of the organization are not needed for a presentation of financial position, results of operations, etc. Accordingly, FASAB staff could work with the reporting community to develop approaches for integrating information.
3. Encourage the federal financial reporting community to revisit checklists used in preparing and auditing financial statements. Although checklists provide a simple means of ensuring that information is provided as required, they may not be designed with a view toward linking related items and reducing the risk of information redundancy. Linking related items help users understand the report while simply ensuring that items are "listed" could contribute to confusion.

D. The Need for Assistance on Using the Information in Financial Reports

Assistance is needed to help users determine how well the reporting entity actually performed during the period. One respondent seemed to raise the issue of what metrics should one use to assess a reporting entity. For publically traded companies, there are key financial metrics that one can consider such as earnings per share. However, what metrics should one consider about a federal entity, especially given the range of information and perspectives presented in a report – budgetary resources, obligations, net costs, net position, service performance measures, management and performance challenges, projections, improper payments, etc.?

The Board has noted that, “there is no bottom line or profit index to help measure public sector performance.”²⁶ Similarly, the respondents indicated that several measures are very important for presentation in financial statements. Table 1: Respondents’ Top Element shows the range of the respondents’ top most important element. Different users appear to seek different measures and this condition makes it challenging to specify a bottom line or key metrics. As a result, questions arise, such as:

- How should one use all this information to determine how an entity is performing?
- Is one number more important than another?
- On what should I focus my attention?

Table 2: Respondents’ Top Element

Respondent	Top Element
1	Cost of Major Programs and Earned Revenue of Programs and Cost of Major Programs and Earned Revenue of Programs by State are equally very important
2	Cost of major programs
3	Cost of major program
4	For programs with future obligations and pensions, some sort of indication as to benefit obligations in excess of statutory spending authority.
5	Obligations incurred by program
6 &7 (Respondent served on two task forces)	Cost per program
8	No response
9	Cost of major programs
10	Cost & Earned Revenue by Major Programs
11	Cost of strategic goals

²⁶ SFFAS 4, Managerial Cost Accounting Standards and Concepts, par. 18.

Respondent	Top Element
12	Cost by object class
13	How well the agency is meeting its mission.

Based on our focus group discussions,²⁷ staff learned that citizens have difficulty understanding federal government financial concepts and terms, although they are the primary audience for the financial report of the U.S. government (CFR).²⁸ Also, the Board notes that the CFR refers users to other information sources such as individual department and agency financial reports. In particular, FASAB states

*Moreover, the CFR is a general purpose report that is aggregated from agency reports and tells users where to find information in other formats, both aggregated and disaggregated, such as individual agency reports, agency websites, and the President's Budget.*²⁹

If citizens are expected to start with the CFR and then proceed to review individual department and agency reports for information, then individual department and agency reports need to consider citizens as a primary audience as well. While this notion is implied in the conceptual guidance, it may not be clear to the financial reporting community because citizens have difficulty reviewing department and agency level reports.³⁰

Staff Recommendation

FASAB should develop an online educational tool to assist users in understanding financial reports. The Board has stated that reporting “in a way that is understandable to diverse audiences is important”³¹ and the Board expects that the MD&A section of reports would help users understand complex financial presentations.³² However, to be useful, the MD&A section should be concise.³³ Consequently, it may not be realistic to expect a concise presentation to serve as an educational tool and explain technical concepts and terms that are essential for understanding the report, along with other information such as a discussion and analysis of

- *the entity's mission and organizational structure;*
- *the entity's performance goals and results;*
- *the entity's financial statements;*

²⁷ Ibid.

²⁸ Statement of Federal Financial Accounting Concepts (SFFAC) 4: *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, par. 7.

²⁹ SFFAC 4, par. 6.

³⁰ Staff Issue Paper October 2011.

³¹ SFFAC 3, Management's Discussion and Analysis, par. 7.

³² SFFAC 3, par. 5.

³³ SFFAS 15, par. 5.

- *the entity's systems, controls, and legal compliance; and*
- *the future effects on the entity of existing, currently-known demands, risks, uncertainties, events, conditions and trends.*³⁴

In contrast, the GASB has taken the approach of making nontechnical user guides available to its constituents. The guides provide an introduction to financial reports of local governments and school districts.³⁵ While these guides are offered in printed form, the FASAB could develop an electronic version integrated with hyperlinked illustrations and audiovisual explanations. Focus group participants have noted that electronic tools such as these would be helpful to their understanding and likely the source they would use to learn about federal government finances.³⁶ The electronic guide could have links to actual reports so that users could determine how to navigate the comprehensive information.

Also, the initial phase of developing the guide could focus on streamlining reporting. Primarily, the Board could determine what currently required items of information intended to facilitate user understanding should be presented in the guide rather than in the financial reports.

³⁴ SFFAS 15, Management's Discussion and Analysis.

³⁵ <https://www.gasb.org/jsp/GASB/Page/GASB/Store/SubjectPage&subjectId=20GUSR> accessed December 2, 2012.

³⁶ Staff Issue Paper April 2010 and Tab B-3 Focus Group Discussions.

QUESTIONS FOR THE BOARD

1. Does the Board agree with the task forces' recommendation to revisit SFFAS 4?
2. Does the Board agree with the staff recommendations found on pages 7, 9, 12, and 14?
3. If the Board does not agree with the task forces and staff recommendations, what does the Board believe should be the next steps for the project?
 - a. What issue should the project address?
 - b. What should be the scope of the project – government-wide, component level, or both?

Attachment I: Questionnaire Responses

Task Force Member Follow-up Inquiries
Priorities for the Project

Respo ndent	Task Force Memb ership	Prorities
1	Cost	<p>1) Determining what information the government should provide & present versus information stakeholders can develop for themselves using quality data from the federal government coupled with good metadata. Information is expensive to produce. The federal government should draw the line on information, but always provide good data.</p> <p>2) Listing Key programs/projects of the federal government (within & across agencies), arraying cost information and then having reasonable performance metrics to determine how the program is performing. Most current metrics are not useful.</p> <p>3) Helping establish a financial "information architecture" for the federal government. This would show what information/data the federal government has, where it resides, who is responsible for it, how it flows, how it relates to other data. This will not only improve information, but identify expensive data/information redundancies, so these can be eliminated and accountability for data/information firmly established.</p>
2	Performance	<p>1) Replace SFFAS #4 with a new Managerial Cost Accounting Standard.</p> <p>2) Revise SFFAS # 15 with additional requirements on presenting performance measures.</p> <p>3) Require XBRL.</p>
3	Performance	<p>1) To ensure that the statement contains information showing and/or assurances providing that the agency is tracking program efficiency data on a comprehensive basis, including measures that cascade down to the level of the first-line managers and the activities they supervise in the field.</p> <p>2) To ensure that the statement contains information showing trends in measurable units of cost effectiveness for key outcomes of the agency.</p>
4	Budget	<p>1) Improving transparency and ability to back-track the numbers.</p> <p>2) Uniformity of definitions and accounting across all agencies.</p> <p>3) Follow GAAP so that public accounting documents are similar in standards and design as private accounting documents</p>
5	Budget	<p>1) Reporting of obligations by consistent and well defined program units.</p> <p>2) Providing definitions of these programs and relating them back to their statutory authority.</p> <p>3) Connecting program obligations to other reporting systems and high level budget items</p>

Task Force Member Follow-up Inquiries
Priorities for the Project

Respo ndent	Task Force Memb ership	Prorities
6	Cost	<p>1) Cost - FASAB should require presentation of cost by program in the agencies' and the governmentwide SNC, thereby linking cost with performance (see below). This is the first step towards cost accounting in the federal government.</p> <p>2) Budget - FASAB should require reconciliation of agencies' OUTLAYS to their SNC. Doing so is necessary to reconciling the governmentwide accrual deficit to the budget deficit. Currently, FASAB requires reconciliation of agencies' obligations to their SNC – what is the use of this information? It does not lead to a linkage anywhere at the governmentwide level.</p> <p>3) Performance - FASAB should require presentation of performance information by program in either the MD&A or elsewhere (perhaps by the largest 5 programs in the MD&A), thereby linking performance with cost (see above).</p>
7	Budget	<p>1) Cost - FASAB should require presentation of cost by program in the agencies' and the governmentwide SNC, thereby linking cost with performance (see below). This is the first step towards cost accounting in the federal government.</p> <p>2) Budget - FASAB should require reconciliation of agencies' OUTLAYS to their SNC. Doing so is necessary to reconciling the governmentwide accrual deficit to the budget deficit. Currently, FASAB requires reconciliation of agencies' obligations to their SNC – what is the use of this information? It does not lead to a linkage anywhere at the governmentwide level.</p> <p>3) Performance - FASAB should require presentation of performance information by program in either the MD&A or elsewhere (perhaps by the largest 5 programs in the MD&A), thereby linking performance with cost (see above).</p>
8 (OMB Response)	All	<p>1) Streamlining existing reporting requirements. In the current fiscal environment every opportunity must be taken to realize administrative savings and redirect resources to agency missions. Any analysis of current financial reporting requirements should include a review of existing requirements to determine where streamlining is possible. At a minimum FASAB should adopt a “no net new” policy when it comes to the burden of agency financial reporting.</p> <p>2) Analyzing both the costs and benefits of new reporting requirements. The current project to date has focused largely on the identification of new information which could be included in agency financial statements, without adequately weighing the costs of developing and reporting this information. In general, new information always has some value to some stakeholders. Unfortunately the production of new information also always has associated costs. While in some cases these costs can be trivial, often resource requirements can be significant. Resource requirements can vary greatly even across reporting requirements which sound substantially similar. As financial managers, we believe we should not try to determine the value of new reporting requirements without first estimating both the costs and benefits associated with those requirements, and weighing the tradeoffs. As such, we do not believe we currently have adequate information to complete the remainder of this survey.</p>
9	Cost	<p>1) Identifying, managing, and reporting on risk as related to performance, cost and budget, as a mean of maximizing overall value.</p> <p>2) Best practices in governance structures to balance/optimize considerations of performance, cost and risk.</p>

Task Force Member Follow-up Inquiries
Priorities for the Project

Respo ndent	Task Force Memb ership	Prorities
10	Cost	<p>At Budget Committee we place great value in using cost information in the following ways:</p> <ol style="list-style-type: none"> 1. Compiling historical trends of a program's cost, and 2. Comparing cost information of programs against other programs <p>In this description, I use "program" in a loose sense to describe programs, activities, agencies, departments, bureaus, budget functions, cross-cutting government initiatives, etc. At Budget Committee, we look at all these levels of aggregation when examining costs.</p> <p>One criteria used in budget decision making is the historical trends of cost data of a program. It's very important, therefore, that the definitions and characteristics of cost data categories do not materially change over time, because otherwise in renders their usefulness as a historical tool meaningless. At the same time, we need to be careful to not lock-in definitions of cost data categories that are inflexible and cannot change as best practices evolve. Careful attention needs to be given to consistency vs. flexibility on maintaining cost data definitions over time.</p> <p>A second criterion in budget decision making is to compare the costs of activities across programs. In this context, we need confidence that cost data reported will be measured consistently across various programs that engage in similar activities. This is especially true for cost data reported within object classes. It's probably less true (or in many cases impossible) for strategic goals/objectives since most programs have unique missions.</p>
11	Performance	<ol style="list-style-type: none"> 1) Consider what is the most useful level of information to include in the financial statements that is not already provided in other budget or performance documents that are required by law. 2) Consider what level of information is most informative to the general public, similar to that which would be provided in a corporation's annual report to its stakeholders. 3) Review the information that is provided in financial statements and determine how to modify that information to make it more readily understandable to the public, so that additional technical definitions are not needed?
12	Cost	<ol style="list-style-type: none"> 1. The cost of an organization broken down into its components so that the total cost of the organization is shown. 2. The cost of an organization's major programs summarized into a consolidated manner and then broken down into its components. 3. A clear breakdown of an agency's programs cross referenced into their objectives with the costs broken down to show how much an agency spent in achieving that goal.
13	Budget	<ol style="list-style-type: none"> 1. How to present and audit budgetary data. 2. Create a document that reconciles and displays the linkages between Budgetary and Proprietary accounting treatment. 3. Develop a baseline of performance metrics that could be understood and used by all Federal entities similar to the EPS for private sector.

Task Force Member Follow-up Inquiries
Ratings of Financial Statement Elements

Respondent	Task Force Membership	Cost of Strategic Goals	Cost of Strategic Objectives	Cost of Major Programs	Cost of Functions	Cost by Object Class	Cost of Activities	Earned Revenue by Strategic Goal	Earned Revenue by Strategic Objective	Earned Revenue by Program	Earned Revenue by Function	Earned Revenue by Object Class	Earned Revenue by Activity	Budgetary Resources	Obligations in Total	Obligations Incurred by Strategic Goal	Obligations Incurred by Strategic	Obligations Incurred by Object Class	Obligations Incurred by Function	Obligations Incurred by Program	Obligations Incurred by Activity	Outlays in Total
1	Cost	L	L	V	V	V	V	L	L	V	V	V	V	-	-	-	-	-	-	-	-	-
2	Performance	L	M	V	V	M	V	L	M	V	M	L	L	V	V	L	M	M	V	V	V	V
3	Performance	M	V	V	L	V	V	L	M	V	L	L	M	V	V	L	M	V	L	V	M	V
4	Budget	-	-	-	-	-	-	-	-	-	-	-	-	V	V	M	M	V	V	V	V	V
5	Budget	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Cost	L	L	V	L	M	U	L	L	V	L	M	U									
7	Budget	-	-	-	-	-	-	-	-	-	-	-	-	V	V	L	L	V	M	V	U	V
8	All OMB	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Cost	M	V	V	M	M	M	M	V	V	M	M	M	-	-	-	-	-	-	-	-	-
10	Cost	L	L	V	M	V	M	L	L	V	M	V	M	-	-	-	-	-	-	-	-	-
11	Performance	V	M	L	L	L	L	L	L	L	L	L	L	L	V	L	L	L	L	L	L	V
12	Cost	M	V	V	U	V	V	U	U	U	U	U	U	-	-	-	-	-	-	-	-	-
13	Budget	-	-	-	-	-	-	-	-	-	-	-	-	V	V	M	M	L	V	M	L	V

Legend
V - Very Important
M - Moderately Important
L - Little/No Importance
U - Unsure

Task Force Member Follow-up Inquiries
Ratings of Financial Statement Elements

Respondent	OutLays by Strategic Goal	OutLays by Strategic Objective	OutLays by Object Class	OutLays by Function	OutLays by Program	OutLays by Activity	Importance of the Statement of Budgetary Resources (Question Posed to Budget Task Force Members)	Importance of a Budget to Actual Comparison (Question Posed to Budget Task Force Members)	Importance of a Presentation of Differences between Obligations and Accrual Basis Amounts (Question Posed to Budget Task Force Members)	Importance of a Presentation of Differences between Outlays and Accrual Basis Amounts (Question Posed to Budget Task Force Members)
1	-	-	-	-	-	-				
2	L	M	M	V	V	V				
3	M	V	V	L	V	V				
4	M	M	V	V	V	V	V	V	V	V
5	-	-	-	-	-	-	-	-	-	-
6							-	-	-	-
7	L	L	V	M	V	U	V	V	L	V
8	-	-	-	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-	-
11	L	L	L	L	L	L				
12	-	-	-	-	-	-	-	-	-	-
13	M	M	L	V	M	L	V	V	M	M

Legend
V - Very Important
M - Moderately Important
L - Little/No Importance
U - Unsure

Task Force Member Follow-up Inquiries
Most Important Elements

Respondent	Most Important Element and Why
1	<p>Cost of Major Program and Earned Revenue by Program - Most people have no idea what the federal government does or what programs it administers. To make government more understandable and to control costs, we need to array financial information/data in a manner that facilitates communication and understanding.</p> <p>Cost of Major Program and Earned Revenue of Programs by State - Most people have no understanding of the relationship between the federal government and the states. This needs to be displayed in a meaningful way by program, by state. If we are going to cut federal spending, people need to understand the local effect.</p>
2	<p>1) Cost of major programs - It is important for users to understand what programs the Departments are spending their funds on.</p> <p>2) Cost of functions - This would help in consolidating the cost of the programs.</p> <p>3) Cost of activities - This would provide an opportunity to compare the cost of the activities within Departments and between Departments.</p> <p>4) Outlays by program - To compare with cost by program.</p> <p>5) Outlays by function - To compare against cost by function.</p> <p>6) Outlays by activity - To compare with cost by activity.</p> <p>7) Earned Revenue by Program - This serves to match cost and revenue.</p> <p>8) Outlays in total - Included in SBR.</p> <p>9) Obligations in total - Included in SBR.</p> <p>10) Obligations incurred by program - To compare with cost and outlays by program.</p>
3	<p>1) Cost of major programs - This may not actually be particularly useful information per se, but it is probably the most important from the perspective of giving the financial statement credibility - i.e., most people would expect to see this in an agency's financial statement.</p> <p>2) Unit costs of the "program activities" used by managers to actually manage their programs - This is explained in Section E. Comments.</p> <p>3) Cost of activities - I am inserting this here because it should relate to what is actually described in item 2 above (re: unit costs of program activities), but the way the Federal Government uses the term probably makes the cost information on it not very useful.</p> <p>4) Cost of strategic objectives - This is the highest-level statement of outcome that would be meaningful to most people, though even the trend data does not provide much information that is really actionable.</p> <p>5) Cost by object class - This cost information shows what the money is being spent on, so is important because this would be a reasonable expectation for an agency to be able to report. Ideally, the Performance Budget costs (including activity costs) and the Object Budget costs) for any program and agency would be identical.</p>
4	<p>1) The public has a hard time finding and understanding budgetary data. The only way we're going to make information more accessible and transparent to the public is to provide the information online in a dynamic framework that would allow the user to track the information from the general down to the specific and to trace the data from the agency back to the appropriations and budget process.</p> <p>2) Given the increasing unfunded nature of government pension plans and entitlement programs, it is important for the public to understand the true nature of the assumptions and challenges facing these programs.</p> <p>3) Budgetary Resources - This is a necessary item for anyone to understand the basics of what resources are available.</p> <p>4) Obligations in total - This is necessary for anyone to understand the obligations of an agency.</p> <p>5) Others - The other items I selected as Very Important have about equal weight.</p>

Task Force Member Follow-up Inquiries
Most Important Elements

Respondent	Most Important Element and Why
5	<p>1) Obligations incurred by program - Obligations by program is very important, not only because it helps map to other federal spending systems, but because programs are a more concrete, definable lens through which to view the more broad spending directives that appear in the budget. Ideally, programs would remain the same year after year, unless they were drastically changed or discontinued, not just if their political goals change slightly.</p> <p>2) Obligations by Object Class - This is very important because obligations by object class are not available in public databases of federal obligations. Additionally, some types of obligations that would be included here are no longer available publicly at all, such as personnel compensation and acquisition of assets, now that the Consolidated Federal Funds Report will no longer be generated. [See www.census.gov/govs/cffr/]</p> <p>3) Obligations incurred by function - Obligations by function are very important because it helps give a broad overview of what general categories these obligations are supporting, regardless of the object classification. It also helps to see the totals by function in the budget passes by congress as it compares to the totals by function in the actual obligations as programs are implemented.</p> <p>4) Budgetary Resources - Depending on the frequency and granularity of the reporting entity, this may be the only public source of this information. If the financial statements are published by an agency and published more frequently than annually, then this item becomes important because it will be the most timely and accurate reporting of budgetary resources available to an agency. If the reporting entity is more granular than an agency, then it is also very important because there is very little public reporting of budgetary figures at a level lower than the broad agency program areas set forth in the president's budget.</p> <p>5) Obligations in Total - This is important because it helps give the user perspective on the total obligations thus far in the fiscal year, with respect to the total budgetary resources.</p> <p>6) Outlays in Total - Outlays in total are important, mostly for comparison purposes and to reconcile with the total obligations at the end of the fiscal year.</p>

Task Force Member Follow-up Inquiries
Most Important Elements

Respondent	Most Important Element and Why
6	<p>1) Cost per program – identification</p> <p>All of FASAB's outreach to citizens and other users of government financial information have indicated that users want to know the cost of the war in Afghanistan, TARP, Medicare, food stamps, etc. They do not want to know the cost of the Commerce Department's 'economic growth' as it is so vague it is absolutely meaningless. For Commerce, I would want to know what does it cost to run the weather satellites, what does it cost to run the patent office, and how much does it cost to get a census done every ten years? You can only get an inkling of that information on page 216 of Commerce's f/s, which at least breaks it down by suborganization.</p> <p>2) Cost per program – magnitude</p> <p>I would want the agency and governmentwide financial statements to tell me the largest programs. So I would require an agency, and the governmentwide, SNC [statement of net cost] to list the top 25 largest programs and not allow these programs to merged together into some other construct (such as budget function and strategic goal) that does not allow you to see what is going on.</p> <p>I would require the main SNC to be like the HHS supplemental schedule of cost per program (hard copy page 118 of their 2012 f/s). Examination of this schedule shows you that Medicare and Medicaid are 85% of HHS. However, if you went to their SNC by budget function on page 121, you would have no idea that Medicaid was 75% of the 'health' budget function. One would assume that NIH, and the CDC were major components of the health budget function too as are publicly well known. You would be masking the reality of how large Medicaid is. At least they did not compound the problem by placing Medicare into 'health' as well!</p> <p>3) Cost by Object Class</p> <p>This should be the second step after doing cost per program. This would provide information on how a program operates. Is it mostly grants, which would indicate that the program just issues money out to states to operate the program? Or, if the program showed primarily personnel costs, you would know that the program was actually being run by the government.</p>

Task Force Member Follow-up Inquiries
Most Important Elements

Respondent	Most Important Element and Why
7	<p>1) Cost per program – identification</p> <p>All of FASAB's outreach to citizens and other users of government financial information have indicated that users want to know the cost of the war in Afghanistan, TARP, Medicare, food stamps, etc. They do not want to know the cost of the Commerce Department's 'economic growth' as it is so vague it is absolutely meaningless. For Commerce, I would want to know what does it cost to run the weather satellites, what does it cost to run the patent office, and how much does it cost to get a census done every ten years? You can only get an inkling of that information on page 216 of Commerce's f/s, which at least breaks it down by suborganization.</p> <p>2) Cost per program – magnitude</p> <p>I would want the agency and governmentwide financial statements to tell me the largest programs. So I would require an agency, and the governmentwide, SNC [statement of net cost] to list the top 25 largest programs and not allow these programs to merged together into some other construct (such as budget function and strategic goal) that does not allow you to see what is going on.</p> <p>I would require the main SNC to be like the HHS supplemental schedule of cost per program (hard copy page 118 of their 2012 f/s). Examination of this schedule shows you that Medicare and Medicaid are 85% of HHS. However, if you went to their SNC by budget function on page 121, you would have no idea that Medicaid was 75% of the 'health' budget function. One would assume that NIH, and the CDC were major components of the health budget function too as are publicly well known. You would be masking the reality of how large Medicaid is. At least they did not compound the problem by placing Medicare into 'health' as well!</p> <p>3) Cost by Object Class</p> <p>This should be the second step after doing cost per program. This would provide information on how a program operates. Is it mostly grants, which would indicate that the program just issues money out to states to operate the program? Or, if the program showed primarily personnel costs, you would know that the program was actually being run by the government.</p>
8 (OMB Resp onse)	-
9	<p>1) Cost of major programs - The American public and Congress need to see total and net costs of programs</p> <p>2) Cost of strategic objectives - The American public and Congress need to see total and net costs of achieving strategic objectives, based on costs of underlying programs.</p>

Task Force Member Follow-up Inquiries
Most Important Elements

Respondent	Most Important Element and Why
10	<p>1) Cost & Earned Revenue by Major Programs</p> <p>From a Budget Committee perspective, we mostly use cost/revenue data presented by Major programs. This is the presentation that members of Congress and House/Senate committees most often want presented. This presentation aligns with the President's budget, OMB/CBO reports on budget-related information, and how we communicate with constituents on budget issues. Most members, Hill staffers, and constituents are familiar with the names of government programs, but much less so with strategic goals/objectives. The major programs typically keep the same name/mission over time making historical budget or costs comparisons possible in most cases, which is very useful.</p> <p>Cost data based on strategic goals/objectives often change from year-to-year and between Administrations making historical comparisons difficult to compile and not very useful for budget-related decision making.</p> <p>2) Cost & Earned Revenue by Object Class</p> <p>The object class presentation is important because it's the one criterion that we can use to compare programs against one another. For example, we have reasonable confidence that object class personnel costs will be reported consistently across government programs; however, this is not the case with strategic goals/objectives. At the same time, the typical list of object classes reported on by agencies (at least how they appear in the President's Budget, which I gather isn't dictated by FASAB guidelines) seems rather limited.</p>
11	<p>1) Cost of Strategic Goals</p> <p>Assuming that "cost" is meant to refer to the amount of appropriated funds that are invested toward the pursuit of the goal for that year, which can be directly related to the agency's budget for the year, this can provide an overview for the reader of what portion of the agency's annual budget was invested toward the pursuit of achieving this strategic goal. More detailed information would already be available in the agency's budget justifications, but similar to the value of the SPFI, this would ensure that the reader has visibility into what the funds were invested toward achieving the goal along with the agency's comparable with the agency level perspective provided in the financial statement, very much like that of a corporate annual report.</p> <p>2) Obligations in total</p> <p>Following from the first item, that reflects the amount of funding invested that year toward the pursuit of the Goal, this item provides a sense of how much of the funding identified toward achieving the goal was actually placed on contract, grant, federal salary and travel. It provides a sense of how much of the appropriated funding was actually put to work toward achieving the goal.</p> <p>3) Outlays in Total</p> <p>With the percent of investment effectively planned toward achieving the goal (item #1), and the amount actually put to work in achieving the goal (item #14) this item provides a sense of the amount of work expended toward the achievement of the goal, to the extent that this reflects the amount of invoices and salaries paid. The value in this figure is that performance reports and budget justifications rarely identify how much funding has actually been spent, relative to the achievement of the goal in the year.</p> <p>As such, these three items can give the reader the percent of (1) investment of the agency toward achieving a goal (not just a program, but reaching an achievement), (2) how much of the funding was put to work toward achieving that goal, and (3) a reflection of how much work was actually exerted toward achieving the goal.</p>

Task Force Member Follow-up Inquiries
Most Important Elements

Respondent	Most Important Element and Why
12	<p>1. Cost by object class</p> <p>The object class break out provides granularity required to understand the true cost of an organization / program / activity, etc. This reflects the type of resources the government has committed to solving its problems or developing the infrastructure.</p> <p>2. Cost of programs</p> <p>Cost of programs that the agency runs shows where the agency is spending their money and what is important to the agency. A list of the major programs that an agency / organization supports broken down into its object class elements would be ideal because it would show what programs the agency is focusing on and how it is spending its money.</p> <p>3. Cost of activities</p> <p>This would give another level of the “how” and “where” the government is spending its money. Activities roll up to programs (see above)</p> <p>4. Cost of strategic objectives</p> <p>This should be shown in the context of the programs and activities that support the strategic objectives and the costs contained within those programs. This is important because it would allow one to determine how effective a program is relative to the overall objective of the organization. It also shows how much one objective is relative to others and that would be an indicator of importance.</p>
13	<p>1. How well is the agency meeting its mission?</p> <p>This goes to the core of the existence of the agency.</p> <p>2. How efficient is the agency using the resources allocated?</p> <p>Agency must be accountable in demonstrating its efficiency in using the budget. This is not just about reducing budget, but how efficient it is in spending each dollar in meeting the mission.</p>

Task Force Member Follow-up Inquiries
Respondent Comments

Respondent	Comments
1	<p>It is important that the federal government have financial statements. But as in the private sector, financial statements tell very little about the actual activities of the enterprise. They are, nevertheless, the foundation of good data from which other information can be derived. The departments of the U.S. government have sub-agencies whose missions often do not relate to each other. As such, arraying financial information only by department or agency provides little insight into how tax dollars are being spent or revenues collected. If we are to make informed decisions on how to spend federal dollars, and what revenues to collect, we need better insight into these areas. Establishing a list and detailed descriptions of key federal programs and revenue sources, and providing information/data by program, will begin to provide the information needed.</p> <p>The federal government should be responsible for quality data on each program and information about the program to an agreed upon level. Development of further information about the program can be done by interested stakeholders, using the government-provided data as a base. Stakeholders can further analyze the data to look at performance and other factors. Development of information from data is expensive. We need to agree what information the government is responsible for versus when the government will provide quality data to stakeholders for their own analysis. We also need to determine who owns the data and is accountable for its quality and accessibility.</p>
2	<p>It is important that performance measures receive audit coverage</p>
3	<p>My concern is that much of the information produced in agency financial reports seems to me to be of the "so what?" type - eliciting responses generally in the nature of, "It's important that you can show us this, but now what do we do with this information?" If senior agency leadership or Congress does not use the information in a financial statement in a meaningful way (such as by changing policies or funding levels, based on the data reported there), then I believe it is essential that the agency's program managers use it - or at least, use the broader set of data that is being summarized in the financial statement.</p> <p>For this reason, I am most interested in seeing federal agency financial statements contain information, the production of which drives a particular type of improvement in agency and program operations - increased efficiency and cost effectiveness in program operations. This information relates specifically to the unit cost of activities (measuring efficiency) and outcomes (measuring cost effectiveness). The ability to generate and report both types of data over time creates strong incentives to hold down these costs while maintaining service levels, which drives improvement in program efficiency and cost effectiveness.</p> <p>The two ways to do this are (1) for the agency to show the information directly in the financial statement, or (2) for an independent source (i.e., an auditor) to provide a statement attesting that the agency is able to generate that information elsewhere. Perhaps the ideal approach is to provide examples of selected key data, with the assurance that these examples are typical of what the agency produces on a more comprehensive basis in other reports.</p> <p>In my own experience, the financial information that has the most significantly positive impact on the operations of an agency and its programs is the tracking of trends in the unit costs of activities. Activities are what managers (particularly at the lower levels of the organization) actually manage on a day-to-day basis, and it is these activities that ultimately generate the intended program results. I have seen government managers whose programs track and report activity unit cost data (linked to outcomes) actually look for ways to under-spend their budgets while maintaining service levels, in order to show (and be rewarded for) measurable improvements in program efficiency.</p> <p>In applying this approach to federal agencies, I want to clarify an important point. The Federal Government uses the term "program activity" in a specific sense to refer to a designated set of activities Program and Financial Schedule of the budget. Often these officially designated "program activities" are overly broad or overly narrow to be practical or useful for cost accounting purposes. Program managers need to define more useful "program activities" for which to measure and report unit costs, and to conduct program management, than the present designations in the Program and Financing Schedule allow. And then the agency's financial statement should indicate the degree to which this has been done comprehensively and effectively, with an indication of its actual impact in improving operational transparency and efficiency. This is something the auditor should address.</p>

Task Force Member Follow-up Inquiries
Respondent Comments

Respondent	Comments
4	Again, I'll just add that the idea is to provide as much information as possible - online. We can only provide so much in printed form without being too cumbersome or hard for anyone to follow and understand.
5	-
6	<p>The agencies should be required to reconcile their outlays to their SNC in their f/s footnotes. Currently, the agencies are required to reconcile their obligations to their SNC. I wonder who uses this information? It is not useful at the governmentwide level.</p> <p>There are two reasons why this information is needed at the governmentwide level:</p> <p>1. AUDIT – GAO has said that there needs to be a reconciliation of the accrual and bud get deficits in order to resolve the disclaimer on the FR [Financial Report of the United States Government]. The two systems may measure financial information on different bases, but it is the same data that is being measured in both systems, so you should be able to reconcile the two.</p> <p>At the governmentwide level, the details of each program at each agency cannot be determined. Therefore, it should be incumbent upon the agencies to 1) reconcile the outlays they present in their SBRs [statements of budgetary resources] and the outlays they submit to Treasury for inclusion in the governmentwide budget deficit number and 2) reconcile these outlays to the cost in their SNC. Similarly, the revenues an agency includes in their f/s should also be reconciled to the receipts they forward to Treasury for inclusion into the governmentwide budget deficit number for the same reasons noted above for outlays/cost.</p> <p>2. IT'S WHAT THE PUBLIC WANTS TO KNOW - As we all know, the budget deficit is the financial data that gets the most press and is the one piece of financial data that most know about the federal government (followed by the debt number). The questions most asked with respect to the FR are: why is the accrual deficit different than the budget deficit number that came out in October? What is the REAL deficit??</p> <p>This is also encourages FASAB's desire to have more public interest in the government's f/s and the valuable information they contain. Once the accrual and budget are reconciled, the public will be able to see the additional costs that are recognized in the accrual statements that the budget does not inform them about and, therefore, the true cost of the government.</p>
7	<p>Section C #6 & #13 . [Obligations incurred by function and Outlays by function] I only answered moderately important for the 'by function' items because I believe the budget is ultimately rolled up this way and the SBR should be reconciled to the budget. Presentation by budget function is not useful in any other part of the financial statements as it is too aggregated to be of any use.</p> <p>Section E #1. [The Statement of Budgetary Resources (SBR)] I only say the SBR is very important because of the need to link the budgetary system with the financial statements (note the current requirements won't get you there though; see item #2 in Section B [Priorities]). I think the general public has no interest in offsetting collections, whether obligations incurred are direct or reimbursable and whether unobligated balances are apportioned. Instead, they are interested in the cost of programs - the cost of the war in Afghanistan, the cost of the air traffic control system and what the true cost of Medicare is.</p>
8 (OMB Response)	-

Task Force Member Follow-up Inquiries
Respondent Comments

Respondent	Comments
9	<p>Identification of program risk may not be a financial statement issue, but it is very relevant to understanding performance, and how performance links with cost and budget in achieving overall value for the taxpayer. It is one thing to know that financial statements accurately reflect the financial transactions of the organization. It is something else to assess the value that is coming from the expenditure of those funds, and how that value compares to alternative uses of limited funds. Financial statements will be more meaningful to citizens and Congress when they can be better integrated with performance and budget, and an understanding of risk relative to cost/performance/budget is required for such an integrated view. This would make Performance and Accountability Reports much more meaningful.</p>
10	-
11	<p>This survey reflects the potential for making the financial statements potentially more useful to Congress and the public, or turning them into something resembling an appendix to the President's budget with pages and pages of details that are so numerous that an integrated perspective is difficult to discern. The choice is between the financial statements being like that of a corporate annual report to stakeholders, or a reference document. Rather than go all in for copious amounts of detail and technical delineations, where agencies spend more time aggregating and publishing data than understanding what it means, perhaps starting with seeing how funds are being utilized at the strategic goal level would be more informative in terms of the percent of budgeted funds that an agency applies to the pursuit of strategic goals which reflect a desired achievement. To the extent that the SPFI has been useful to depicting what is going on in an agency in a condensed format, perhaps reflecting how much funding was targeted for, applied to, and actually expended against the achievement of a strategic goal with the financial statements would be a more useful first step to orient the public as to how funding is being used across government, and helping each individual decide where to go and dig deeper in to the budget justifications and performance reports that already exist.</p>
12	-
13	-

Attachment II: Figures

Examples of Different Approaches Being Used to Present Federal Cost Information

Figure 1: Department of Education Statement of Net Cost FY 2012

United States Department of Education Consolidated Statement of Net Cost For the Years Ended September 30, 2012 and 2011 (Dollars in Millions)		
	FY 2012	FY 2011
Program Costs:		
<u>Increase College Access, Quality, and Completion</u>		
Gross Costs	\$ 40,410	\$ 21,785
Less: Earned Revenue	25,340	20,252
Net Program Costs	15,070	1,533
Total Program Costs	\$ 15,070	\$ 1,533
 <u>Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs</u>		
Gross Costs	\$ 22,419	\$ 21,910
Less: Earned Revenue	70	83
Net Program Costs	22,349	21,827
Total Program Costs	\$ 22,349	\$ 21,827
 <u>Ensure Effective Educational Opportunities for All Students</u>		
Gross Costs	\$ 17,114	\$ 16,409
Less: Earned Revenue	11	23
Net Program Costs	17,103	16,386
Total Program Costs	\$ 17,103	\$ 16,386
 <u>Enhance the Education System's Ability to Continuously Improve</u>		
Gross Costs	\$ 1,660	\$ 1,841
Less: Earned Revenue	69	39
Net Program Costs	1,591	1,802
Total Program Costs	\$ 1,591	\$ 1,802
 <u>American Recovery and Reinvestment Act and Education Jobs Fund</u>		
Gross Costs	\$ 7,660	\$ 27,965
Less: Earned Revenue		
Net Program Costs	7,660	27,965
Total Program Costs	\$ 7,660	\$ 27,965
 Net Cost of Operations (Notes 14 & 17)	\$ 63,773	\$ 69,513

The accompanying notes are an integral part of these statements.

Figure 2: Department of Energy Statement of Net Cost FY 2012

U.S. Department of Energy Consolidated Statements of Net Cost
For the Years Ended September 30, 2012 and 2011

(\$ IN MILLIONS)	FY 2012	FY 2011
STRATEGIC GOALS:		
Transform Our Energy Systems		
Program Costs ^(Note 21)	\$ 15,221	\$ 17,315
Less: Earned Revenues ^(Note 22)	(4,721)	(8,400)
Net Cost of Transform Our Energy Systems	10,500	8,915
The Science and Engineering Enterprise		
Program Costs ^(Note 21)	4,943	4,872
Less: Earned Revenues ^(Note 22)	(29)	(32)
Net Cost of Science and Engineering Enterprise	4,914	4,840
Secure Our Nation		
Program Costs ^(Note 21)	15,550	16,698
Less: Earned Revenues ^(Note 22)	(390)	(375)
Net Cost of Secure Our Nation	15,160	16,323
Net Cost of Strategic Goals	30,574	30,078
OTHER PROGRAMS:		
Reimbursable Programs:		
Program Costs	4,214	4,257
Less: Earned Revenues ^(Note 22)	(4,168)	(4,168)
Net Cost of Reimbursable Programs	46	89
Other Programs ^(Note 23)		
Program Costs	815	826
Less: Earned Revenues ^(Note 22)	(354)	(357)
Net Cost of Other Programs	461	469
Costs Applied to Reduction of Legacy Environmental Liabilities ^(Notes 15 and 24)	(5,524)	(7,881)
Costs Not Assigned ^(Note 25)	29,853	21,235
Net Cost of Operations ^(Notes 20 and 26)	\$ 55,410	\$ 43,990

Figure 3: Department of Housing and Urban Development Statement of Net Cost FY 2012

Department of Housing and Urban Development Consolidating Statement of Net Cost For the Period Ending September 2012 and 2011 (Dollars in Millions)		
	2012	2011
COSTS		
Federal Housing Administration		
Gross Cost (Note 19)	\$ 23,523	\$ 5,699
Less: Earned Revenue	(3,226)	(2,179)
Net Program Costs	<u>20,297</u>	<u>3,520</u>
Government National Mortgage Association		
Gross Cost (Note 19)	600	(121)
Less: Earned Revenue	(1,209)	(1,062)
Net Program Costs	<u>(609)</u>	<u>(1,183)</u>
Section 8 Rental Assistance		
Gross Cost (Note 19)	28,226	28,653
Less: Earned Revenue	-	-
Net Program Costs	<u>28,226</u>	<u>28,653</u>
Low Rent Public Housing Loans and Grants		
Gross Cost (Note 19)	3,512	4,996
Less: Earned Revenue	-	-
Net Program Costs	<u>3,512</u>	<u>4,996</u>
Operating Subsidies		
Gross Cost (Note 19)	4,283	4,866
Less: Earned Revenue	-	-
Net Program Costs	<u>4,283</u>	<u>4,866</u>
Housing for the Elderly and Disabled		
Gross Cost (Note 19)	1,177	1,312
Less: Earned Revenue	(228)	(262)
Net Program Costs	<u>949</u>	<u>1,050</u>
Community Development Block Grants		
Gross Cost (Note 19)	6,901	7,093
Less: Earned Revenue	-	-
Net Program Costs	<u>6,901</u>	<u>7,093</u>
HOME		
Gross Cost (Note 19)	1,814	2,879
Less: Earned Revenue	-	-
Net Program Costs	<u>1,814</u>	<u>2,879</u>
All Other		
Gross Cost (Note 19)	4,219	5,601
Less: Earned Revenue	(21)	(34)
Net Program Costs	<u>4,198</u>	<u>5,567</u>
Costs Not Assigned to Programs	<u>199</u>	<u>170</u>
Consolidated		
Gross Cost (Note 19)	74,454	61,148
Less: Earned Revenue	(4,684)	(3,537)
NET COST OF OPERATIONS	<u>\$ 69,770</u>	<u>\$ 57,611</u>

The accompanying notes are an integral part of these statements.

Figure 4: Department of Housing and Urban Development Presentation of Expenditures by Strategic Goal FY 2012 (Note Disclosure)

The following table shows the expenditures allocated to HUD's Strategic Goals for FY 2012 (dollars in millions):

	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
Programs						
FHA	12,338	3,900	771	3,288	-	20,297
Ginnie Mae	(457)	(152)	-	-	-	(609)
Section 8 Rental Assistance		22,959	181	5,086		28,226
Low Rent Public Housing Loans and Grants	418	2,658	75	361		3,512
Operating Subsidies	-	2,913	642	728	-	4,283
Housing for the Elderly and Disabled	-	591	83	275	-	949
Community Development Block Grants	1,380	345	1,035	4,141		6,901
HOME	490	979	-	345		1,814
All Other Programs	588	1,935	767	900	8	4,198
Total	<u>14,757</u>	<u>36,128</u>	<u>3,554</u>	<u>15,124</u>	<u>8</u>	<u>69,571</u>
Costs Not Assigned To Programs						199
Total						<u>69,770</u>

Figure 5: Department of State Statement of Net Cost FY 2012

CONSOLIDATED STATEMENT OF NET COST (NOTE 15)		
<i>(dollars in millions)</i>		
For the Year Ended September 30,	2012	2011 Restated (Note 20)
Achieving Peace and Security		
Total Cost	\$ 9,174	\$ 8,737
Earned Revenue	(902)	(1,152)
Net Program Costs	8,272	7,585
Governing Justly and Democratically		
Total Cost	832	925
Earned Revenue	(110)	(119)
Net Program Costs	722	806
Investing in People		
Total Cost	7,767	6,607
Earned Revenue	(56)	(50)
Net Program Costs	7,711	6,557
Promoting Economic Growth and Prosperity		
Total Cost	1,229	1,341
Earned Revenue	(181)	(194)
Net Program Costs	1,048	1,147
Providing Humanitarian Assistance		
Total Cost	1,619	1,972
Earned Revenue	—	—
Net Program Costs	1,619	1,972
Promoting International Understanding		
Total Cost	1,943	1,942
Earned Revenue	(334)	(337)
Net Program Costs	1,609	1,605
Strengthening Consular and Management Capabilities		
Total Cost	5,886	4,139
Earned Revenue	(3,618)	(3,250)
Net Program Costs	2,268	889
Executive Direction and Other Costs Not Assigned		
Total Cost	3,980	3,988
Earned Revenue	(1,543)	(1,733)
Net Program Costs Before Assumption Changes	2,437	2,255
Actuarial Loss on Pension Assumption Changes (Note 1, Note 10)	770	421
Net Program Costs	3,207	2,676
Total Cost and Loss on Assumption Changes	33,200	30,072
Total Revenue	(6,744)	(6,835)
Total Net Cost	\$ 26,456	\$ 23,237

The accompanying notes are an integral part of this financial statement.

Figure 6: Department of Transportation Statement of Net Cost FY 2012

CONSOLIDATED STATEMENTS OF NET COST		For the Periods Ended September 30	
DOLLARS IN THOUSANDS	2012	2011	
<i>Program Costs (Note 19):</i>			
SURFACE TRANSPORTATION			
Gross costs	\$60,988,807	\$61,126,121	
Less: earned revenue	1,226,109	807,004	
Net program costs	59,762,698	60,319,117	
AIR TRANSPORTATION			
Gross costs	16,632,500	17,214,141	
Less: earned revenue	628,167	669,479	
Net program costs	16,004,333	16,544,662	
MARITIME TRANSPORTATION			
Gross costs	886,118	863,357	
Less: earned revenue	392,599	378,964	
Net program costs	493,519	484,393	
CROSS-CUTTING PROGRAMS			
Gross costs	647,327	738,477	
Less: earned revenue	255,869	391,204	
Net program costs	391,458	347,273	
Costs not assigned to programs	396,058	421,434	
Less earned revenues not attributed to programs	11,513	3,876	
Net cost of operations	\$77,036,553	\$78,113,003	

Figure 7: Department of Transportation Presentation of Net Cost by Strategic Goal FY 2012 (Other Accompanying Information)

NET COST BY DOT GOAL

The Schedule of Net Cost by Strategic Goal reports the DOT operational net cost to reflect the net cost of operations by each of the Department's six goals in its FY 2012 Budget submission to provide the linkage between cost and performance as related to each goal. DOT programs are generally complex and incorporate significant projects within multiple Operating Administrations (OA) and organizations within the OAs. These projects are linked to multiple organizational and department-wide strategic goals. This complexity makes it difficult to track the costs related to the department-wide strategic goals. Additionally, in order to determine the costs by strategic goals, OAs would need to analyze each project and determine allocation of costs to appropriate strategic goals.

SCHEDULE OF NET COST BY STRATEGIC GOAL (DOLLARS IN THOUSANDS) Unaudited							For the Year Ended September 30, 2012
STRATEGIC GOAL AREA S	SAFETY	STATE OF GOOD REPAIR	LIVABLE COMMUNITIES	ENVIRONMENTAL SUSTAINABILITY	ECONOMIC COMPETITIVENESS	ORGANIZATION EXCELLENCE	TOTAL
SURFACE TRANSPORTATION							
Federal Highway Administration	\$12,501,186	\$17,190,423	\$4,318,248	\$5,617,651	\$5,051,364	\$16,097	\$44,694,969
Federal Transit Administration	122,320	5,627,770	2,025,648	68,489	3,819,324	70,279	11,733,831
Federal Railroad Administration	273,344	283,593	403,060	353,128	599,014	85,284	1,997,423
Federal Motor Carrier Safety Administration	502,431	-	-	-	2963	14,743	520,137
National Highway Safety Administration	705,512	-	-	61,349	-	6,728	773,589
Pipeline and Hazardous Materials Safety Administration	112	-	-	-	-	-	112
Research and Innovative Technology Administration	8,518	406	355	1,821	329	3,014	14,444
Surface Transportation Board	-	-	-	-	-	28,192	28,192
Subtotal	14,113,423	23,182,192	6,747,311	6,182,438	9,472,995	224,337	59,762,698
AIR TRANSPORTATION							
Federal Aviation Administration	7,812,879	1,581,208	-	551,990	4,439,756	1,618,500	16,004,333
Subtotal	7,812,879	1,581,208	-	551,990	4,439,756	1,618,500	16,004,333
MARITIME TRANSPORTATION							
Maritime Administration	-	-	-	29,527	422,164	41,827	493,519
Subtotal	-	-	-	29,527	422,164	41,827	493,519
OTHER PROGRAMS:							
Office of the Secretary	117,890	117,135	169,846	118,412	123,316	38,452	685,052
Volpe National Transportation System Center	2,193	105	91	469	85	776	3,718
Office of Inspector General	-	-	-	-	-	87,234	87,234
Subtotal	120,083	117,240	169,938	118,881	123,400	126,462	776,003
Total Net Cost	\$22,844,386	\$24,800,640	\$6,917,249	\$6,882,835	\$14,458,315	\$2,811,126	\$77,834,553

**Attachment III: Excerpt from Accounting for Revenue and Other Financing
Sources Implementation Guide**

CHAPTER 2: NEW FINANCIAL STATEMENTS

STATEMENT OF NET COST

Rationale

26. The Statement of Net Cost is designed to explain and analyze the net cost of operations of an entity. The display of the information in this Statement reflects the thinking that underlies the standards in SFFAS No. 7 for distinguishing exchange revenue from nonexchange revenue and other financing sources, for recognizing exchange revenue, for matching exchange revenue with cost, and for assigning exchange revenue to the costs of earning it. The concept of this Statement is also discussed in SFFAC No. 2, *Entity and Display*.⁴

27. The illustration of the Statement of Net Cost on page 19 expands upon the illustration in SFFAC No. 2, *Entity and Display*. As explained in the introduction to this guide, the Statement of Net Cost shows separately the components of the net cost of the reporting entity's operations for the period. It consists of a display showing (1) the gross cost of the goods and services provided at a price, (2) the amount of related exchange revenue, (3) the resulting shortfall, or net cost,⁵ (4) the gross cost of the goods, services, transfers, and grants not provided at a price (which comprise most of the Government's expenses), (5) the costs that cannot be assigned to specific outputs or programs, and (6) the exchange revenues that cannot be attributed to specific outputs or programs.

28. The costs in items (1), (4), and (5) of paragraph 0 are the gross costs of the reporting entity during the period and comprise all the costs recognized by the entity for a given period according to Federal accounting standards. The costs that cannot be assigned to outputs or programs consist of (a) high level general management and administrative support costs that cannot be directly traced, assigned on a cause-and-effect-basis, or reasonably allocated to segments

⁴See pp. 31-34.

⁵The exchange revenue may be more than the gross cost, in which case the net cost is negative, i.e., the difference is a net revenue.

and their outputs and (b) those "non-production costs" that cannot be assigned to a particular program (non-production costs are costs that, under Federal accounting standards, are linked to events other than the production of goods and services).⁶

29. The total net cost of operations of the reporting entity will be the net cost of all its outputs, whether or not provided at a price, plus the costs (and minus the exchange revenues) that are not assigned to outputs. The elements of the display on the Statement of Net Cost will be related to each other in a way that shows how the net cost of operations is determined for the reporting entity as a whole and its sub-organizations and programs.

30. Suborganizations are generally equivalent to responsibility segments, for which cost accounting is performed to measure and report the costs of the segment's outputs.⁷ More than one suborganization may incur costs for a single program, as in cases where other suborganizations provide supporting services or goods without charge to the program. Net program cost equals the net cost of outputs plus any non-production costs that can be assigned to the program but not to its outputs.

31. The following example of a Statement of Net Cost illustrates some of the basic relationships that might be displayed, depending on the nature of the entity.

- o Program A produces outputs that are entirely sold to the public.
- o Program B produces outputs all of which are also sold, but some to the public and the rest to other Government entities.
- o Programs C and D produce outputs that are not sold. Program C provides goods, services, transfers, or grants to the public; program D provides services to both the public and

⁶See SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, especially pp. 37-38 and 42, paragraphs 92 and 104.

⁷See *ibid.*, pp. 31-35. Also see SFFAC No. 2, *Entity and Display*, pp. 25-26, para. 75 and footnote 14.

other Government entities.

- o Program E produces two outputs for the public, of which one is sold and the other is not.

32. The net program cost is calculated separately for each program as gross costs less revenue earned, if any. Some of the programs illustrated in this Statement are carried out within a single suborganization, while others are not. If a program is carried out by more than one suborganization, the net program cost is calculated both for each of these suborganizations separately and for all suborganizations together that are responsible for that program. All three suborganizations in the illustration incur some general management and administrative support costs that cannot be assigned to programs and outputs and are thus reported as "costs not assigned to programs."⁸ Suborganization C earns an insignificant amount of revenue that cannot be attributed to its outputs or programs and so is reported for the suborganization as a whole.

⁸SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, pp. 37-38, para. 92, defines such costs more fully and requires that they be reported in the entity's financial statements, such as the Statement of Net Cost, as costs not assigned to programs. Also see SFFAC No. 2, Entity and Display, pp. 33-34, para. 94-96.

Illustrative Statement of Net Cost

	Sub- organi- zation A	Sub- organi- zation B	Sub- organi- zation C	Total
Costs:				
Program A:				
Public	..	\$XX	\$XX	\$XX
Less earned revenues		..	X	..
Net program costs	<u>..</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Program B:				
Intragovernmental	\$XXX	XXX
Public	<u>XXX</u>	<u>..</u>	<u>..</u>	<u>XXX</u>
Total	<u>XXX</u>	<u>..</u>	<u>..</u>	<u>XXX</u>
Less earned revenues	<u>XX</u>	<u>..</u>	<u>..</u>	<u>XX</u>
Net program costs	<u>XXX</u>	<u>..</u>	<u>..</u>	<u>XXX</u>
Program C:				
Program costs, public	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>
Program D:				
Intragovernmental	XXX	XXX	..	XXX
Public	<u>XXX</u>	<u>XXX</u>	<u>..</u>	<u>XXX</u>
Program costs	<u>XXX</u>	<u>XXX</u>	<u>..</u>	<u>XXX</u>
Program E:				
Output 1:				
Public	XX	XX
Less earned revenues	<u>X</u>	<u>..</u>	<u>..</u>	<u>X</u>
Net cost of output 1	<u>XX</u>	<u>..</u>	<u>..</u>	<u>XX</u>
Output 2:				
Public	<u>XXX</u>	<u>..</u>	<u>..</u>	<u>XXX</u>
Net program costs	<u>XXX</u>	<u>..</u>	<u>..</u>	<u>XXX</u>
Costs not assigned to programs	XX	XX	XX	XX
Less other earned revenues not attributed to programs	<u>..</u>	<u>..</u>	<u>X</u>	<u>X</u>
Net Cost of Operations	<u>\$XXX</u>	<u>\$XXX</u>	<u>\$XXX</u>	<u>\$XXX</u>

33. Other variations on the Statement of Net Cost will also be appropriate depending on the types of programs that the reporting entity carries out and OMB's guidance on the form and content of agency financial statements. For example, a program that makes transfer payments to the public might differentiate these payments from its administrative costs because the transfer payments

are a measure of the benefits provided by the program:

Program F:	
Public:	
Transfer payments	XXX
Administrative costs	X
Program costs	XXX

34. Stewardship investment might also be differentiated: costs incurred for Federally financed physical property that is owned by state and local governments, for certain education and training, and for research and development. These costs have a distinctive importance because they are investments to increase economic growth and provide benefits to the nation over an extended period of time.⁹

Program G:	
Public:	
Costs for stewardship investment	XXX
Administrative costs	X
Other costs	X
Program costs	XXX

35. As another example, a program might incur non-production costs, which are costs linked to events other than the production of goods and services in the period when the costs were recognized. For example, the cost of acquiring weapons systems and other Federal mission property, plant, and equipment (PP&E) is recognized as a cost on the Statement of Net Cost when acquired, rather than through depreciation over the Federal mission property's estimated useful life.¹⁰ Federal cost accounting does not assign non-production costs such as this to the goods and services produced in the period when the cost is recognized. Non-production costs might usefully be differentiated from other costs on the Statement of Net Cost in order to show and analyze separately those costs that were incurred during the reporting period for producing outputs in that period. For this reason, SFFAS No. 6, Accounting for Property, Plant, and

⁹See FASAB's Statement of Recommended Accounting Standards, *Supplementary Stewardship Reporting* (May 1996), pp. 5 and 31-43.

¹⁰SFFAS No. 6, Accounting for Property, Plant, and Equipment, p. 16, para. 53.

Equipment, requires that the cost of Federal mission PP&E, heritage assets, and stewardship land be separately disclosed, either on the face of the Statement of Net Cost or in footnotes, depending on the materiality of the amounts and the need to distinguish them from other costs relating to outputs and outcomes. In the case of weapons systems purchases, the distinction might be shown as follows:¹¹

Program H:	
Weapons system purchases	XXX
Other costs	XXX
Program costs	XXX

36. If a program produces several large and distinct outputs, regardless of whether it earns any revenue, it may be illuminating to display the costs of each. If such a program has material non-production costs, they may be displayed separately from the production costs of the outputs:

Program I:	
Public:	
Output 1	XX
Output 2	XX
Non-production costs	X
Program costs	XX

¹¹For further analysis of accounting for non-production costs, see *SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government*, especially para. 97, 103, and 104; and related discussion in *SFFAS No. 4's Basis for Conclusions*, para. 214-215. For the case of Federal mission PP&E, heritage assets, and stewardship land, see *SFFAS No. 6, Accounting for Property, Plant, and Equipment*, para. 53, 61, and 69.

37. As illustrated by these diverse possibilities, the Statement of Net Cost will emphasize information about the cost of operations. By this means, it will help achieve the objectives of Federal financial reporting and managerial cost accounting. Managers responsible for programs can often obtain cost information they need from internal cost reports and in other ways. Other users, however, depend partially or wholly on general purpose financial reports for cost information. These users include higher-level management of the entity, high-level Executive Branch officials and their staffs, and the Congress. They may need to refer to general purpose financial reports not only for the information contained in them but also to help them interpret the cost information they receive directly from management and to relate it to other information and events. Budget or program analysts, academic researchers, and members of the specialized news media and interest groups may depend even more on the information provided in an entity's general purpose financial reports. Members of the general news media and the public who wish to consult Government financial reports may rely entirely on general purpose financial reports. Even for program managers, the emphasis on net cost in this Statement and its use by others may contribute to a greater understanding of the concept and routine use of this information.

38. Good information on gross and net cost, determined and analyzed in the manner of this Statement, is essential to the success of the Government Performance and Results Act of 1993 (GPRA)¹² in relating costs to accomplishments. GPRA requires setting performance goals for program activity and establishing performance indicators to measure outputs and outcomes of the program activity. Performance measurement under GPRA is to begin in FY 1999, and pilot projects started in FY 1994. Under OMB's plan to carry out GPRA, performance reports will show the results of what was actually accomplished (outputs and outcomes) with the resources used. The net cost of programs (as well as gross cost) should be a fundamental measure of these resources.

¹²Public Law 103-62.

39. Preparers should decide the exact classification of suborganizations and programs based on the nature of the entity, the missions and outputs for the entity's GPRA strategic and annual performance plans, the concepts in Entity and Display, Federal accounting standards, and OMB's bulletin prescribing the form and content of agency financial statements. OMB's guidance on the form and content of agency financial statements may require that the gross cost and net cost of operations be calculated by suborganization, program, and output, and reported separately in the Statement of Net Cost (or, if appropriate to reduce the complexity of the display, in footnotes to that Statement). Suborganizations are generally equivalent to responsibility segments as defined by the standards on managerial cost accounting.¹³ Under the cost accounting standards, a responsibility segment must be able to assign full costs to the measurable outputs of its programs.¹⁴ If reported on that basis, users of general purpose federal financial reports will be provided with the gross cost of the reporting entity's outputs (and outcomes).

40. When unit costs of outputs (and outcomes) are provided as performance indicators elsewhere in the report containing the financial statements, it may be useful to provide a reference to that information in the financial statements. A cross-reference in the financial statements does not change the level of audit otherwise specified for the performance information.

41. The information provided in the Statement of Net Cost generally will not be as detailed as the information needed by those who are responsible for budgeting and managing the costs of the Government, and by those who for other reasons have a special interest in the performance of a given program. The detailed information should be available through the managerial cost accounting system, cost analyses, and other studies used to provide the information reported in the Statement of Net Cost. However, the Statement of Net Cost

¹³SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, pp. 31-35. Also see SFFAC No. 2, *Entity and Display*, pp. 25-26, para. 75 and footnote 14.

¹⁴SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, pp. 36-42 and 51-59.

provides important summary information to top management, the central agencies, Congress, and the public. The Statement of Net Cost also provides a link to the more detailed information that may be used by managers of the reporting entity to explain the results shown in the Statement of Net Cost.

Attributing revenue to the costs of earning it

42. A reporting entity may have several missions carried out by different suborganizations, all of them having component programs and outputs. For each of these, both gross cost and net cost are important in evaluating performance and managing cost. Furthermore, either an entity as a whole or its suborganizations and programs may have significant costs that are not incurred to earn revenue, as well as significant costs that are incurred for that purpose. Therefore, the revenue-earning and nonrevenue-earning components need to be separately evaluated in order to assess the net cost of particular activities. Additionally, various components may earn revenue but cover costs to different degrees.

43. In all these cases, the net cost of the reporting entity as a whole does not show the extent to which earned revenue covers the cost of providing particular outputs. This can only be calculated for the entity's components. Determining the net cost for components is therefore essential to achieve the goals of SFFAS No. 7: to match exchange revenue with the gross cost of outputs and to offset exchange revenue against that related gross cost.

44. Exchange revenue should be attributed to the costs of outputs unless it is not reasonably possible to do so. If that cannot be done, exchange revenue should be attributed to the costs of programs, or, if that also is not reasonably possible, to the costs of suborganizations. Attributing exchange revenue to the components of an entity in this way is more effective for performance evaluation, price setting, and other purposes than attributing it to the reporting entity as a whole.

45. The following principles help determine the degree to which exchange revenue can reasonably be

attributed to a component of a reporting entity, a suborganization, or a program. Application of these principles requires the exercise of managerial judgment to meet the goal of measuring net cost for the many Government reporting entities with their varied characteristics.

45.1. Exchange revenue may be earned by an entity or program that sells all its goods or services in exchange for revenue. Examples include the Postal Service and the Defense Business Operations Fund. If the entity's gross costs are divided among programs or suborganizations that all sell goods or services, the exchange revenue attributable to these programs or suborganizations should be offset against the respective gross costs. If the entity is not so divided, its exchange revenue should be offset against the gross cost of the entity as a whole.

45.2. Exchange revenue may be attributable to an organization (or a program) as a whole in carrying out a function that is inherently governmental. For example, SEC registration fees may be deemed attributable to the SEC as a whole rather than to a division or line of activity within the SEC that manages the registration process. Such exchange revenue should be offset against the gross cost of the organization as a whole rather than the costs of the line of activity.

45.3. Exchange revenue may be earned by the operations of the entity as a whole in selling goods or services. For example, the National Park Service charges admission fees to parks and incurs expenses for such activities as preserving wildlife, maintaining roads, and providing visitor facilities. The fees are not related to the costs of the visitors as opposed to the costs of maintaining the land as a national heritage. They should be offset against the gross cost of the National Park Service.

45.4. Exchange revenue may be earned by a particular component of a reporting entity, such as a program within a suborganization. Except in the cases specified above, such exchange revenue should be offset against the gross cost of that component to calculate its net cost. The net cost of that component should be added to the net costs of other components to calculate the net cost of

the reporting entity as a whole.

45.5. Exchange revenue may be earned as a byproduct by some activities within a program or suborganization that are secondary to the main purpose of the program or suborganization. For example, the Geological Survey sells maps to the public as a byproduct of its surveys and other research. Such exchange revenue should be offset against the incremental costs incurred to produce that revenue, based on the assignment of costs according to the managerial cost accounting standards.¹⁵ The other costs of the Geological Survey should be classified in other components of the organization.

45.6. Exchange revenue that is insignificant or cannot be associated with particular outputs may be deducted separately against the cost of the program, suborganization, or reporting entity as a whole.

46. Whether a particular revenue is offset against the cost of the reporting entity as a whole or against the cost of a component also depends on the level of aggregation of the reporting entity. As explained above, the admission fees of the National Park Service can reasonably be attributed to the National Park Service but not to its components. Therefore, in financial statements of the National Park Service, such revenue would most likely be offset against the gross cost of the reporting entity (the National Park Service) as a whole. However, the financial statements of the Department of the Interior might be divided by suborganization and include the National Park Service as one separate component. Because the admission fees would be reasonably attributed to the National Park Service, they would offset the gross cost of the component (the National Park Service) on the Department's Statement of Net Cost rather than the gross cost of the reporting entity (the Department) as a whole.

47. The effect of the level of aggregation could be even more pronounced where the exchange revenue is deducted from the gross costs of a program within a suborganization in the financial statements of the suborganization. In the

¹⁵For the standard on cost assignment, see ibid., pp. 51-59.

financial statements of the full organization, the programs of the suborganization might be consolidated and the exchange revenue deducted from the gross cost of the suborganization as a whole.

Implications for the display of special cases

48. **Exchange revenue collected for others.** Many entities that collect exchange revenue keep that revenue for their own use. Revolving funds keep the revenue they earn. By their nature, they are expected to finance at least a significant part of their cost by selling goods and services in a continuing cycle of business-type activity. Other collecting entities may also keep the revenue they earn. Sometimes, however, the exchange revenue is transferred to the General Fund or to other entities in whole or in part. For example, the Southeastern and Southwestern Power Administrations transfer the revenue they collect from the public to the General Fund of the Treasury. Similarly, the Western Area Power Administration, while retaining some of the revenue that it collects, transfers the rest to the General Fund and various special funds designated by law.

49. As a general rule, exchange revenue transferred to others must be offset against the collecting entity's gross cost to determine its net cost of operations. Exchange revenue reduces the net cost of operations incurred by the entity in producing outputs, regardless of whether the entity keeps the exchange revenue for its own use or transfers it to another operating entity or the General Fund. Likewise, exchange revenue reduces the net cost of the entity's operations to the taxpayer regardless of its disposition. Therefore, all exchange revenue related to the cost of operations must be deducted from gross cost in the Statement of Net Cost to determine the net cost of operations for the entity. The display in that Statement has no need to distinguish between exchange revenue retained or transferred to others.

50. Exchange revenue that is transferred to others does not, however, affect the collecting entity's operating results and net position. Therefore, as required by the standards in SFFAS No. 7 for other financing sources, such exchange revenue is



December 7, 2012

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Federal Reporting Model: Citizens Focus Group Discussions – **TAB B-3**¹

MEETING OBJECTIVE

The objective of the meeting is to brief the FASAB on the results of focus group discussions conducted with citizens.

BRIEFING MATERIALS

Attachment I – Citizens Focus Group Discussions

MEMBER FEEDBACK

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.

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

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Attachment I: Citizens Focus Group Discussions

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Citizens Focus Group Discussions

Background

FASAB staff, with assistance from the GAO Applied Research and Methodology (ARM) staff, conducted two focus group discussions to obtain citizens views on certain financial presentations or schedules. FASAB task forces on improving cost, budget, and performance reporting developed the schedules as a possible means of helping users better analyze federal costs. Some task force members noted that financial statements presented costs in a highly aggregated manner and additional details could inform users on matters such as the cost of major programs and why the entity incurred the costs.

The focus groups consisted of 10-12 individuals with at least some college education and were at least 18 years of age. Also, the groups consisted of males and females and a range of ethnic backgrounds. Focus groups are not designed to be a statistical representation of a population. However, they provide qualitative information on the attitudes, perceptions, and feelings of a group of individuals to help develop insight into a particular area.

Staff conducted the discussions in Rockville, MD. For additional information on the focus group methodology see Appendix I: Focus Group Approach.

Views on the Term *Spending*

With the fiscal pressures facing the nation, many potential users are discussing federal spending and have increasingly sought information on how funds are being spent. However, *spending* is a broad term that could refer to transactions and events measured using different bases of accounting. Spending could refer to accrual basis costs or budgetary basis obligations, depending on the analysis being performed or the question the user is seeking to answer. Consequently, we asked the focus groups to discuss what the term meant to them.

In general, participants viewed spending as an allocation of resources for a specific purpose. However, their initial reaction when hearing the term *spending* with respect to government is that government spending is *misspending* or otherwise inefficient or ineffective spending. Participants emphasized the incentive for government agencies to spend their entire budget, regardless of whether the money was spent for good reasons. They noted that agencies realize that future budgetary resources would be reduced if they did not fully spend the resources currently available. One participant stated that “there is a disincentive to save money,” and another noted that it seems that “they either use it or lose it.” Additionally, another participant noted that ideally, when agencies have funds remaining at year-end they should work together to determine where the funds could be best used, such as on education, rather than on items or projects that are not necessary. Participants believed that spending should result in *benefits* to the public, such as education.

Also, participants believed that when presented with a financial presentation of spending, they would be reviewing cash disbursements made during the period. Obligations and accruals were not concepts that participants readily understood or associated with the term spending and, in general, were not aware of them. However, they believed that the information resulting from using different bases could be useful.

One participant noted there is a difference between what is spent and what is budgeted or appropriated. Later, based on the conversations that accompanied the review of the illustrative financial presentations, other participants became aware of this difference and they believed that financial presentations should show that difference.

Results of Comparisons among the Schedules - Overall

When asked which schedule they preferred, participants indicated that this depended upon what information they were looking for at a given time. This may indicate that a static document would not always address their information needs, given that those needs vary. In addition, this view is consistent with FASAB's reporting model task force which recommended moving away from static reporting to electronic, highly interactive reporting.²

Also, it was challenging for the participants to understand the different bases of accounting being presented, such as the budgetary and accrual basis of accounting, and they asked a range of questions about the schedules, including: the definition of terms such as obligations and outlays; how line items were calculated (e.g. by adding or subtracting other line items); and whether the order or labeling of some items in the schedules should be changed to make the information clearer. Again, interactive tools that allow a user to access explanations or see additional details would help address their concerns and minimize ambiguity or misunderstandings.

Participants expressed different preferences for how the information in the statements should be conveyed, but they also indicated that the use of video, live presentations (e.g. on college campuses or at local libraries), and social media such as YouTube and Facebook would be useful to draw the attention and interest of more people. A participant noted that they would more likely start with a video that explains key items from the previous period, like what resources were used and what was effective, and then view one of the schedules. Another person believed that having the ability to ask questions would be helpful as well.

Furthermore, participants noted the following:

- For an entire agency, a presentation of how resources are used could be voluminous, but they would take comfort in knowing that the presentation was available.

² Report of the Financial Reporting Model Task Force, December 22, 2010, accessible from <http://www.fasab.gov/accounting-standards/other-sources-of-information/other-reports-documents/> .

- A presentation should show how much agencies requested, the purpose for the request, what was actually budgeted versus what was actually used, and trends to see if there was a history of certain agencies that exceed their budgets.
- In addition to what resources were used, participants wanted to see “what are we getting for our money” and the challenges to achieving goals.
- Use more commonsense or understandable terms and find a way to explain concepts. A participant stated that it would be good to find a way to relate concepts and terms to the average person. Also, when informed of the dollar amounts involved in programs such as child nutrition, participants were surprised and one noted that billions is “too abstract.”
- Ensure to add information on operating costs.
- Do not include categories such as “other,” without providing a definition of what is included in the category.
- Include % values, to allow for comparisons.
- Add information about the resources allotted for new programs or other activities not yet underway at the beginning of a fiscal year.
- Include a comparison of the amount that Treasury transferred to an agency and how much was actually spent.

Results of Comparisons among the Schedules - Schedule A

Participants believed that Schedule A was the most complex and difficult to comprehend. They appeared to have difficulty understanding the difference between budgetary and accrual basis accounting. However, they stated that the different measurements (budgetary and accrual basis) and classifications in Schedule A were important and useful, and they thought it was important that this information be available as needed. Some participants also wanted to know additional details such as the budgeted amount and what was acquired with the resources used.

Results of Comparisons among the Schedules - Schedule B

Participants in both focus groups stated that Schedule B was the most understandable of the four schedules. Participants stated that the schedule was “easy to understand,” “more to the point,” and “speaks to the common person.” However, as one participant stated, the schedule is “a start.” Participants noted that the schedule was not a substitute for a set of financial statements that would show items such as revenue, assets, and liabilities and other detailed information.

Also, participants noted some challenges with understanding the following line items of the schedule:

- “Amounts remaining to be spent.” Participants raised questions about how the line item was calculated, i.e., is amounts remaining to be spent the result of total amounts agreed to spend less total spending?
- “Amount Available but Not Agreed to be Spent.” An explanation should be provided to help understand what the line item represents.
- “Total Spending” and “Total Amounts Agreed to be Spent.” Both line items appear to say the same thing.

In addition, because the schedule, for the most part, shows amounts obligated, that basis of measurement (obligation basis) should be made clear. Some believed that the schedule showed cash disbursements, which is the basis they expected would be used to measure spending.

Results of Comparisons among the Schedules - Schedule C

Participants stated that Schedule C (the 4-column statement) was too simplistic. Users would likely want more detail such as that presented in Schedule A. Some believed that Schedule C might provide information that internal users would like to see, but not citizens. Also, the terms strategic goal and strategic objective should be defined. A participant noted that the information on strategic objectives would be useful for someone who works for the agency but not an average citizen. In addition, some participants noted that it would be good to see the budget amount and more details such as in Schedule A.

Results of Comparisons among the Schedules - Schedule D

Participants believed that the Schedule D presented the same information as the other schedules.

Conclusion

Developing financial presentations for citizens will be challenging. Traditional formats, such as static schedules, do not adequately engage citizens and help them understand what the presentation is designed to communicate. Even when “plain English” is used to classify line items in a schedule, citizens need to understand the concepts for measuring the information presented. We noted that some participants incorrectly assumed that a presentation of spending would show items measured using the cash basis of accounting. Although, in the federal government, spending could be measured on an accrual, cash, or obligation basis, the focus group participants seemed unaware that different measurement bases existed and they had trouble understanding the accrual and obligation basis. Moreover, the magnitude of the dollar amounts appeared “overwhelming” as one participant indicated.

In addition, it appeared that each of our trial schedules presented some useful information. Upon understanding the basic concepts and terms, participants expressed interest in the level of detail, as indicated in Schedules A and D and noted that summary information, such as Schedule B, would likely be where they would start. However, they did note that Schedule C seems to inform internal users versus citizens. They believed that relating the use of funds to strategic goals and objectives would inform internal users rather than citizens.

Also, participants sought information not presented in our trial schedules. For instance, they sought information on the budgetary resources provided and a comparison of budget versus actual. Additionally, they sought performance information – what was the impact of tax dollars being used on, say, child nutrition. Simply presenting the amount of tax dollars used for certain items seemed to “beg the question” – so what?

Financial Presentations Used for Our Focus Group Discussions

Financial Presentations Used for Our Focus Group Discussions

We presented the following schedules to the focus group participants:

- Schedule A. This schedule acknowledges that a one-size-fits-all approach may not satisfy the diverse needs of various users. Thus, the schedule provides users with disaggregated data so that they can perform their own aggregations and analysis. It presents costs, obligations incurred, and outlays by major program and object class. Also, it includes a column for the “Adjustment for Accruals” and allows for references to explain the difference between costs and outlays. See page 13.
- Schedule B. This schedule presents budgetary information using plain English. It is primarily intended to help citizens understand federal spending and shows what budgetary resources were available and how those resources were obligated. It also provides categories to show the types of federal funding recipients, e.g., for-profit organizations, individuals, and governments, and how much each type received. Additionally, the schedule shows how the agency issued the funds, e.g., contract, grant, and loan. See page 15.
- Schedule C. This schedule presents obligations and outlays by strategic goal and strategic objective. See page 17.
- Schedule D. This schedule presents costs, obligations, and outlays by strategic goal, strategic objective, and program that contribute to achieving the strategic objective. See page 18.

Schedule A

Major* Program	Object Class	Costs Incurred FY 2011	A Amount Obligated FY 2012	B Outlays FY 2012	C Adjustment for Accruals FY 2012 (Including footnotes to explain adjustments)	Cost Incurred FY 2012 (Columns B+C)
Program ABC	Personnel Compensation & Benefits	XX	XX	XX	XX	XX
	Contractual Services	XX	XX	XX	XX	XX
	Acquisition of Assets	XX	XX	XX	XX	XX
	Grant and Fixed Charges	XX	XX	XX	XX	XX
	Other	XX	XX	XX	XX	XX
	Earned Revenue (e.g. Fees)	(XX)	(XX)	(XX)	(XX)	(XX)
Subtotal Program ABC		XX	XX	XX	XX	XX
Program XYZ	Personnel Compensation & Benefits	XX	XX	XX	XX	XX
	Contractual Services	XX	XX	XX	XX	XX
	Acquisition of Assets	XX	XX	XX	XX	XX
	Grant and Fixed Charges	XX	XX	XX	XX	XX
	Other	XX	XX	XX	XX	XX
	Earned Revenue	(XX)	(XX)	(XX)	(XX)	(XX)
Subtotal Program XYZ		XX	XX	XX	XX	XX
Total Major Programs	All Categories except earned revenues	XX	XX	XX	XX	XX
	Earned revenues	(XX)	(XX)	(XX)	(XX)	(XX)

Major* Program	Object Class	Costs Incurred FY 2011	A Amount Obligated FY 2012	B Outlays FY 2012	C Adjustment for Accruals FY 2012 (Including footnotes to explain adjustments)	Cost Incurred FY 2012 (Columns B+C)
Net Major Programs		XX	XX	XX	XX	XX
Net Other Programs		XX	XX	XX	XX	XX
Net All Programs		XX	XX	XX	XX	XX

Schedule B

	FY 20XX	FY 20XX
What Money is Available to Spend?		
Total Resources	\$X,XXX,XXX	\$X,XXX,XXX
Less Amount Available but Not Agreed to be Spent	\$XX,XXX	\$XX,XXX
Less Amount Not Available to be Spent	\$X,XXX	\$XXX
Total Amounts Agreed to be Spent	\$X,XXX,XXX	\$XXX,XXX
How was the Money Spent?		
<i>Category ABC*</i>		
Personnel Compensation & Benefits	\$XXX,XXX	\$XXX,XXX
Contractual Services	\$XXX,XXX	\$XXX,XXX
Acquisition of Assets	\$XX,XXX	\$XX,XXX
Other	\$XX,XXX	\$XX,XXX
<i>Category XYZ*</i>		
Personnel Compensation & Benefits	\$XXX,XXX	\$XXX,XXX
Grant and Fixed Charges	\$XX,XXX	\$XX,XXX
Other	\$XX,XXX	\$XX,XXX
Total Spending	\$XXX,XXX	\$XXX,XXX
Amounts Remaining to be Spent	\$XX,XXX	\$XX,XXX
Total Amounts Agreed to be Spent	\$X,XXX,XXX	\$XXX,XXX
Who did the Money go to?		
For Profit	\$XXX,XXX	\$XXX,XXX
Government	\$XXX,XXX	\$XXX,XXX
Higher Education	\$XX,XXX	\$XX,XXX
Individuals	\$XXX,XXX	\$XXX,XXX
Not-For-Profits	\$XX,XXX	\$XX,XXX
Other	\$XX,XXX	\$XX,XXX
Total Amounts Agreed to be Spent	\$X,XXX,XXX	\$XXX,XXX

How was the Money Issued?

Non-Financial Assistance Direct Payments	\$XXX,XXX	\$XXX,XXX
Contracts	\$XXX,XXX	\$XXX,XXX
Grants	\$XXX,XXX	\$XXX,XXX
Loans and Guarantees	\$XX,XXX	\$XX,XXX
Financial Assistance Direct Payments	\$XXX,XXX	\$XXX,XXX
Other Financial Assistance	\$XX,XXX	\$XX,XXX
Insurance	\$XX,XXX	\$XX,XXX
Interest and Dividends	\$XX,XXX	\$XX,XXX
Other Payment Types	\$XX,XXX	\$XX,XXX
Total Amounts Agreed to be Spent	\$X,XXX,XXX	\$XXX,XXX

Table 1: Description of Schedule of Spending Sections

Section	Description Excerpts from OMB Circular A-136
What Money is Available to Spend?	This section of the SOS [Schedule of Spending] presents resources that were available to spend and is required for CFO Act agencies in FY 2012.
How was the Money Spent?	This section of the SOS presents services or items that were purchased, not the payment types or how the obligations were made. The categories in this section will align with OMB Budget Object Class (BOC) definitions found in Circular No. A-II; however, the amounts reported here reflect outlays by BOC reconciled to total obligations incurred. This section of the SOS is required for CFO Act agencies in FY 2012.
Who did the Money go to?	<p>This section of the SOS identifies with whom the agencies are spending money and is based on obligations incurred. This section of the SOS is optional in FY 2012 but is expected to be mandatory in FY 2013.</p> <p>At a minimum, this section will display "Federal" and "Non-Federal" obligations. Agencies are encouraged to display more detail, such as by "For Profit", "Government", "Higher Education", "Individuals" (if material, this should be broken out by financial assistance and non-financial assistance), "Not-For profits", and "Other."</p> <p>Agencies that have special business lines, with special trading partner types, that are material should add to the display as needed to accurately reflect the agencies' business activities.</p>
How was the Money Issued?	<p>This section of the SOS presents how obligations are issued or the payment type and is based on obligations incurred. This section of the SOS is optional in FY 2012 but is expected to be mandatory in FY 2013.</p> <p>The amounts in this section reflect various payment types used throughout the Federal Government. Payment types are meant to explain how obligations were made, not what was purchased. Therefore, payment types will not always align with BOC codes found in Circular No. A-II. For example, Insurance is defined in A-II Section 83 as "benefit payments from the social insurance and Federal retirement trust funds and payments for losses and claims including those under the Equal Access to Justice Act," and includes Social Security and Medicare payments. For purposes of this section, insurance is defined as obligations to assure reimbursement for losses sustained under specified conditions and would not include social insurance as defined in A-II. Social Security and Medicare payments would be considered Financial Assistance Direct Payments for the Schedule of Spending.</p>

Schedule C

Strategic Goal	Strategic Objective	Amount Obligated FY 2012	Outlays FY 2012
Strategic Goal 1	Strategic Objective 1	XX	XX
	Strategic Objective 2	XX	XX
	Strategic Objective 3	XX	XX
	Strategic Objective 4	XX	XX
Subtotal Strategic Goal 1		XX	XX
Strategic Goal 2	Strategic Objective 1	XX	XX
	Strategic Objective 2	XX	XX
	Strategic Objective 3	XX	XX
	Strategic Objective 4	XX	XX
Subtotal Strategic Goal 2		XX	XX
Total All Goals		XX	XX

Schedule D

Strategic Goal	Strategic Objective	Program	Costs Incurred FY 2012	Amount Obligated FY 2012	Outlays FY 2012
Strategic Goal 1	Strategic Objective 1	Program A	XX	XX	XX
		Program B			
	Strategic Objective 2	Program A	XX	XX	XX
	Strategic Objective 3	Program C	XX	XX	XX
	Strategic Objective 4	Program D	XX	XX	XX
		Program B	XX	XX	XX
Subtotal Strategic Goal 1			XX	XX	XX
Strategic Goal 2	Strategic Objective 1	Program E	XX	XX	XX
	Strategic Objective 2	Program F	XX	XX	XX
		Program B	XX	XX	XX
	Strategic Objective 3	Program G	XX	XX	XX
		Program H	XX	XX	XX
	Strategic Objective 4	Program I	XX	XX	XX
Subtotal Strategic Goal 2			XX	XX	XX
Total All Goals			XX	XX	XX

Appendix I: Focus Group Approach

FASAB staff, with assistance from the GAO Applied Research and Methodology (ARM) staff, conducted two focus group discussions to learn about citizens' views on certain financial presentations. Focus groups are not designed to be a statistical representation of a population. However, they provide qualitative information on the attitudes, perceptions, and feelings of a group of individuals to help develop insight into a particular area.

The focus groups consisted of 10-12 individuals with at least two years of college education and were at least 18 years of age. Also, the groups consisted of males and females and a range of ethnic backgrounds. Staff conducted the discussions in Rockville, MD.

To help guide the discussions about the participants' views, we asked questions such as the following:

1. Thinking about the federal government in Washington, D. C. and government spending, what exactly does the term "spending" mean to you? (Probe, if needed: How do you think or how would you describe how government spending is calculated?)
2. Were you aware that spending could be calculated in different ways? (Refer to the illustrative financial statements and ask participants the following:
 - a. Of the various presentations, which presentation would you prefer and why?
 - b. In your view, what does the statement tell you?
 - c. If you could talk to the preparer or other government official, what questions would you have?
 - d. What do you like most about the presentation?
 - e. What do you like least about the presentation?
 - f. Is the statement useful? Why or why not?)
3. Would you prefer to review a video, graph, the financial statement, or customize your own report? Why or why not?
4. If participants would like to customize a report, what data would they like to review? Illustrate menu options.
5. How could the presentations be improved?

6. Discuss the different approaches for calculating spending (outlay, obligation, and accrual) and determine whether there are preferences.