



August 5, 2005

Memorandum

To: Members of the Board

From: Melissa L. Loughan, Assistant Director
Ross Simms, Assistant Director

Through: Wendy M. Comes, Executive Director

Subj: Conceptual Project--Objectives Phase TAB **B**¹

The Board has consistently expressed the view that the broad nature of the four reporting objectives presented in SFFAC 1, chapter 4 makes it difficult to assess alternative accounting standards and prioritize the Board's technical agenda options. Considering the main focus for the Objectives Phase of the Concepts Project is to evaluate the objectives, the staff team determined it would be most productive to move forward with planning the roundtable meetings prior to addressing some of the other areas that may ultimately be included in the white paper.

Staff has scaled back the white paper to only address the changes in the federal financial reporting environment since SFFAC 1 was issued in 1993, including the evolution of FASAB. The white paper clearly states that the ultimate focus of the white paper is on narrowing down the four reporting objectives so that the Board objectives are clearly identified. The white paper also includes reference to the planned roundtables and that the results or main discussion issues of the roundtables will be incorporated into the white paper and will assist the Board as it considers the objectives.

As discussed at the last Board meeting, the white paper is considered "in-process". If appropriate, the other topics in the approved outline (from the March 2005 Board meeting) may be addressed after the Board considers the objectives. Staff believes it would be appropriate to provide the white paper as it stands now to the roundtable participants. Providing the draft white paper will allow the participants to better understand where the Board is in the process, major changes since SFFAC 1 was

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.

issued that should be considered, and how the roundtables will play a part in the Board's consideration of the objectives.

Staff has put together a plan for the roundtable meetings, which will be held this fall and winter. FASAB staff plans to include individuals from the following for participation: IG audit community, CFO financial statement preparation community, IPA firms, GASB, former FASAB Board members, OMB, GAO, Treasury, CBO, Public Interest Groups, and any other subject matter expert deemed appropriate. Staff has also put together a draft package for participants that will be provided in advance of the roundtable meetings. The draft package includes pertinent background information and questions for consideration. Staff would like to gain the Board's input on this approach.

Materials Included in the August 2005 Binders

- 1. Draft White Paper on Objectives**
- 2. Staff Plan for Roundtable Meetings**
- 3. Participant's Package for Roundtable I and II**
- 4. Standards and Objectives Analysis**

The fourth item above is provided to the Board for your information and reference. In several Board discussions, there have been questions regarding the extent to which the current standards align with the reporting objectives. Staff believed the analysis would be helpful to assist the Board in determining to what extent the current Standards and Interpretations reflect the reporting objectives set forth in SFFAC 1. Staff believes the results of the analysis may support some of the assertions by Board members. For example, the analysis appears to demonstrate that the Board has not focused on the Systems and Control objective, especially when compared to the Operating Performance objective.

Objective for the August 2005 Meeting

- 1. Obtain Board's approval on staff recommended approach**
- 2. Obtain Board's comments on Draft White Paper**
- 3. Obtain Board's input and comments on roundtable meeting materials**

To assist with accomplishing the above objectives for the August 2005 meeting, staff has attached a list of specific questions to guide the discussion.

Please feel free to contact us (Melissa at 202-512-5976 or by email at loughanm@fasab.gov and Ross at 202-512-2512 or by email at simmsr@fasab.gov) to discuss any questions you may have.

Questions for the Board

Overall Plan

1. Is the proposed approach and plan for the roundtable meetings consistent with your expectations?

White Paper

2. Does the White paper cover the appropriate level of information you wish to explore at this stage?

Roundtable Participant's Package

3. Does the package include all the issues and questions you wish to research?
4. Are there issues that are more significant than others?
5. Are there other groups whose perspectives we should seek to include in the discussions?

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I. Concepts Project Objective:

A. To ensure that federal financial accounting standards are based on a sound framework of objectives and concepts regarding the nature of accounting, financial statements, and other communications methods. The framework should:

- **provide structure by describing the nature and limits of federal financial reporting,**
- **identify objectives that give direction to standard setters,**
- define the elements critical to meeting financial reporting objectives and describe the statements used to present elements,
- identify means of communicating information necessary to meeting objectives and describe when a particular means should be used, and
- enable those affected by or interested in standards to understand better the purposes, content, and characteristics of information provided in federal financial reports.

B. The conceptual framework will refine and build on the current concepts promulgated by FASAB.

II. White Paper Objective:

A. This white paper supports the Board's efforts to improve the conceptual framework. The white paper focuses on the bolded text above. The white paper draws from the existing Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Federal Financial Reporting Objectives*, and other literature as needed. Ultimately, the white paper will inform the Board in its efforts to (1) amend or augment concepts statements regarding objectives of federal financial reporting in the future and (2) develop a strategic plan. This will be accomplished by updating SFFAC 1 to cover developments in federal financial reporting since its issuance and clarifying the Board's role relative to each reporting objective.

III. White Paper Outline:

A. SFFAC 1 Status

1. The Board relies on SFFAC 1 to support its deliberations on financial reporting issues. Briefly, SFFAC 1 provides:
 - a) *Background information on federal financial reporting, its environment, and the role of the Board,*
 - b) *User needs*
 - c) *Objectives (Chapter 4)*

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- d) *Cost and benefit considerations*
 - e) *Qualitative characteristics of information in financial reports*
 - f) *Relationships between accounting and financial reporting including operating performance*
2. SFFAC 1 acknowledges that many information sources other than financial statements help to attain the stated objectives. Further, SFFAC 1 does not assert that the Board will attempt to meet all the stated objectives. It simply states that “FASAB will consider where new accounting standards could make a useful and cost-effective contribution to improving the extent to which these objectives are attained.”
3. Currently the Board is evaluating the objectives presented in chapter 4 of SFFAC 1 because the broad nature of the objectives makes it difficult to assess alternative accounting standards and prioritize the Board’s technical agenda options. The objectives as included in SFFAC 1 are as follows:

Objective 1--Budgetary Integrity

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

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

Objective 2--Operating Performance

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

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

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Objective 3--Stewardship

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

3A. Whether the government's financial position improved or deteriorated over the period.

3B. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

3C. Whether government operations have contributed to the nation's current and future well-being.

Objective 4--Systems and Control

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

- transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards;
- assets are properly safeguarded to deter fraud, waste, and abuse; and
- performance measurement information is adequately supported.

4. The ultimate focus of this white paper is on narrowing down the four reporting objectives listed above so that Board objectives are clearly identified. The white paper presents the consensus views of the Board regarding specific objectives or sub objectives established in SFFAC 1, chapter 4, which are not to be addressed through federal financial accounting standards.
5. Objectives or sub objectives may be excluded because they were determined to be poorly aligned with the Board's mission or not a high priority for the Board in the near-term (five to ten years). Potential reasons for excluding objectives or sub objectives in the near term include the fact that others have made or are making progress in meeting the objective or sub objective, the Board's structure, processes and authorities do not support meeting the objective or sub objective, or other objectives or sub objectives are deemed to be more important.
6. Before considering the four reporting objectives, the Board believes it is useful to develop further its views regarding FASAB's role as well as the nature and limits of federal financial reporting. Given the changes in the federal financial reporting environment since SFFAC 1 was issued in 1993, the Board believes an up to date statement of views on these matters is helpful.
7. The Board also believes it would be beneficial to get feedback from the community on the reporting objectives in light of these changes. FASAB staff will be conducting separate roundtable discussions on each of the four reporting objectives. The primary purpose of the discussions will be to determine how the objectives might be improved

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to facilitate its use as a means for guiding the board in developing standards of financial accounting and reporting and in developing solutions to financial accounting and reporting issues. A brief summary of the results or main discussion issues of the roundtables will be incorporated into this white paper and will assist the Board as it considers the objectives.

B. Evolution in FASAB's Role

FASAB Created

8. The Chief Financial Officers Act of 1990--as amended by the Government Management Reform Act of 1994--for the first time required annual, audited financial statements for the United States Government and its component entities, referred to as federal reporting entities. The Act also established the position of Chief Financial Officer in each department to ensure the development of integrated agency accounting and financial management systems, including financial reporting and internal controls, which comply with applicable accounting principles, standards, and requirements, and internal control standards.
9. In October 1990, three officials responsible for federal financial reporting established the Federal Accounting Standards Advisory Board (FASAB or "the Board") as a federal advisory committee. The officials were the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States. In conjunction with the CFO Act of 1990, they created FASAB to develop accounting standards and principles for the newly required financial statements of the United States Government.
10. Chapter 1 of SFFAC 1 provides that "any description of federal financial reporting objectives should consider the needs of both internal and external report users and the decisions that they make."¹ FASAB considers the information needs of both internal and external users because the distinction between them is in many ways less significant for the federal government than for other entities.
11. As stated above, FASAB was created to advise OMB, Treasury and GAO on accounting standards for federal agencies and programs in order to improve financial reporting practices. The text in Chapter 1 preceding par. 23 details FASAB's mission (when created) as "The

¹ SFFAC 1 par. 23

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*mission of the FASAB is to recommend accounting standards [for the federal government] after ... considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information.*²

12. The nine member FASAB consisted of representatives from the three principles, one Congressional Budget Office representative, one representative from the defense and international agencies, one representative from civilian agencies, and three representatives from the private sector. FASAB issued recommended statements of accounting concepts and standards for approval by its three principals. In developing the statements, the FASAB adhered to Federal Advisory Committee Act requirements and engaged a seven-step due process approach that included public participation.
- a. Identification of accounting issues and agenda decisions.
 - b. Preliminary deliberations.
 - c. Preparation of initial documents (issue papers, and/or discussion memorandums).
 - d. Release of documents (e.g., exposure drafts) to the public, public hearings, and consideration of comments.
 - e. Further deliberations and consideration of comments.
 - f. General consensus (at least a majority vote) reached among Board members and final documents submitted to the Treasury, OMB, and GAO for approval.
 - g. The Principals provide for implementation guidance through the FASAB's Accounting and Auditing Policy Committee.

GAAP Status Attained

13. In October 1999, the American Institute of Certified Public Accountants' (AICPA) Council designated the FASAB as the accounting standards-setting body for Federal government entities under Rule 203 of the AICPA's Code of Professional Conduct. Rule 203 provides, in part, that an AICPA member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles (GAAP) or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with GAAP, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish

² From the FASAB Mission Statement, approved by the Board and by the Secretary of the Treasury, the Director of OMB, and the Comptroller General of the United States in 1991.

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such principles, that has a material effect on the statements or data taken as a whole.

14. Until the AICPA action, the Federal Government did not have a Rule 203 designated accounting standards-setter³. With this designation, Federal Government reporting entities obtain audit opinions that indicate that the financial statements are presented in conformity with GAAP rather than an “other comprehensive basis of accounting” (OCBOA).
15. This designation came after an AICPA task force evaluated FASAB against the following criteria used in designating accounting standards-setting bodies under Rule 203: Independence; Due Process and Standards; Domain and Authority; Human and Financial Resources; and Comprehensiveness and Consistency.
16. The task force recommended some enhancements in FASAB’s procedures, and assisted in incorporating them in FASAB’s Memorandum of Understanding and Rules of Procedure. The most significant enhancements were:
 - a) *creation of an Appointments Panel to assist in selecting non-federal members,*
 - b) *opening Steering Committee meetings to the public, and*
 - c) *establishing that FASAB would issue final standards following a review period.*
17. With the enhancements completed, the task force deemed the FASAB to have satisfied such criteria. Accordingly, the AICPA Board recommended that Council adopt a resolution to designate FASAB under Rule 203. On October 19, 1999, the AICPA Council approved the resolution.⁴
18. Subsequent to the Rule 203 recognition, the FASAB changed how it issued accounting concepts and standards. The FASAB no longer produced recommended standards for approval. Instead, FASAB forwards final standards to the sponsors for a 90-day review. FASAB also forwards final statements that set standards for capital asset

³ The AICPA Council designated the Financial Accounting Standards Board (FASB) as the standards-setter for the private sector in 1973 and the Governmental Accounting Standards Board (GASB) as the standards-setter for states and local governments in 1986. These are authoritative standard-setting bodies under Rule 203.

⁴ On May 23, 2003 the American Institute of Certified Public Accountants’ (AICPA) Council unanimously voted to continue for a second five-year period designation of the Federal Accounting Standards Advisory Board (FASAB) as the accounting standards-setting body for Federal government entities under Rule 203 of the AICPA’s Code of Professional Conduct.

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accounting to the Congress for the mandatory 45-day review. If there are no objections during these respective review periods, the statements are considered final and FASAB publishes them on its website.

19. Additional enhancements following the October 1999 AICPA recognition of FASAB as the standard setting body for the Federal Government are reflected in its operating documents. These enhancements included the following:

- Minutes posted to the website (see <http://www.fasab.gov/meeting.htm>)
- Briefing materials available in advance of the meetings via the website (draft Board issuances are not posted).
- Procedures for issuing Technical Bulletins established.
- Exposure drafts are now published electronically. Hard copies are available on request.
- Publish any dissents and identify the authors in final statements.
- Press releases have been improved and a broader list of press contacts is maintained.
- Agenda setting process now includes a call for comments on proposed projects and permits identification of other project proposals.

Enhancements to Independence

20. In 2002, the Board's sponsors altered the Board's structure to increase the level of non-federal representation to enhance the perceived independence of the Board. The nine-member board would now have six non-federal members and three federal members. In addition, the Secretary of the Treasury relinquished his authority to object to standard during the 90-day review period. Thus, only GAO and OMB may object to the issuance of a new standard or concept by FASAB.

21. In 2003, the Board was expanded to provide for additional legislative branch input. The Board grew to ten members with the addition of a representative from the Congressional Budget Office. The Board now has six non-federal non-federal members and four federal members.

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Advantages of a GAAP Standards Setter

22. The GAAP designation confirms that the FASAB has established proper rules and procedures and enhances the Board in these respects:

Credibility--GAAP recognition, with continued monitoring by the accounting profession, indicates that the Board meets the minimum requirements for a GAAP body. These are Independence, Due Process and Standards, Domain and Authority, Human and Financial Resources, and Comprehensiveness and Consistency.

Ability to set a common framework for debate and offer a forum for consideration of financial reporting issues--While it does not limit the Board's role, GAAP status demands comprehensiveness and consistency. Thus, GAAP standards setters endeavor to establish a sound conceptual framework, address critical issues in a timely manner, and introduce discipline to financial measures. Through development of, continual improvement in, and application of financial accounting concepts and standards, GAAP governs the terms used in financial discussions and the financial representation given to transactions and events.

Due process is a requirement of both Rule 203 and the Federal Advisory Committee Act. Thus, the Board must continue to conduct outreach and consider the views of those interested in federal financial reporting. This is both a responsibility and an opportunity. Because of due process, the Board is challenged to produce concepts and standards that are defensible and understandable. Further, the Board may use due process as a means to engage members of the various professions having an interest in federal finances. Through the Board's efforts, public policy and budget experts may engage in financial accounting/reporting deliberations. This creates the opportunity to produce more useful and understandable concepts and standards.

Impact on external decision makers through ability to require unbiased information (to send "bad news") due to independence--Independence has been identified as the most significant criterion for a GAAP body. With an independent standard setter it is more likely that government organizations will be required to provide a complete financial report including "bad news."

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C. Evolution in Federal Financial Management and Reporting Laws and Regulations since the CFO Act of 1990

23. As mentioned above, FASAB was created concurrently with the CFO Act and was a key component of the strategy to implement the requirements of the CFO Act. The CFO Act could be considered the first of a series of major legislation passed to increase federal accountability through financial management reform. Briefly, the purposes of the CFO Act were to (1) bring more effective financial management practices to the Federal government, (2) provide for the production of complete, reliable, and consistent financial information for use in management and evaluation of Federal programs, and (3) improve agency systems of accounting, financial management, and internal controls. The CFO Act created 24 chief financial officers for the major executive departments and agencies. It also required those agencies to prepare and submit audited financial statements for each revolving and trust fund and for accounts that performed substantial commercial functions.

24. SFFAC 1 was issued in September 1993. Since then, and following in the steps of the CFO Act, Congress has enacted a series of laws to reform and improve financial management in the federal government. Along the lines of the three purposes of the CFO Act described in the previous paragraph, the legislations and regulations since 1993 can be considered to broadly fall into the three areas:

- **Effective Financial Management Practices**--Legislation to bring more effective financial management practices to the Federal government,
- **Performance Measurement**--Legislation to provide for the production of complete, reliable, and consistent financial information for use in management and evaluation of Federal programs, and
- **Internal Controls**--Legislation to improve agency systems of accounting, financial management, and internal controls.

25. Accordingly, it would be appropriate to consider these and the related changes in the federal financial reporting environment since SFFAC 1 was issued. A brief summary and analysis of implications for pertinent laws and regulations is presented below.

Effective Financial Management Practices

26. Government Management Reform Act of 1994 (GMRA)--GMRA substantially expanded the requirements in the CFO Act by requiring audited financial statements covering all accounts in the 24 CFO agencies. In addition, GMRA also required the preparation of the consolidated government-wide financial statement.
27. *Impact/Analysis:* During FASAB's early years, it focused more on financial statements for components or segments of the federal government than it did on the government-wide statements. It was understood that some differences would be appropriate at the government-wide level (e.g., with regard to reporting on budgetary execution and financing). It was expected that—in the absence of specific guidance from FASAB—OMB, GAO and Treasury would determine how to report at the government-wide level. GMRA's requirement for audited financial statements at this level and AICPA's recognition of federal accounting principles published by FASAB as GAAP (in SAS 91, *Federal GAAP Hierarchy*, April 2000), created a need for FASAB to define the applicable standards and to consider whether additional or different concepts were needed. FASAB has done so in SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, and in SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*. In addition, FASAB now includes a separate section detailing requirements for the Government-wide financial statement in applicable standards.
28. Reports Consolidation Act of 2000--This Reports Consolidation Act builds on a pilot program authorized in GMRA that allowed an agency to combine its audited financial statement, as required by GMRA, and its performance reports, as required by GPRA, to provide a more comprehensive and useful picture of the services provided.
29. The Reports Consolidation Act requires that a consolidated report:
- a) That incorporates the agency's program performance report to be referred to as a *Performance and Accountability Report*;
 - b) [Or, for a report] that does *not* incorporate the agency's program performance report, to contain a summary of the most significant portions [of its program performance report], including the agency's success in achieving key performance goals;

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- c) To include a statement by the agency's inspector general that summarizes the agency's most serious management and performance challenges; and
- d) To include a transmittal letter from the agency head containing an assessment of the completeness and reliability of the performance and financial data used in the report.

30. *Impact/Analysis:* With the Reports Consolidation Act, agency audited financial statements are included in a combined Performance and Accountability Report that contain other financial and performance reporting requirements.

31. Accountability of Tax Dollars Act of 2002--The Accountability of Tax Dollars Act extended the requirements for preparation of audited financial statements to most executive branch agencies. OMB may exempt agencies with budgets under \$25 million in a given year. The newly covered agencies are subject to OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*. (Note that FFMIA reporting requirements were not applied to these newly covered agencies.)

32. *Impact/Analysis:* Because the Accountability of Tax Dollars Act extends the requirement to produce and audit financial statements to some relatively small federal entities, some may believe that FASAB should consider this question while deliberating future standards.

33. Improper Payments Information Act of 2002--The Improper Payments Information Act requires federal agencies to identify programs vulnerable to improper payments and to estimate annually the amount of underpayments and overpayments made by these programs. OMB has directed agencies to report this information in the MD&A section of the Performance and Accountability Report.⁵

34. *Impact/Analysis:* Some may believe that this law suggests a need for FASAB to focus on this topic, much as FASAB focused on accounting for direct loans and loan guarantees after the Credit Reform Act was

⁵ "Agencies shall include the reporting requirements of this guidance in the Management Discussion and Analysis section of their Performance and Accountability Report for fiscal years ending on or after September 30, 2004. The annual estimate of erroneous payments reported in the Performance and Accountability Report can be based on data from a year other than the fiscal year the Performance and Accountability Report covers. Progress under the requirements of Section 57 of OMB Circular A-11 shall be reported in the FY 2003 Performance and Accountability Reports."

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passed, and as FASAB focused on government-wide reporting after GMRA was passed. Others may believe that existing standards adequately address this topic, and/or that OMB action in this area and related guidance is sufficient.

35. President's Management Agenda (PMA)--Improved Financial Performance Initiative--In addition to the above legislations and regulations, the President's Management Agenda represents an ongoing effort in the executive branch for improving management and performance in the Federal government. The PMA, announced in the summer of 2001, is an aggressive strategy for improving the management of the Federal government. It focuses on five areas of management weakness across the government where improvements and the most progress can be made.
36. Improved Financial Performance is one of the five government-wide initiatives. The financial management initiative seeks to enhance the quality and timeliness of financial information. This initiative also focuses on improving assets management and reducing improper payments.
37. A "Management Scorecard" is used to measure progress on the Agenda initiatives. The scorecard uses a traffic light system for rating agencies--green for success, yellow for mixed success, and red for unsatisfactory. For each initiative, there are core criteria that the agency must meet in order to get a green rating. OMB updates the scorecard on a quarterly basis.
38. The core criteria for "getting to green" on the improving financial performance initiative are: 1. Financial management systems meet federal financial management system requirements and applicable federal accounting and transaction standards as reported by the agency head; 2. Accurate and timely financial information; 3. Integrated financial and performance management systems supporting day-to-day operations; and 4. Unqualified and timely audit opinions on the annual financial statements and no material internal control weaknesses.
39. A basic tenet of the PMA calls for improving financial performance by providing timely, reliable, and useful information. As a result, OMB amended OMB Bulletin 01-09 *Form and Content of Agency Financial Statements* to significantly accelerate financial reporting due dates. Specifically, beginning with FY 2004, Performance and Accountability Reports were due to the President, OMB, and the Congress by November 15th. Additionally, Treasury was required to issue the Financial Report of the United States Government to the President and

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the Congress by December 15th. In addition, beginning with the quarter ending March 31, 2004, agencies were required to prepare and submit to OMB its quarterly unaudited financial statements 21 days after the end of each quarter.

40. *Impact/Analysis*: The PMA has resulted in more timely financial reports and additional oversight by OMB and other agency initiatives to address these important areas related to improving financial performance.
41. **Conclusion on Effective Financial Management Practices**
Legislation and Linkage to Objectives--The legislation noted in this area focused on extending the requirements of the CFO Act-- specifically audited financial statements, to other agencies as well as the consolidated government-wide financial statement. The legislation also focused on streamlining reporting requirements by allowing agencies to produce a Performance and Accountability Report. Additionally, agencies are issuing more timely financial reports due to the accelerated due dates. It appears that the items in this area may indirectly contribute to meeting all of the reporting objectives, but do not appear to significantly contribute to meeting any one objective that would result in the Board to consider excluding any aspect of the objective.

Performance Measurement

42. Government Performance and Results Act of 1993 (GPRA)--Briefly, the purposes of the GPRA include: (1) improved management of federal programs, (2) increased accountability and better assessment of results, (3) improved communication with Congress and the public, (4) better information for Congressional and agency decisions, and (5) increased public confidence in the government.
43. GPRA requires agencies to prepare strategic plans, annual performance plans, and annual performance reports. The annual performance report examines whether goals (as discussed in the annual performance plan) were met and what was accomplished with the resources expended. It should be noted that agencies are required to consolidate their audited financial statements and other financial and performance reports into combined Performance and Accountability Reports.

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44. *Impact/Analysis*: SFFAC 1 includes “Operating Performance” as one of the four objectives of federal financial reporting. Also, chapter 8 discusses “How Financial Reporting Supports Reporting on Operating Performance.” Some may believe that these references to performance are sufficient and that no change is needed as a result of GPRA, but others may believe that an amplification of these sections of SFFAC 1 would be in order now that GPRA has led to performance reporting on a comprehensive basis while the Reports Consolidation Act have led agencies to include performance information with the audited financial statements in Performance and Accountability Reports.
45. However, other people may believe that no amplification of the concepts is needed, but that one or more statements of standards may be needed to address performance reporting. Some people may believe that provisions of existing concepts and standards issued by FASAB, such SFFAC 3 *Management’s Discussion and Analysis*, SFFAS 4 *Managerial Cost Accounting Concepts and Standards* and SFFAS 7 *Accounting for Revenue and Other Financing Sources*, SFFAS 15 *Management’s Discussion and Analysis*, and SFFAS 30 *Inter-Entity Cost Implementation*⁶ adequately respond to these laws. Alternatively, other people may believe that OMB action pursuant to GPRA have effectively ended any need for FASAB to act in this area.
46. President’s Management Agenda (PMA)--Budget and Performance Integration Initiative--In addition to GPRA, the PMA represents an ongoing effort in the executive branch for improving management and performance in the Federal government. As stated above, the PMA, announced in the summer of 2001, is an aggressive strategy for improving the management of the Federal government. It focuses on five areas of management weakness across the government where improvements and the most progress can be made.
47. Another initiative under the PMA is Budget and Performance Integration. The Budget and Performance Integration initiative seeks to formally integrate performance review with Budget decisions. A “Management Scorecard” is used to measure progress on the Agenda initiatives. The scorecard uses a traffic light system for rating agencies--green for success, yellow for mixed success, and red for unsatisfactory. For each initiative, there are core criteria that the agency must meet in order to get a green rating. OMB updates the scorecard on a quarterly basis.

⁶ SFFAS 30 is expected to be issued August 15, 2005

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48. The core criteria for “getting to green” on this initiative include: agency demonstrates improvement in program performance and efficiency in achieving results; annual budget and performance documents incorporate measures identified in the PART; agency reports the full cost of achieving performance goals accurately in budget and performance documents and can accurately estimate the marginal cost (+/- 10%) of changing performance goals; has at least one efficiency measure for all PART programs; and uses PART evaluations to direct program improvements, and PART ratings and performance information are used consistently to justify funding requests, management actions, and legislative proposals.
49. *Impact/Analysis:* The PMA has resulted in additional oversight by OMB and other agency initiatives to address these important areas related to budget and performance integration and full costing. See discussion under GPRA above for additional discussion.
50. OMB’s Program Assessment Rating Tool (PART) Analysis--The Administration began (in the 2004 Budget) to assess Federal programs by a method known as the PART. The primary purpose of the PART is to improve program performance in the federal government and is a key tool in the budget and performance integration initiative mentioned above.
51. The Administration set a target of assessing all Federal programs over five years. The PART system assesses each program in four components--purpose, planning, management, and results/accountability--and gives a score for each of the components. The scores for each component are weighted and the program is given an overall score. A program is rated effective if it receives an overall score of 85 percent or more, moderately effective if the score is 70 to 84 percent, adequate if the score is 50 to 69 percent, and inadequate if the score is 49 percent or lower. The program receives a rating “Results Not Demonstrated” if it does not have a good long-term and annual performance measure or does not have data to report on its measures.
52. *Impact/Analysis:* The PART Analysis has resulted in additional oversight by OMB and other agency initiatives in the area of agency performance measurement and accountability. See discussion under GPRA above for additional discussion.
53. Conclusion on Performance Measurement Legislation and Linkage to Objectives-- The legislation noted in this area focused on the production of complete and reliable information for use in management and evaluation of Federal programs. It appears that

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most of the items in this area have a direct relationship with the Operating Performance Objective. Some may consider that agency efforts to meet the above requirements and the resulting oversight by OMB significantly contribute to meeting many aspects of the Operating Performance Objective. Therefore the Board may wish to consider whether certain aspects of the objective (or sub-objective) could be excluded or lowered from its priorities or revised accordingly to reflect that it is being addressed through other means.

Internal Controls

54. Federal Managers' Financial Integrity Act of 1982⁷ (FMFIA)--Congress has long expressed concerns about controls in various laws, dating back to include the Budget and Accounting Procedures Act of 1950. The FMFIA required comprehensive reporting on internal control two decades before audited financial statements were required from most agencies. These requirements remain in effect. They are not necessarily equivalent to reporting on controls over financial reporting. Some would say that the scope of controls contemplated by FMFIA may be broader, including operational and legal compliance issues as well as financial reporting. Furthermore, judgments about materiality may be different as well.
55. The FMFIA requires GAO to prescribe standards of internal accounting and administrative control and agencies to comply with them. Internal control is to provide reasonable assurance that (1) obligations and costs comply with applicable law (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and (3) revenues and expenditures are recorded and accounted for properly so that accounts and financial and statistical reports may be prepared and the accountability of assets may be maintained.
56. It requires that the internal control standards include standards to ensure the prompt resolution of all audit findings. It also requires OMB to establish guidelines for agency evaluation of internal control to determine compliance with the internal control standards.
57. It requires agency heads to (1) annually evaluate their internal control using the OMB guidelines, and (2) annually report to the President on

⁷ Although FMFIA came before the CFO Act of 1990, staff believed it would be appropriate to include as it is relevant for the Board in understanding how the objective Systems and Controls is met.

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whether the agency's internal controls comply with the standards and objectives set forth in the FMFIA. If they do not fully comply, the report must identify the weaknesses and describe plans for correction. The report is to be signed by the head of the agency.

58. *Impact/Analysis:* SFFAC 1 includes "Systems and Controls" as one of the four objectives of federal financial reporting. See discussion under OMB A-123 below for a discussion of the impact/analysis of recent legislation and regulations.

59. Federal Financial Management Improvement Act of 1996 (FFMIA)-- The FFMIA requires each agency to implement and maintain financial management systems that can comply substantially with system requirements, applicable federal accounting standards, and the Standard General Ledger. For each agency required to have audited financial statements under the provisions enacted by GMRA, FFMIA requires that each agency's annual audit report state whether the agency's financial management systems comply with the requirements.

60. *Impact/Analysis:* Some may believe that the legal requirement for reporting on accounting systems' compliance with accounting standards adds a new factor for FASAB to consider. However, others may believe that compliance with law is a matter for others to assess--meaning whether an entity is in compliance with the provisions of FFMIA is a legal determination and would not affect the opinion on the financial statements. More specifically, some have argued that compliance with accounting standards (e.g., with SFFAS 4) for FFMIA may imply something different than conformance with GAAP for the purpose of expressing an opinion on financial statements. That is, some would say that an agency might be able to publish financial statements in conformance with GAAP, but not be in compliance with SFFAS 4 for purposes of FFMIA.

61. Sarbanes-Oxley Act of 2002 (SOX)--This Act contains numerous provisions affecting publicly owned companies and public accountants. Of particular interest is Section 404, "Management Assessment of Internal Controls" that requires management to assess the effectiveness of internal control and an audit attestation on the assessment made by management.

Section 404: Management Assessment Of Internal Controls

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Requires each annual report of an issuer to contain an "internal control report", which shall:

- (1) State the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and
- (2) Contain an assessment, as of the end of the issuer's fiscal year, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.

Each issuer's auditor shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this section shall be in accordance with standards for attestation engagements issued or adopted by the Board. An attestation engagement shall not be the subject of a separate engagement.

62. *Impact/Analysis:* Some have suggested that the public would expect federal practice to be comparable in this regard to what is now required of SEC registrants, and that action by FASAB to require management assertions about internal control, or at least controls over financial reporting, as an integral part of the basic financial statements would be one way to assure this. Others have suggested that existing requirements of FMFIA, FFMIA, Government Audit Standards and the recently revised OMB Circular A-123 (see next item for a further discussion of the impact/analysis) already accomplish a comparable result.
63. OMB Circular A-123 (REVISED December 2004) *Management's Responsibility for Internal Control*—In light of the new internal control requirements for publicly-traded companies (see SOX discussion above), OMB re-examined the existing internal control requirements for Federal agencies. As a result, OMB Circular A-123 (which implements FMFIA) was revised to significantly strengthen the requirements for conducting management's assessment of internal control over financial reporting. The Circular is effective in fiscal year 2006.
64. The revised A-123 requires an assessment of internal control by management. Specifically, management is required to assert to the effectiveness of internal controls via an assurance statement "as of June 30." A-123 does not require a separate audit. However, Agencies may secure a separate audit opinion on internal controls over financial reporting. In those situations, the "as of" reporting date of June 30 may be adjusted to align better with the "as of" date of the audit opinion.
65. *Impact/Analysis:* As noted above, SFFAC 1 includes "Systems and Controls" as one of the four objectives of federal financial reporting. Based on a staff analysis of the standards issued, FASAB has not addressed this objective as much as the others in its standards. For example, it appears that SFFAS 15, *Management's Discussion & Analysis* may be the only standard that directly relates to the system

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and control objective by requiring the MD&A to address systems and controls.

66. Some may believe that this reference to systems and controls may be sufficient and that no change is needed as a result of the strengthening of the regulations related to internal controls, but others may believe that an amplification of these sections of SFFAC 1 would be in order. However, other people may believe that no amplification of the concepts is needed, but that one or more statements of standards may be needed to address systems and controls. Some may believe that action by FASAB to require management assertions about internal control, or at least controls over financial reporting, as an integral part of the basic financial statements would be appropriate.
67. Others have suggested that existing requirements of FMFIA, FFMIA, Government Audit Standards and the recently revised OMB Circular A-123 will accomplish a comparable result and has effectively ended any need for FASAB to act in this area.

COMPARISON BETWEEN A-123 AND SOX

	A-123	SOX
Management Assessment	Requires management assessment as of June 30 ⁸ , and update the report for any new issues coming to their attention before Sept. 30.	Requires management assessment as of the end of the company's fiscal year.
Audit Attestation	Does not require a separate audit attestation of controls over financial reporting. Note-Agencies are allowed to obtain an opinion. Also, OMB may require a separate audit if management is not achieving progress in correcting control weaknesses.	Requires audit attestation on the assessment made by management.
Framework	Provides a framework for evaluating internal controls and requires a reference to this in the management's report.	Requires management to identify the framework used to evaluate the effectiveness of controls.

⁸ Unless an audit is done, at which time the report may be dated the same as the auditors report.

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Effectiveness of Controls	Precludes management from concluding internal controls are effective if there are one or more material weaknesses.	Precludes management from concluding that internal controls are effective if there are one or more material weaknesses.
Material Weaknesses	Require management to disclose all material weaknesses as of June 30.	Requires management to disclose any material weaknesses.

68. Department of Homeland Security Financial Accountability Act--The Act requires the Department of Homeland Security management to provide an assertion on the effectiveness of internal control over financial reporting for fiscal year 2005 and requires an auditor's opinion on internal controls over financial reporting for fiscal years beginning after 2005. The Act also required the CFO Council and the President's Council on Integrity and Efficiency study the potential costs and benefits of requiring other CFO Act agencies to obtain audit opinions on their internal control over financial reporting.

69. *Impact/Analysis:* A Draft Report entitled *Estimating the Costs and Benefits of Opining on Agency's Internal Control over Financial Reporting* was issued for comments in May 2005. The Draft Report concluded that given the significant estimated partial costs for agencies to obtain an audit opinion on internal control, all CFO Act agencies should not be required to conduct such an audit at this time. Rather, agencies should be given the opportunity to continue to implement OMB Circular A-123 and obtain an internal control audit only where particular circumstances appropriately warrant such an audit.

70. President's Management Agenda (PMA)--*Improved Financial Performance Initiative*--As noted above, the President's Management Agenda is an aggressive strategy for improving the management of the Federal government. For each initiative, there are core criteria that the agency must meet in order to get a green rating. OMB updates the scorecard on a quarterly basis.

71. One of the core criteria for "getting to green" on the improving financial performance initiative is: Unqualified and timely audit opinions on the annual financial statements and no material internal control weaknesses.

72. *Impact/Analysis:* OMB monitors internal control weaknesses regularly. To receive green on the PMA scorecard, agencies must eliminate all

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internal control weaknesses. Quarterly, OMB monitors agency performance in meeting corrective action plan targets established under the PMA scorecard. Agencies are required to submit corrective action plans to OMB to resolve internal control weaknesses reported. Quarterly, agencies are graded on their progress in achieving the corrective action milestones contained in their plans.

73. **Conclusion on Internal Control Legislation and Linkage to Objectives**-- The legislation noted in this area focused on the improvement of agency systems of accounting, financial management, and internal controls. It appears that most of the items in this area have a direct relationship with the Systems and Controls Objective. Some may consider that agency efforts to meet the above requirements and the resulting oversight by OMB significantly contribute to meeting many aspects of the Systems and Control Objective. Therefore the Board may wish to consider whether certain aspects of the objective (or sub-objective) could be excluded or lowered from its priorities or revised accordingly to reflect that it is being addressed through other means.

C. Objectives Roundtable Meetings

74. The Board also believes it would be beneficial to get feedback from the community on the reporting objectives given the changes in the environment over the past 10 years. FASAB staff will be conducting separate roundtable discussions on each of the four reporting objectives above. The primary purpose of the discussions will be to determine how the objective might be improved to facilitate its use as a means for guiding the board in developing standards of financial accounting and reporting and in developing solutions to financial accounting and reporting issues. A brief summary of the results or main discussion issues of the roundtables will be incorporated into this white paper and will assist the Board as it considers the objectives.
75. The roundtables will be on each of the four reporting objectives and will provide the Board with insights from experts involved in specific areas, as well as those external to the accounting community. The roundtables will also serve as an outreach opportunity with the goal of engaging the community. FASAB staff plans to include individuals from the following for participation: IG audit community, CFO financial statement preparation community, IPA firms, GASB, former FASAB Board members, OMB, GAO, Treasury, CBO, Public Interest Groups, and any other subject matter expert deemed appropriate.

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76. The roundtable meetings will focus on the following general topics:

- Participant's observations on the financial reporting objective;
- Evaluating the objective in the evolutionary environment; and
- Broad nature of the objective and determining the scope of FASAB's role.

77. Additionally each of the roundtable meetings will focus on specific issues related to the objective being discussed at the roundtable. FASAB staff will provide a participants package in advance of each of the roundtable meetings that further elaborates on the topics for discussion.

Next Steps

78. After completing the roundtable meetings, staff will prepare a summary of the results and issues for inclusion in the final white paper. The issues from the roundtables, in conjunction with the identification of relevant developments identified in this paper, and how they impact the Board's role or priorities in working towards the objectives will be basis for staff proposals. Specifically, staff will review and make an assertion regarding the Board's role in meeting each objective. It will be important to distinguish "narrowing down" that is based on poor alignment with the Board's comparative advantages (likely permanent narrowing down) from de-emphasis of an objective due to the current efforts of others (room to return if and when needed). Justification of any staff proposals can come from the views expressed in earlier sections of the white paper and summaries from the roundtable meetings.

Plan for Objectives Roundtables

Scheduled Completion Date	Action	Status
August 5	Develop Participants Package – includes formal confirmation, purpose of roundtable, Draft White Paper, SFFAC 1, Questions to Consider, and directions	
August 12	Develop preliminary list of 12 roundtable participants for each objective (maximum of 48)	
August 17 & 18	Board meeting – Discuss approach and obtain Board’s approval. Provide draft white paper and participants package for the Budgetary Integrity and Operating Performance objectives and obtain input from the Board.	
August 22	Engage transcriber services	
August 22	Informally confirm (phone or email) Roundtable I participants	
August 29	Informally confirm Roundtable II participants	
September 5	Send Participants Package for Roundtable I - Budgetary Integrity	
September 12	Notify security (to facilitate participant access to Roundtable I)	
September 14	Send Participants Package for Roundtable II – Operating Performance	
September 19, 9:00 am to noon	Roundtable I – Budgetary Integrity	
September 21	Notify security (to facilitate participant access to Roundtable II)	
September 28, 9:00 am to noon	Roundtable II – Operating Performance	
October 5 & 6	Board meeting - provide Board with the participants’ package for the Stewardship and Systems & Control objectives and obtain input from the Board.	
October 10	Informally confirm Roundtable III participants	
October 13	Informally confirm Roundtable IV participants	
November 15	Send Participants Package for Roundtable III - Stewardship	
November 21	Send Participants Package for Roundtable IV – Systems and Control	
November 22	Notify security (to facilitate participant access to Roundtable III)	
November 29, 9:00 am to noon	Roundtable III– Stewardship	
November 29	Notify security (to facilitate participant access to Roundtable IV)	
December 6, 9:00 am to noon	Roundtable IV – Systems and Control	



Federal Accounting Standards Advisory Board

September 5, 2005

Madge N. Nation
1600 Ledger Dr NW
Washington DC 20548

Dear Ms. Nation:

The Federal Accounting Standards Advisory Board (FASAB) has initiated a project to evaluate its conceptual framework and we would like to invite your participation. On September 19, 2005, FASAB staff will be conducting a roundtable discussion on the Budgetary Integrity objective of federal financial reporting and we believe that your participation in this event will provide valuable insights.

The Board's conceptual framework project is designed to ensure that federal financial accounting standards are based on a sound framework of objectives and concepts. During its initial years of operation, FASAB developed a core set of accounting standards and concepts statements and, now after 12 years of substantial progress, the Board believes that it is time to revisit the concepts.

The Board relies on Statement of Federal Financial Accounting Concepts No. 1 (SFFAC 1) – *Objectives of Federal Financial Reporting*, issued September 2, 1993, to support its deliberations on financial reporting issues. The first phase of the conceptual framework project involves reviewing the four objectives of financial reporting as described in SFFAC 1. The four objectives of financial reporting are Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. The Board is evaluating these objectives because their broad nature makes it difficult for the Board to assess alternative accounting standards and prioritize its technical agenda options. SFFAC 1 does not assert that the Board will attempt to meet all these objectives, and it acknowledges that many information sources other than financial statements help to attain them.

FASAB staff will be conducting separate roundtable discussions on each of the objectives. The primary purpose of the discussions will be to determine how the objective might be improved to facilitate its use as a means for guiding the board in developing standards of financial accounting and reporting and in developing solutions to financial accounting and reporting issues.

To help you prepare for the roundtable, we are providing you with some background information. Enclosed are an agenda with some administrative information, a copy of SFFAC 1,

a FASAB staff white paper on the objectives of financial reporting, and a list of questions to consider. Also, feel free to review a history of this project at our website <http://www.fasab.gov/projectsconobjectives.html>.

If you need any additional information or assistance, please contact either:

Ms. Melissa Loughan at (202) 512-5976 or loughanm@fasab.gov or
Mr. Ross Simms at (202) 512-2512 or simmsr@fasab.gov.

We appreciate your interest in continuing to improve federal financial reporting and we look forward to seeing you on September 19, 2005.

Sincerely,

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

September 19, 2005

Administrative Information

Roundtable Venue

Government Accountability Office (GAO)
441 G St NW - Room 7C13
Washington DC 20548

The meeting room is located on the 7th floor of the GAO building.

General Information

The session will begin at 9:00 am and conclude at noon. Participants are asked to arrive prior to 9:00 am to process through GAO security. The GAO building is located near the Judiciary Square or Gallery Place metro stops.

**Federal Accounting Standards Advisory Board
Roundtable Discussion on the Budgetary Integrity Objective of Financial Reporting
441 G St NW – Room 7C13**

Agenda

September 19, 2005

- | | |
|---------------|---|
| 8:45 - 9:00 | Continental Breakfast |
| 9:00 – 9:10 | Introductions and Overview of Project |
| 9:10 – 10:30 | Group Discussion <ul style="list-style-type: none">A. Participant’s ObservationsB. Evaluating the Budgetary Integrity Objective in an Evolutionary Environment |
| 10:30 – 10:45 | Break |
| 10:45 – 11:45 | Group Discussion <ul style="list-style-type: none">A. Broad Nature of the Budgetary Integrity Objective |
| 11:45 – 12:00 | Wrap-Up |

Federal Accounting Standards Advisory Board
Roundtable Discussion on the Budgetary Integrity Objective of Financial Reporting
441 G St NW – Room 7C13

Questions for Consideration

September 19, 2005

Introduction

FASAB is the source of GAAP for financial reporting in the federal government. The Board issues its guidance through a range of vehicles such as Statements of Federal Financial

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

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

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

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

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

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

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

Roundtable Objective

To determine how the financial reporting objective, Budgetary Integrity, might be improved to facilitate its use as a means for guiding the Board in developing standards of financial accounting and reporting and in developing solutions to financial accounting and reporting issues.

Description of the Budgetary Integrity Objective

Budgetary Integrity

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

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

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

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

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

Participant's Observations on the Budgetary Integrity Objective

Discuss your experience with the Budgetary Integrity objective.

- What has worked particularly well?
- What could be improved?

Discussion Topics and Questions

A. Evaluating the Budgetary Integrity Objective in an Evolutionary Environment

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

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

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

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

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

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

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

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

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

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

B. Broad Nature of the Budgetary Integrity Objective

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Federal Accounting Standards Advisory Board

September 14, 2005

Madge N. Nation
1600 Ledger Dr NW
Washington DC 20548

Dear Ms. Nation:

The Federal Accounting Standards Advisory Board (FASAB) has initiated a project to evaluate its conceptual framework and we would like to invite your participation. On September 28, 2005, FASAB staff will be conducting a roundtable discussion on the Operating Performance objective of federal financial reporting and we believe that your participation in this event will provide valuable insights.

The Board's conceptual framework project is designed to ensure that federal financial accounting standards are based on a sound framework of objectives and concepts. During its initial years of operation, FASAB developed a core set of accounting standards and concepts statements and, now after 12 years of substantial progress, the Board believes that it is time to revisit the concepts.

The Board relies on Statement of Federal Financial Accounting Concepts No. 1 (SFFAC 1) – *Objectives of Federal Financial Reporting*, issued September 2, 1993, to support its deliberations on financial reporting issues. The first phase of the conceptual framework project involves reviewing the four objectives of financial reporting as described in SFFAC 1. The four objectives of financial reporting are Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. The Board is evaluating these objectives because their broad nature makes it difficult for the Board to assess alternative accounting standards and prioritize its technical agenda options. SFFAC 1 does not assert that the Board will attempt to meet all these objectives, and it acknowledges that many information sources other than financial statements help to attain them.

FASAB staff will be conducting separate roundtable discussions on each of the objectives. The primary purpose of the discussions will be to determine how the objective might be improved to facilitate its use as a means for guiding the board in developing standards of financial accounting and reporting and in developing solutions to financial accounting and reporting issues.

To help you prepare for the roundtable, we are providing you with some background information. Enclosed are an agenda with some administrative information, a copy of SFFAC 1,

a FASAB staff white paper on the objectives of financial reporting, and a list of questions to consider. Also, feel free to review a history of this project at our website <http://www.fasab.gov/projectsconobjectives.html>.

If you need any additional information or assistance, please contact either:

Ms. Melissa Loughan at (202) 512-5976 or loughanm@fasab.gov or
Mr. Ross Simms at (202) 512-2512 or simmsr@fasab.gov.

We appreciate your interest in continuing to improve federal financial reporting and we look forward to seeing you on September 28, 2005.

Sincerely,

**Federal Accounting Standards Advisory Board
Roundtable Discussion on the Operating Performance Objective of Financial Reporting**

September 28, 2005

Administrative Information

Roundtable Venue

Government Accountability Office (GAO)
441 G St NW - Room 7C13
Washington DC 20548

The meeting room is located on the 7th floor of the GAO building.

General Information

The session will begin at 9:00 am and conclude at noon. Participants are asked to arrive prior to 9:00 am to process through GAO security. The GAO building is located near the Judiciary Square or Gallery Place metro stops.

**Federal Accounting Standards Advisory Board
Roundtable Discussion on the Operating Performance Objective of Financial Reporting
441 G St NW – Room 7C13**

Agenda

September 28, 2005

- | | |
|---------------|---|
| 8:45 - 9:00 | Continental Breakfast |
| 9:00 – 9:10 | Introductions and Overview of Project |
| 9:10 – 10:30 | Group Discussion <ul style="list-style-type: none">A. Participant’s ObservationsB. Evaluating the Operating Performance Objective in an Evolutionary Environment |
| 10:30 – 10:45 | Break |
| 10:45 – 11:45 | Group Discussion <ul style="list-style-type: none">A. Broad Nature of the Operating Performance Objective |
| 11:45 – 12:00 | Wrap-Up |

**Federal Accounting Standards Advisory Board
Roundtable Discussion on the Operating Performance Objective of Financial Reporting
441 G St NW – Room 7C13**

Questions for Consideration

September 28, 2005

Introduction

FASAB is the source of GAAP for financial reporting in the federal government. The Board issues its guidance through a range of vehicles such as Statements of Federal Financial

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

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

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

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

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

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

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

Roundtable Objective

To determine how the financial reporting objective, Operating Performance, might be improved to facilitate its use as a means for guiding the Board in developing standards of financial accounting and reporting and in developing solutions to financial accounting and reporting issues.

Description of the Financial Reporting Objective

Operating Performance

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

"We are not here to mark time but to make progress, to achieve results and to leave a record for excellence."

President George W. Bush

- 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.

Participant's Observations on the Operating Performance Objective

Discuss your experience with the Operating Performance objective.

- What has worked particularly well?
- What could be improved?

"Federal employees want their departments to be as effective as possible, and the American people expect the Government to achieve results. To be results-oriented managers must ask themselves if the programs they administer are achieving the desired result at an acceptable cost."

The Federal Government is Results-Oriented: A Report to Federal Employees, August 2004

Discussion Topics and Questions

A. Evaluating the Operating Performance Objective in an Evolutionary Environment

FASAB issued SFFAC 1 in 1993. Since that time, the operations and structure of FASAB has changed and Congress has passed new laws. Federal accounting and reporting exists in the context of various laws that have impacted financial management practices, internal control, and performance measurement. For example, the Government Performance and Results Act (GPRA) requires agencies to prepare strategic plans, annual performance plans, and annual performance reports. The annual performance report examines whether goals (as discussed in the annual performance plan) were met and what was accomplished with the resources expended. Also, the Reports Consolidation Act of 2000 allows agencies to combine its audited financial statements and its performance reports into an annual report referred to as a Performance and Accountability Report. Other changes in legislation and financial management initiatives are discussed in the FASAB staff white paper.

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

GPRA did not exist when FASAB deliberated SFFAC 1; the Act probably put into law what the Board had in mind when it crafted the operating performance objective.

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

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

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

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

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

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

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

B. Broad Nature of the Operating Performance Objective

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

"Neither the FASAB nor federal financial reporting can independently accomplish the objectives of evaluating performance or assuring accountability, but they can contribute to achieving them."

SFFAC 1: *Objectives of Federal Financial Reporting*

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

It is not quite clear... where the role of the Board ends and others such as OMB come in regarding cost accounting.

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

Discuss what the scope of FASAB's role should be in meeting the Operating Performance objective.

1. What are some of the other information sources that help achieve the Operating Performance objective and to whom is the information reported?
2. Are the other sources effective in achieving the Operating Performance objective?
3. Are there particular aspects of the Operating Performance objective on which FASAB should focus?
4. What should be FASAB's role relative to performance reporting?
5. What should be FASAB's role relative to managerial cost accounting?
6. Given the limitations of FASAB's guidance vehicles, should the FASAB clearly state the areas where it only has an indirect role?

STANDARDS AND OBJECTIVES - EVIDENCE OF SYMMETRY

Number	Title	Budgetary Integrity	Operating Performance	Stewardship	Systems and Controls
SFFAS 1	Accounting for Selected Assets and Liabilities	[I] Recommends disclosure of liabilities not covered by budgetary resources	[E] Identifies importance of efficiency/effectiveness eval. [I] Liabilities are recognized when incurred (regardless of funding) => better performance measurement	[E] Identifies subobjective C (govt financial position improve/deteriorate over period) but does not explain how it is achieved	
SFFAS 2	Accounting for Direct Loans and Loan Guarantees	[E] Identifies the need to report the status of resources, and whether they were obtained and used in accordance with budget [I] Reporting loans at present value is consistent with budget; facilitates analysis	[I] Provides basis for comparing actual vs. budget or estimate		
SFFAS 3	Accounting for Inventory and Related Property	[I] Reporting certain types of property (i.e. foreclosed property) at present value is consistent with budget; facilitates analysis	[I] An alternative measurement (market value for stockpile materials) was rejected because it was believed to impair performance evaluation		
SFFAS 4	Managerial Cost Accounting Concepts and Standards	[I] Cost information provides feedback for the estimates used in budget preparation and review	[E] Associating cost with activities enables performance evaluation [I] Cost information facilitates evaluation of efficiency and cost-effectiveness		
SFFAS 5	Accounting for Liabilities of the Federal Government		[E] Appropriate recognition and measurement of liabilities is important for performance evaluation	[E] Information about projected future responsibilities and resources is as important as information about current ones	

[E] Explicit reference to objective

[I] Implicit reference to objective

STANDARDS AND OBJECTIVES - EVIDENCE OF SYMMETRY

Number	Title	Budgetary Integrity	Operating Performance	Stewardship	Systems and Controls
SFFAS 6	Accounting for Property, Plant, & Equipment (PP&E)		[E] Measuring and allocating the cost of PP&E enables evaluation of operating performance	[E] Recognizes that the unique nature of some assets warrants the use of different measurements (i.e. asset condition, cost, service potential, etc)	
SFFAS 7	Accounting for Revenue and Other Financing Sources		[E] Net cost and gross cost can be compared with outputs and outcomes [I] Matches cost with exchange revenue		
SFFAS 8	Supplementary Stewardship Reporting			[E] Describes measures of financial position, stewardship accountability, and stewardship responsibility	
SFFAS 9	Deferral of Implementation Date for SFFAS 4				
SFFAS 10	Accounting for Internal Use Software		[E] Capitalizing software costs provides relevant and reliable cost information that aids in program evaluation		
SFFAS 11	Amendments to Acc. for PP&E - Def.				
SFFAS 12	Recognition of Contingent Liabilities from Litigation			[I] Positive: prevents disadvantaging govt in lawsuits, securing well-being [I] Negative: reduces likelihood that a liability will be recorded in the proper period, impairing financial position assessment	

[E] Explicit reference to objective

[I] Implicit reference to objective

STANDARDS AND OBJECTIVES - EVIDENCE OF SYMMETRY

Number	Title	Budgetary Integrity	Operating Performance	Stewardship	Systems and Controls
SFFAS 13	Deferral of Par. 65.2 - Revenue-Related Disclosures				
SFFAS 14	Amendments to Deferred Maintenance Reporting			[I] Changes in deferred maintenance reporting => more faithful representation of Govt's operations and the nation's financial condition	
SFFAS 15	Management's Discussion & Analysis		[I] MD&A should discuss performance goals, objectives, results, and financial statements		[I] MD&A should discuss systems and controls, as well as problems that need to be addressed and planned corrective actions
SFFAS 16	Amendments to Accounting for PP&E - Multi-Use Heritage Assets		[I] The change in multi-use heritage asset reporting reflects an effort to more faithfully represent the costs of Government operations		
SFFAS 17	Accounting for Social Insurance		[E] The cost of the program, along with long-range estimates of future costs and other obligations, facilitates program evaluation	[E] Allows assessments of sustainability and whether the nation's financial condition has improved or deteriorated as a result of the programs	
SFFAS 18	Amendment to Standards for Direct & Guaranteed Loans	[I] Reconciliation allows for assessment of actual performance and budget expectations; => feedback [I] Inclusion of subsidy rates in financial reports facilitates budget analysis	[I] Segregation of interest rate and default re-estimates allows for evaluation of loan portfolios and guarantees [I] Reconciliation schedule displays data on actual performance		[I] Reconciliation process enhances credit agencies' internal control. It also fosters discipline in organizing data related to subsidy costs and performance
SFFAS 19	Tech. Amendments - Direct & Guaranteed Loans				

[E] Explicit reference to objective

[I] Implicit reference to objective

STANDARDS AND OBJECTIVES - EVIDENCE OF SYMMETRY

Number	Title	Budgetary Integrity	Operating Performance	Stewardship	Systems and Controls
SFFAS 20	Elimination of Disclosures - Tax Revenue Transactions		[I] A paragraph was rescinded so users would not misinterpret operating performance information		
SFFAS 21	Reporting Corrections of Errors/Changes in Accounting by IRS, Customs, & Others		[I] A Standard was amended to enhance the usefulness of comparative financial statements, facilitating performance evaluation		
SFFAS 22	Change in Requirements for Reconciling Obligations and Net Cost of Operations	[I] Increases reporting flexibility in order to enhance comparison/analysis of budgeted obligations with the net cost of operations			
SFFAS 23	Eliminating the Category National Defense PP&E		[E] Acknowledges an increased government-wide focus on cost of operations for performance evaluation	[E] Ensures the stewardship objective and need for unit information is maintained, despite amendments	
SFFAS 24	Selected Standards for the Consolidated Report of the US Government	[E] Reconciliation highlights how proprietary and budget accounting bases relate, and how the budget surplus/deficit relates to changes in the government's cash balance and debt held by the public			
SFFAS 25	Reclassification of Stewardship Responsibilities and Eliminating the CSA			[E] Ensures that the stewardship objective is maintained, despite moving it out of RSSI [E] Treating the Stmt of Social Insurance as a basic financial statement helps users assess the program's impact	

[E] Explicit reference to objective

[I] Implicit reference to objective

STANDARDS AND OBJECTIVES - EVIDENCE OF SYMMETRY

Number	Title	Budgetary Integrity	Operating Performance	Stewardship	Systems and Controls
SFFAS 26	Presentation of Significant Assumptions for SOSI			[!] Enhances disclosure of assumptions associated with the SOSI; enables users to better understand Government's financial position and program's impact	
SFFAS 27	Identifying and Reporting Earmarked Funds	[E] Helps users assess the source and adequacy of budgetary resources, and helps identify potential funding problems ¹	[E] Ensures all earmarked funds are identified and their status disclosed => users can evaluate the component entity's service efforts, costs, and accomplishments ¹	[E] Shows the cumulative effect on the results of cumulative operations => users can assess the impact on the overall financial condition and future financing needs of the Government ¹	
SFFAS 28	Deferral - Effective Date of Reclass. of SOSI				
SFFAS 29	Heritage Assets and Stewardship Land			[E] An enhanced understanding of heritage assets and stewardship land allows users to understand the Government's financial position and condition	

[E] Explicit reference to objective

[!] Implicit reference to objective

¹ From Exposure Draft

INTERPRETATIONS AND OBJECTIVES - EVIDENCE OF SYMMETRY

Number	Title	Budgetary Integrity	Operating Performance	Stewardship	Systems and Controls
I-1	Reporting on Indian Trust Funds		[I] Separating fiduciary and Federal program activities aids in program evaluation	[I] Separating fiduciary and Federal program activities makes it easier for users to assess the Government's financial position and condition	
I-2	Accounting for Treasury Judgment Fund Transactions		[I] Proper recognition of liabilities/expenses is essential to accurate operating performance presentation	[I] Appropriate recognition of contingent losses helps accurately portray the Government's financial position	
I-3	Measurement Date for Pension & Retirement Health Care Liabilities		[I] Consistent valuation practices are needed to compare and evaluate Federal entities' performance	[I] Measurement as of the balance sheet date more clearly portrays the Government's position	
I-4	Accounting for Pension Payments in Excess of Pension Expense		[I] Proper accounting for revenue and expenses is essential for performance evaluation		
I-5	Recognition by Recipient Entities of Receivable Nonexchange Revenue				
I-6	Accounting for Imputed Intra-departmental Costs	[I] Accurate (full) cost information provides feedback for the estimates used in budget preparation and review	[I] Clarification of full cost accounting requirements enhances entity performance reporting		

[E] Explicit reference to objective

[I] Implicit reference to objective

Standards and Objectives Analysis

SFFAS 1 Accounting for Selected Assets and Liabilities

This Statement defines and illustrates the distinction between entity assets and non-entity assets, as well as intragovernmental and governmental assets and liabilities. Though it does not mention the reporting objectives by name,¹ SFFAS 1 does state that the standards are designed to assist users in assessing the efficiency and effectiveness of government as well as the government's financial position (signifying **operating performance** and **stewardship**, respectively) (par. 4). This Statement enhances operating performance reporting by calling for liability recognition in the period incurred, regardless of funding (par. 95). The Board supported the **budgetary integrity** objective by recommending disclosure of liabilities not covered by budgetary resources.

SFFAS 2 Accounting for Direct Loans and Loan Guarantees

This Statement provides accounting standards for federal direct loans and loan guarantees. Loans and loan guarantee subsidies are recorded on a *present value* basis in the budget. The Board's complimentary decision to report such instruments on a *present value* basis in financial reports enhances the user's ability to compare actual results with the **budget** (par. 66-67). Comparison with the budget can improve a user's evaluation of **operating performance** (par. 8-9).

SFFAS 3 Accounting for Inventory and Related Property

This Statement provides accounting standards that apply to several types of tangible property, other than long term fixed assets, held by federal government agencies. The Statement does not explicitly reference any of the reporting objectives, but some of the Board's decisions in this Statement imply consideration of the objectives. For example, the Statement calls for present value accounting for some property (e.g. foreclosed property) in order to make financial reports compatible with the **budget** (par. 155). In the Basis for Conclusions, the Board contemplated a respondent's suggested alternative in relation to the **operating performance** objective (par. 138).

SFFAS 4 Managerial Cost Accounting Concepts & Standards

This Statement sets forth the fundamental elements of managerial cost accounting. The Board stated that relating cost with activities or cost objectives is a component of managerial cost accounting and is necessary to assess **operating performance** (par. 14-15). Managerial cost accounting facilitates measuring service efforts and accomplishments, such as cost per unit of output or cost-effectiveness. Information on the cost of program activities also provides feedback to the **budget** process as federal managers compare costs with known or assumed benefits, compare and determine reasons for variance, and perform other types of analysis (par. 33).

SFFAS 5 Accounting for Liabilities of the Federal Government

This Statement establishes accounting standards for liabilities of the federal government not covered in SFFAS 1 and SFFAS 2. The Board described its intent to further the **operating performance** objective when developing these standards (par. 9). The Board also contributed to meeting the **stewardship** objective by developing standards that present decision-useful information about current and future liabilities (par. 10). The Statement declares that information about projected future responsibilities and resources is as necessary to assess stewardship as information about current assets, liabilities, revenues, and expenses.

¹ SFFAS 1 was issued before the "Objectives" Concept (SFFAC 1) was released.

SFFAS 6 Accounting for Property, Plant & Equipment (PP&E)

This Statement contains accounting standards for federally owned property, plant, and equipment (PP&E), deferred maintenance on PP&E, and cleanup costs. The Board believed it could contribute to meeting the **operating performance** objective by measuring the cost associated with using PP&E and including that cost in entity operating results (par. 10). The **stewardship** objective is supported by standards providing information on asset condition, changes in the amount and service potential of PP&E, cost of PP&E (where applicable), and spending for acquisition of PP&E versus non-capital spending (par. 12).

SFFAS 7 Accounting for Revenue and Other Financing Sources

This Statement contains classification, recognition, measurement, and disclosure standards for revenue and other financing sources. The Board contributed to the **operating performance** objective by facilitating comparison between net cost / gross cost and outputs / outcomes. Such analysis is essential to assessing the effectiveness and efficiency with which resources are used (par. 20).

SFFAS 8 Supplementary Stewardship Reporting

This Statement establishes standards for reporting on the Federal Government's **stewardship** over 1) certain resources entrusted to it, identified as stewardship PP&E and stewardship investments, and 2) certain responsibilities assumed by it, identified as the current service assessment. Comparing revenue and expenses is not sufficient to evaluate the Government's performance. This Statement sets forth other standards of accountability such as stewardship PP&E, stewardship investments, and stewardship responsibilities (par. 9).

SFFAS 9 Deferral of Implementation Date for SFFAS 4

This Statement amends the effective date of the standards in SFFAS 4. There is no direct link to the reporting objectives.

SFFAS 10 Accounting for Internal Use Software

This Statement provides accounting standards for internal use software. The Board believed measuring the cost associated with using general PP&E and including that cost in operating results would help achieve the **operating performance** objective (par. 37). This Statement concludes that the cost of software developed or acquired for internal use meets the criterion for classification as general PP&E.

SFFAS 11 Amendments to Accounting for PP&E - Definitions

This Statement was entirely rescinded by SFFAS 23.

SFFAS 12 Recognition of Contingent Liabilities from Litigation

This Statement amends SFFAS 5 - it provides an exception to the contingent liability standard for recognizing loss contingencies on matters of pending or threatened litigation and unasserted claims. SFFAS 12 calls for recognition of a contingently liability when a future outflow or other sacrifice is "likely to occur" as opposed to the traditional accounting notion of "more likely than not." Arguably, the Statement enhances the Government's **stewardship** of resources because it decreases the chance that a liability will be recognized and in turn jeopardize the government's ability to fairly defend the public interest (par. 6). Others believe this Statement actually reduces a user's ability to assess the Government's financial position because it keeps some liabilities that are more likely than not to be incurred off the financial statements.

SFFAS 13 Deferral of Para.65.2-Material Rev.-Related Transactions

This Statement defers Paragraph 65.2 of SFFAS No. 7 for three years. There is no direct link to the reporting objectives.

SFFAS 14 Amendments to Deferred Maintenance Reporting

This Statement amends SFFAS No. 6 and SFFAS No. 8 to define deferred maintenance information as required supplemental information (RSI) rather than information within the financial statements and the notes. The change came after discussion of how to most faithfully represent the Government's operations and financial position (**stewardship** objective).

SFFAS 15 Management's Discussion & Analysis

This Statement establishes standards for preparing Management's Discussion and Analysis (MD&A). The Board contributed to the **operating performance** objective by prescribing sections of MD&A that address the entity's performance goals, objectives, results, and financial statements (par. 2). The standard also calls for an MD&A section on **systems, controls**, and legal compliance (par. 2). According to the Statement, MD&A should discuss important problems that need to be addressed and the actions that have been taken or planned to correct such concerns (par. 4).

SFFAS 16 Amendments to Accounting for PP&E - Multi-Use Heritage Assets

This Statement amends certain standards for multi-use heritage assets in SFFAS 6 and SFFAS 8. When a heritage asset serves two purposes, the asset should be considered a multi-use heritage asset if the predominant use of the asset is in general government operations. The costs of acquisition, betterment, or reconstruction of all such multi-use heritage assets are capitalized as general PP&E and depreciated. Capitalizing and allocating the expense results in a more faithful presentation of entity **operating performance** (par. 6).

SFFAS 17 Accounting for Social Insurance

This Statement presents accounting standards for federal social insurance programs. The standard stresses the importance of matching expenses against the provision of services year by year. The resulting cost can then be analyzed in relation to results, facilitating assessment of **operating performance** (par. 6). The Board also noted the relevance of the **stewardship** objective. Important questions for social insurance programs include whether they are sustainable as constructed, whether the government's financial condition was affected, and the likelihood that the programs will be able to provide benefits at current levels to those planning on receiving them (par. 8).

SFFAS 18 Amendments to Accounting Standards for Direct & Guaranteed Loans

This Statement amends portions of SFFAS 2 to improve financial reporting for subsidy costs and performance of Federal credit programs. One of the amendments requires that subsidy re-estimates be reported in two distinct components – the interest rate re-estimate and technical/default re-estimate. This segregation is designed to highlight changes in the **operating performance** of the credit program. Another of the amendments requires reconciliation between the beginning and ending balances of the subsidy cost allowance for direct loans and the liability for loan guarantees. One of the objectives of the reconciliation is to provide information that can be used to compare initial budget expectations with operating results, furthering the **budgetary integrity** and operating performance objectives (par. 29). The reconciliation is also designed to enhance credit agencies internal **control**.

SFFAS 19 Technical Amendments to Accounting Standards for Direct & Guaranteed Loans

This Statement adopts a number of technical amendments to portions of SFFAS 2. There is no direct link to the reporting objectives.

SFFAS 20 Elimination of Disclosures Related to Tax Revenue Transactions by the Internal Revenue Service, Customs and Others

This Statement rescinds paragraph 65.2 of SFFAS 7 which required disclosure of "revenue-related transactions affecting the beginning and end-of-period balances of accounts receivables, accounts payable for refunds, and the allowance for uncollectible amounts." The Board rescinded the paragraph because it believed the information required might be misinterpreted by users assessing **operating performance** (par. 19).

SFFAS 21 Reporting Corrections of Errors and Changes in Accounting Principles

This Statement amends the standard on Prior Period Adjustments contained in SFFAS 7. Before SFFAS 21, the Board disallowed restatement of prior period financial statements for prior period adjustments. Disallowing restatement, however, prevented entities from presenting comparative financial statements when the prior period statements contained a material error that was discovered in the current period. This Statement amends the standard to require reporting entities to restate the financial statements, if the statements are presented for comparative purposes and the effect of the error is material (par. 5). The Board made the amendment to enhance the usefulness of comparative financial statements, facilitating **operating performance** evaluation (par. 18-19).

SFFAS 22 Change in Certain Requirements for Reconciling Obligations and Net Cost of Operations (amends SFFAS 7)

This Statement amends a SFFAS 7 standard so that certain changes in receivables need not be presented as non-budgetary resources in the reconciliation of budget and financial information. The requirement was rescinded because there were instances in which reporting the change as non-budgetary was inappropriate. One of the Board's objectives was to enable readers to better understand the difference between obligations as reported in the **budget** and the net cost of operations as reported in the statement of net cost (par. 8).

SFFAS 23 Eliminating the Category National Defense Property, Plant, and Equipment

This Statement eliminates the category, National Defense PP&E – the cost of such items should now be capitalized and, with the exception of land and certain land improvements, depreciated. The Board acknowledged an increasing government-wide focus on the cost of operations and believed the change would provide a clearer indication of **operating performance** (par. 5). The Basis for Conclusions clearly stated that the Board did not intend to sacrifice the **stewardship** objective by eliminating the ND PP&E category; rather, it felt that the stewardship objective was adequately met through the general PP&E classification (par. 37).

SFFAS 24 Selected Standards for the Consolidated Report of the United States Government

This Statement clarifies that all parts of all SFFAS apply to all Federal entities (including the consolidated entity) unless a standard specifically provides otherwise. Arguably the Statement enhances all of the reporting objectives because it ensures appropriate reporting at the consolidated level. However, SFFAS 24 contributes to the **budgetary integrity** objective *specifically*. The Board requires reconciliation information so users know how the proprietary net operating revenue (cost) and unified budget surplus (deficit) relate to each other (par. 30). Furthermore, the required statement of changes in cash balance explains why the unified budget surplus (deficit) normally would not result in an equivalent change in the Government's cash balance (par. 31).

SFFAS 25 Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment

This Statement changes the classification of information about stewardship responsibilities and eliminates the requirement to present the "Current Services Assessment." The Board addressed the **stewardship** objective when it classified the Statement of Social Insurance (SOSI) as a basic financial statement. The classification highlights the information as essential to fair presentation and assessment of the impact of such activities on the country (par. 26).

SFFAS 26 Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25

This Statement amends SFFAS 25 to require disclosure of significant assumptions underlying the Statement of Social Insurance (SOSI). The Board believed that the underlying significant assumptions were essential to fair presentation (par. 8). The standard was designed to give users ready access to the assumptions behind projections presented in the SOSI, enhancing a reader's understanding of the Government's financial position (**stewardship**).

SFFAS 27 *Identifying and Reporting Earmarked Funds*

This Statement defines and addresses “earmarked funds.” The Statement addresses the **budgetary integrity** objective by helping users assess the source and adequacy of budgetary resources. By identifying all earmarked funds and disclosing their status, users are also able to evaluate component entities’ **operating performance** - service efforts, costs, and accomplishments (ED Summary). Finally, the standard contributes to the **stewardship** objective by helping users assess the impact of earmarked funds on the overall financial condition and future financing needs of the Government.

SFFAS 28 *Deferral of the Effective Date of Reclassification of the Statement of Social Insurance: Amending SFFAS 25 and 26*

This Statement defers for one year the effective dates of SFFAS 25 and SFFAS 26. There is no direct link to the reporting objectives.

SFFAS 29 *Heritage Assets and Stewardship Land*

This Statement changes the classification of information reported for heritage assets and stewardship land. The Board believed that useful information about heritage assets and stewardship land contributed to meeting the **stewardship** objective (ED Summary). Specifically, such information was thought to contribute to an understanding of the operations, financial position, and financial condition of the Government.

I-1 Reporting on Indian Trust Funds

This Interpretation clarifies that the assets, liabilities, and operating transactions of the Indian trust funds are not part of the Department of Interior and therefore should not be included in the balance sheet, statement of net cost, or statement of changes in financial position of the Department or of the Federal Government. Separating the Department's results from those of the Indian trust funds results in a more accurate presentation of the Department's **operating performance**. The segregation of accounts also makes the financial statements of the Federal Government more faithful depictions of the nation's financial position (**stewardship**).

I-2 Accounting for Treasury Judgment Fund Transactions

This Interpretation clarifies how Federal entities should report the costs and liabilities arising from claims to be paid by the Treasury Judgment Fund, as well as how the Treasury Judgment Fund should account for what it is required to pay on behalf of Federal entities. By clarifying that the estimated loss must be recognized as a liability when the likelihood of loss is probable and estimable, the Board ensures that the financial statements of Federal entities properly present all costs so users can assess **operating performance**. Clear liability recognition and disclosure criteria also help to ensure that the nation's financial position is represented faithfully so users can assess **stewardship**.

I-3 Measurement Date for Pension and Retirement Health Care Liabilities

This Interpretation clarifies that pension and retirement health care liabilities in general purpose financial reports should be measured as of the end of the fiscal year. By creating a consistent measurement date, the Board made Federal entity financial statements more comparable, and comparable information assists users in assessing entity **operating performance**. Measurement at the end of the fiscal year also gives users a more faithful representation of the Government's financial position (**stewardship**) as of the balance sheet date.

I-4 Accounting for Pension Payments in Excess of Pension Expense

This Interpretation clarifies that a transfer-out should be recognized when the total pension payment exceeds total pension expense. Proper and consistent expense and transfer accounting is essential if users are to be able to assess **operating performance**.

I-5 Recognition by Recipient Entities of Receivable Nonexchange Revenue

This Interpretation clarifies that the Board did not intend to impose "push down accounting" that would require entities that receive monies collected on their behalf to recognize a portion of the IRS's net taxes receivable. There is no direct link to the reporting objectives.

I-6 Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4

This Interpretation clarifies that reporting entities should account for imputed intra-departmental costs in accordance with the full cost provisions of SFFAS 4. To account for the full cost of a program and its output(s), reporting entities should recognize imputed intra-departmental costs. As described in SFFAS 4, accurate (full) cost information provides important feedback for the estimates used in **budget** preparation and review. Likewise, full cost accounting results in a more faithful representation of cost and therefore **operating performance**.