



April 11, 2014

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model – **TAB B¹**

MEETING OBJECTIVE

The overall objective of this session is to discuss each Board member's views of an ideal reporting model.

BRIEFING MATERIALS

The memo presents background information on the project along with:

Attachment I: Summary of Reporting Model Research. This attachment summarizes staff research regarding users' needs and how they expect information to be presented; and other matters noted during the reporting model discussions. Also, the attachment discusses four additional projects that the Board could consider as part of its three-year plan.

BACKGROUND

For the April 2014 meeting, FASAB members will present their view of an ideal reporting model. To help narrow the range of possible topics that each presentation might address, members decided to focus on the reporting objectives that generally accepted accounting principles (GAAP) might address. Accordingly, the presentations should address the Budgetary Integrity objective, in general, and each of the sub-

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

objectives of the Operating Performance objective. Also, the presentations should address certain aspects of the Stewardship objective which calls for information on the government and the nation. Members decided to focus on providing information regarding the government, rather than the nation and, accordingly, presentations should address the government's financial position and the sustainability of public services - two of the three Stewardship sub-objectives. Members may voluntarily address the third sub-objective concerning the government's contribution to the nation's current and future well-being. Members will also consider users' needs and other matters noted concerning the reporting model. Attachment I: Summary of Reporting Model Research provides a discussion on users' needs and other matters noted during the reporting model discussions. Also, the attachment includes four additional projects that the Board could consider as part of its three-year plan.

MEMBER FEEDBACK

If you have any questions or comments, please contact me by telephone at (202) 512-2512 or by email at simmsr@fasab.gov with a cc to paynew@fasab.gov .

Summary of Reporting Model Research

Introduction

Staff observed that users seek understandable information about the financial health of the government. They need to be prompted to know when to expect that the information would be available and would like to access this information first-hand rather than through news sources or other intermediaries. They also expect to use interactive tools to help them answer a broad range of questions in a timely manner and, at times, the answer to an initial question could prompt other questions that require more in-depth research. While reporting based on generally accepted accounting principles (GAAP) can help answer fundamental questions, it may not reasonably address the full breadth and depth of topics implied in users' expectations. Instead, GAAP-based reporting could contribute to meeting users' information needs by fostering access to reliable data that can be arrayed in a variety of ways.

The following discussion presents staff's observations during the course of the reporting model project. It comments on what information users seek, such as contextual information, a comparison of budget and actual information, accrual basis information in general, revenue and its sources, performance information, and stewardship information and economic measures. Also discussed are the different levels for aggregating this information and how users expect information to be presented. In addition, a perspective from other countries is noted to show how other nations present and use financial reports.

Given the various perspectives received, staff suggests four additional projects that the Board could consider as part of its three-year plan. The projects could assist the Board in focusing on fundamental matters that could be addressed through GAAP and help in resolving future challenges.

Contextual Information

Users need contextual information to facilitate their analysis. They would like to learn about the purpose of the reporting entity; why Congress originated it; and what it should accomplish. Also, information on key relationships is needed, such as explanations of the relationship of the federal government's operations to other levels of government, businesses, and the public; and a presentation of the top programs or delivery mechanisms.¹⁵ Information to answer these questions helps provide context for understanding the financial information presented and could prompt questions that they might expect to be addressed in the financial statements. For example, contextual information that indicates that the entity guarantees loans may prompt users to seek to know how much the guarantees cost the federal government; the amount of the guarantees; and what benefits have been derived. Consequently, the contextual information could help target their search and if key words and phrases

¹⁵ FASAB, Financial Reporting Model Task Force Technical Group Minutes, May 12, 2010.

such as ‘loan guarantees’ are linked, users could save research time by proceeding directly to the financial information.

FASAB recognizes the need for contextual information and provides guidance in concepts and standards, such as conceptual guidance and standards for preparing Management’s Discussion and Analysis (MD&A). Current financial reports include contextual information in the Management’s Discussion and Analysis (MD&A) section and typically in the first note of the disclosures. Also, agency websites provide more detailed information.

Comparison of Budget to Actual

Users expect to review information on the budget for the reporting entity. Participants in FASAB staff’s Budgetary Integrity Roundtable Discussion noted that a budget to actual comparison would provide a better presentation than the existing SBR for meeting the overall objective. In particular, they noted that a budget to actual comparison at some meaningful level of detail, such as the appropriation account level, would meet the objective of having the government publicly accountable. They also noted that other government entities prepare comparisons and there was Congressional interest in a budget to actual comparison for each program.¹⁶ In addition, when reviewing different proposals for presenting budget and cost information, focus group participants reiterated the call for a budget to actual comparison.¹⁷

Board members have also expressed a need for a budget to actual comparison. They acknowledged that users have difficulty understanding the statement of budgetary resources (SBR) and some noted that the comparison could either replace the SBR or be added to the existing set of statements. Although over the years different members have proposed different comparisons,¹⁸ the Board has not agreed to pursue the statement. Members noted that, among other reasons, FASAB’s role with respect to budgetary integrity is difficult to define and the spending (outlays) today relates to budgets approved (budgetary authority) over the past several years.¹⁹

Budget analysts suggested that a budget to actual comparison would be more suitable for discretionary spending, which is decreasing in relation to mandatory spending. They noted that while discretionary spending programs often conform to the amount appropriated, mandatory spending frequently varies from budgeted amounts. The variances may be due to estimation errors, unanticipated changes in economic conditions, or policy changes.²⁰

¹⁶ FASAB, Reporting Objectives Issue Paper, January 2006.

¹⁷ FASAB, Federal Reporting Model: Citizens Focus Group Discussions – TAB B-3, December 7, 2012, p. 8.

¹⁸ FASAB, February 2012 Minutes

¹⁹ FASAB, February 2011 Minutes.

²⁰ FASAB, Federal Reporting Model – TAB E-3, April 14, 2012, p.13.

Accrual Basis Information in General

Although users expressed interest in budget information, they also sought to understand the reporting entity's long term financial needs and whether there were opportunities to improve efficiency. They wanted to know about the federal government's assets and liabilities and the cost of specific programs.²¹ Regarding stocks such as assets, they are not solely interested in their financial value, but concerned about how those stocks are used in operations.²² Users sought to know information such as whether resources could be better managed to reduce the likelihood of non-exchange revenue increases.²³ Thus, without explicitly stating so, users sought information measured using accrual basis accounting regardless of the entity's source of financing. Also, citizens appeared to expect this information without assessing how managers manage resources. Accordingly, while some entities receive appropriations and their managers manage their budget spending rates, citizens appear to expect them to also manage their costs.

In addition, analysts particularly sought information as of a point in time. They sought information on the financial impact of government decisions and noted that although projections are helpful for considering the future, sovereign debt is no longer considered "risk-free" and there is a focus on capturing a country's non-debt liabilities. Governments guarantee loans, provide deposit and pension insurance, provide natural disaster relief and bailed-out public enterprises, financial institutions, and private organizations. However, these policy decisions have implications that may not be captured and presented using cash basis systems. Also, there is interest in knowing how the government manages its resources including the results of capital investment decisions.²⁴

The Board has developed concepts and standards regarding accrual basis information and considered the operating performance objective of financial reporting to be a primary focus. The objective calls for information on assets and liabilities and cost of programs. While the guidance permits flexibility, reporting entities have not provided information on the specific cost of programs in the basic financial statements. Agencies presented cost data aggregated by strategic goals; major programs; products and services; lines of business; or offices, operating units, branches, and divisions.²⁵ Accordingly, various perspectives of cost information are being presented and sought.

In addition, the Board has provided guidance to help achieve the stewardship objective of financial reporting which calls for, among other things, indicators of financial position measured on an accrual basis.²⁶ However, members have

²¹ FASAB, User Needs Study: Citizens, p.3

²² SFFAC 1, par. 131.

²³ FASAB, User Needs Study: Citizens, April 12, 2010, p. 12.

²⁴ FASAB, Federal Reporting Model - TAB E -1, February 14, 2012, p.3.

²⁵ FASAB, Managerial Cost Accounting Project Issue Paper, June 2010.

²⁶ Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, par. 145.

expressed concerns whether the benefits of accrual basis measures have been fully realized, given that economic events are recorded when they occur and the measures can provide an indication of fiscal challenges in the future. During its discussions regarding social insurance commitments, Board members discussed the balance sheet and noted that the conceptual framework needed to better explain unique accounting issues such as why the power to tax is not an asset but nonetheless is relevant to assessing the sustainability or the financial condition of the federal government.²⁷

Also, the Board noted that different perspectives are needed to report on the financial health of the federal government and the financial statements may not have a single bottom line. Consequently, rather than developing a financial statement that helps users understand changes in the government's financial position and the impact of growing social insurance commitments, the Board agreed to present financial statement metrics in the MD&A.²⁸

Revenue and Its Sources

Revenue and its sources is another area of information that users seek. They appeared to seek information to help them understand how much the federal government received and from what activities and sources such as individuals and organizations. Some users appear to have an interest in identifying government activities that earn exchange revenue and whether they are actually producing net revenue. Whether such revenue reduces the need to acquire debt may be the concern.

For agencies, existing FASAB guidance requires reporting of exchange revenue on the face of the statement of net cost and associating the cost of providing the goods or services with the earned exchange revenue, regardless of whether the agency retains the revenue for its own use.²⁹ However, because various approaches are used to classify items on the statement of net cost, it may not always be clear, what program or activity earned the exchange revenue. For example, some reporting entities present costs by strategic goal and strategic goals involve multiple programs and activities. Consequently, the specific program or activity responsible for the revenue and the sources may not be apparent.

Performance Information

Users would like to be informed on "what are we getting for our money."³⁰ We noted several instances which indicate the level of interest and concern for performance information, such as the implementation of a website, Performance.gov. The website

²⁷ SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*, par. A42.

²⁸ SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

²⁹ SFFAS 7, par. 43.

³⁰ FASAB, Reporting Model – TAB B-3, p.6.

provides pages for cabinet level departments and nine major agencies and the pages include information on the agency's mission, strategic goals, objectives, and priority goals, and inventory of federal programs. We also noted the following:

- One agency established a performance management system to help managers and executives track grant recipient performance and, using data warehousing, integrated the data with budget and other data.
- Senate budget committee staff sought data on the full cost of programs, unit costs, and program outcomes.
- Citizens participating in our survey sought information on the results of programs.
- Auditors noted that performance information is important to users and that because agencies use different cost allocation methodologies, agencies could be required to disclose their methodology.
- Preparers noted that users are interested in the value being provided for the costs incurred.³¹

Also, other countries are reporting on service performance in addition to financial performance. Such information could help with assessing the efficiency and effectiveness of decisions. For example, New Zealand provides an audited report on service performance and, recognizing that countries around the world are reporting service information, the International Public Sector Accounting Standards Board has issued guidance for reporting service performance information.

Given the level of interest in performance information and its importance to financial reporting, performance information is a part of the existing conceptual model for financial reporting.³² However, FASAB has not developed specific standards to require information as envisioned by the model, as some members note that guidance for performance information could be best provided by other sources.

Stewardship Information and Economic Measures

With respect to user needs, performance can have two perspectives – performance of individual government programs and entities; and of the nation. Users not only seek information about the achievements of various programs, but they expect discussions on their positive and negative impact on the public.³³ FASAB's Reporting Model Task Force noted that performance information could inform national debate on the federal government's future role in the economy and society. The federal government continues to perform activities such as advancing national and economic security, protecting the health of Americans, promoting education and scientific innovations,

³¹ FASAB, Reporting Model – TAB E-2, April 14, 2012, p.11.

³² SFFAC 2, Entity and Display, pars 65-67.

³³ FASAB, Financial Reporting Model Task Force Technical Group Minutes, May 12, 2010, p. 6.

and activities that could impact the broader economy.³⁴ As a result, the public expects financial reporting to account for the government's actions and its impact on the national economy and society.

Interestingly, although our inquiries focused on expectations of financial reports, participants raised areas that were not within the domain of traditional financial reporting. For instance, participants sought to know about program goals and whether they are being achieved and their effects on the country, indicating the need for economic measures. Also, there was concern about the government's impact on the country in the future and sustainability. The Bureau of the Census now provides a mobile application that allows users to review real-time updates for 16 key economic indicators so that users can "take the pulse of the U.S. economy."³⁵ The expectation demonstrates interest in the government's activities and holding officials accountable.

Government-wide and Component Perspectives

Unless prompted, users did not necessarily distinguish between expectations of government-wide versus component level information. Whether information should be aggregated at the government-wide or agency levels largely depended on the topic of interest. Also, agencies receive questions on specific issues that appear to be of importance at that particular time, rather than recurring questions on the same item of information. For example, when a major asset is damaged questions may arise internally regarding how the agency accounts for the item and its inventory or property, plant, and equipment management practices. We also observed that:

- Government-wide information may be of interest to analysts seeking to review the impact of the government on the nation.
- Agency level information may be needed to identify organizations that have established adequate internal controls and those that have significant weaknesses.
- Program level information may be of interest to citizens, managers, executives, and Congress to assess their cost and performance.
- Activity level information may be of interest to inform management decisions.

FASAB distinguishes information requirements for government-wide and components based on their financing source. For instance, the government as a whole is financed by taxes while component entities are financed by appropriations. Accordingly, information about tax revenue should be reported at the government-wide level, while budgetary resources should be reported by components. Also, the Board believes that citizens should be the target audience for the government-wide report, but is not explicit on the target audience for component reports.

³⁴ Congressional Research Service, *Troubled Asset Relief Program (TARP): Implementation and Status*, R41427, September 2013.

³⁵ <http://apps.usa.gov/americas-economy.shtml> accessed April 1, 2014.

FASAB's Reporting Model Task Force believed that the government-wide level might be the starting place for users, given that they may not be familiar with the mission and programs of various agencies. However, meaningful information could diminish as it is aggregated for reporting at higher levels. For instance, the federal government engages numerous component entities that manage the performance of numerous, yet distinct programs. A single component entity could manage programs involving different missions; industries; stakeholders, including Congressional committees and consumers; means of providing services (physical capital, contractors, federal employees, grantees, or a combination thereof); sources of financing (tax dollars versus earned revenues); types and durations of liabilities; risks; and sets of data for making decisions and demonstrating accountability. These distinctions may not be apparent in a highly aggregated presentation and context would be needed to help users know whether "drill-down" is needed.

Also, to obtain the range of data they need, internal participants noted that they may access various systems, including financial systems. This is consistent with the Board's view that financial information alone may not be sufficient for decision-making. Some of those users noted that the department level financial statements are highly aggregated and that level of aggregation makes it challenging for them to learn about their specific area of responsibility. Consequently, they create reports based on the data used in preparing the statement³⁶ and data definitions may be important for helping them aggregate the data for their analysis.

How Users Expect Information to be Presented

Users appear to expect interactive and integrated information. Focus group participants noted that a presentation should show how much agencies requested, the purpose for the request, what was actually budgeted versus what was actually used, operating costs, what they are getting for their money, and trends.³⁷ However, attempting to present this information in a single or series of constructs presented challenges. For instance, users agreed that different measurement bases are needed to answer different questions, but attempting to present the different measures in a single schedule was confusing. Budget measures used terms that were unfamiliar to participants and they were not certain about how the different measures relate. As a result, interactive tools could provide users with explanations or additional detail to minimize confusion.³⁸

With respect to how information should be presented, the following key requirements were noted:

- Plain-English – Technical language was difficult for some users to understand. Also, lengthy narrative presentations were not well received.

³⁶ FASAB, Financial Reporting Model – TAB E, February 10, 2012.

³⁷ FASAB, Federal Reporting Model – TAB B-3, December 7, 2012, p.6.

³⁸ Ibid.

- Charts, Graphs, or pictorial illustrations were helpful and would be more likely sought than tables or narrative.
- Brief video may be a likely starting point then the user would know where to focus.
- Summarized information should be accompanied by timely access to details.
- Information should be easily accessible. Accordingly, automated access could save time and resource and the Internet could provide access to numerous users.
- Ability to perform queries. Prompts would assist users in designing their searches.

In addition, given that the users seek a wide array of information and possibly different levels of detail from multiple sources, a framework could help users understand where they might locate the data they need and how it should be arrayed.

Also, users did not appear to expect to spend significant amounts of time reading text or watching a video and they sought summary or highlight information to determine where to focus their efforts. Participants often noted the need for graphics or pictorial illustrations to advance their understanding so that they could participate in the democratic process and engage in discussions about the nation's finances.³⁹

Moreover, multiple dimensions are expected. Although traditional financial reports present amounts by element and for particular periods of time, advancements in technology, enable users to access various sources and array information by multiple dimensions. For instance, the Department of Interior provides data on expenditures by state, object class, and recipient. This capability facilitates additional analyses.

Currently, individuals seek information from the internet and prefer to obtain information on demand. An electronic, Web-based reporting method addresses today's user preferences and permits them to easily choose between a horizontal perspective (developing an understanding of a variety of topics) and a vertical perspective (drilling down and gaining knowledge about specific topics). This lessens the need for FASAB to focus on how to present as much information as possible in a linear, sequential construct or the need for an assortment of reports such as a citizens' guide and a performance and accountability report for a single entity.

In addition, concerns about weighing down readers with information, would not necessarily be the focus in an electronic environment. Rather, the focus would be on the number of "clicks" it would take for a user to locate the information they are seeking.

³⁹ FASAB Staff Issue Paper, Reporting Model, April 2010.

FASAB has considered that users may need different report formats and levels of aggregation for their analysis. This would provide a type of framework that would assist users in obtaining and analyzing the information they need. Also, although Board members noted that preparers can voluntarily implement format improvements, one user noted that the accounting data provided tends to focus on “was the money spent on the appropriate purpose,” but accounting data is also needed to determine how the expenditure reduces infrastructure risks.⁴⁰ Thus, the participants expected that certain items of information are fundamental and would be required for reporting purposes.

Perspectives from Other Countries

FASAB staff surveyed members of the Organizations for Economic Cooperation and Development (OECD) to determine some of their financial reporting practices.⁴¹ One message that FASAB members noted from the survey was that integrating financial statements and the budget appeared significant. Most respondents used the same bases of accounting for financial reporting and budgeting and they noted that the financial statements are used in comparing final outcomes to the budget, making budget decisions, and in preparing the budget itself. Using dual bases complicated the accounting model and presented several challenges, such as the accrual basis financial statements not receiving the level of attention of the primarily cash basis budget.⁴² When discussing the uses of financial statements, the respondents noted that the financial statements are used in comparing final outcomes to the budget, making budget decisions, and in preparing the budget itself. We also noted that

- Countries such as Australia, Canada, New Zealand, and the United Kingdom presented disaggregated operating statements.
- Most of the survey respondents use accrual accounting and some countries consider private sector accounting standards in preparing their financial reports.
- One respondent noted that audited departmental financial statements ensure high-quality information for management such as the location of inventories and improvements in payment processing.⁴³

Staff Analysis

Participants consulted during our reviews agreed that users’ needs as reflected in the reporting objectives were broad and involved various measures and perspectives. However, they did not expect that FASAB would address all of the objectives through GAAP. Other sources may be best established to present the information and skills in data analytics and a framework or well-coordinated contextual information could assist users in researching and presenting information to address questions not necessarily

⁴⁰ FASAB, Federal Reporting Model – TAB E, February 10, 2012, p. 14.

⁴¹ FASAB, Financial Reporting Model - TAB F, February 10, 2010.

⁴² Ibid, pp.12-13.

⁴³ FASAB, Financial Reporting Model - TAB F, February 10, 2010.

answered in a GAAP-based report. Nonetheless, users should clearly understand what they can expect to learn from a GAAP-based report and, beginning on page 13, staff suggests four potential projects to consider as part of the Board's three-year plan. The projects stem from the reporting model discussions and could assist the Board in focusing its efforts and addressing significant issues in the future.

The federal government is engaged in a broad range of programs and activities and uses different organizational and financing structures to accomplish its goals. Consequently, users seek answers to a variety of questions that do not always point to a single metric or the need for a single measurement basis. Also, given the nature of a reporting entity's operations, users may expect traditional-looking formats such as a balance sheet to reflect traditional items. Thus, they would need to understand why there might be differences and understand that different questions require different measurements. After explaining basic matters to focus group participants, they understood that different questions required different measurements.

In addition, as the government's activities and the reporting environment changes, it may not be reasonable to know or anticipate all the financial questions users may ask. However, many research participants expressed that the federal government has a significant amount of data that could be accessed. The concern is that the data is not always stored in a manner that makes it easily accessible or arrayed in a way that makes it understandable and useful. For example, data needed to determine the cost of resolving a catastrophe may reside in financial, procurement, and human resource systems of various entities and the data may not be coded in a way to readily determine whether the costs are relevant. As a result, skill in data analytics and contextual information has become increasingly important to navigate various sources and obtain the appropriate data needed.

Focus group participants realized that information accompanied by proper context assisted them in their research and understanding and interactive tools played a significant role in their realization. For instance, budgetary terms were not familiar to most participants; however, budget measures are important for showing, among other things, the amount of budgetary resources that were made available. By moving a computer mouse over a word such as appropriations, a user can view a definition of the term and learn why it might be important to their analysis. Also, a user could click on the term and possibly go to a more detailed report or data that could be downloaded, along with their definitions to ensure that the data is properly used.

Moreover, as users obtain an understanding of the construct presenting the data, they can have a better understanding of how the information might be used for their analysis or where to locate alternative sources for other information. For instance, contextual information would help guide users' expectations for what information should be presented by an entity that receives appropriations versus an entity that has earned revenue, such as the FDIC; or an entity that primarily issues grants versus an entity that produces a product or a combination of grants and products.

Potential Projects

Reporting Objectives to be achieved by Generally Accepted Accounting Principles

This project would establish reporting objectives that should be achieved by generally accepted accounting principles (GAAP). The Board believes that a conceptual framework should identify objectives that give direction to standard setters; however, the existing reporting objectives pertain to financial reporting in general rather than financial reporting that should be achieved by GAAP. As a result, the Board at times deliberates whether objectives might be best achieved through financial statements, required supplementary information, or sources other than GAAP. Accordingly, clarifying the role of GAAP with respect to the reporting objectives would provide enhanced direction to the Board and inform future standards-setting matters.

Accounting Bases to Achieve GAAP Objectives

This project would provide conceptual guidance that discusses the accounting bases needed for presenting information in conformity with GAAP. The Board has noted that a conceptual framework should help those affected by or interested in standards better understand the purposes, content, and characteristics of required information. While current conceptual guidance discusses reporting objectives that may require various accounting concepts to record and present the information, the guidance needs to discuss those concepts, including why different bases are needed and how they might be used. For instance, Budgetary Integrity may require cash or budgetary accounting; Operating Performance may require accrual accounting; and Stewardship may require economic statistics. Users could use the guidance to understand the need for these bases and the questions they help to answer. Accordingly, this project would provide guidance to help constituents understand why a single basis of accounting may not provide a full perspective of the many federal government activities and how they might use the different bases for their analyses.

Classification of Costs

Staff research has noted different views with respect to how costs should be reported in financial statements and, in practice, different reporting entities use different classification schemes. Also, FASAB guidance, for the most part, permits flexibility in classifying costs and discusses various alternatives. Consequently, the relative importance of a classification scheme depends on the entity and the decisions they expect users to make with the information. However, the level of variation among entities presents challenges to those seeking to make comparisons or identify patterns and trends and this project would provide guidance to facilitate such analyses.

The Federal Balance Sheet and Unique Accounting Issues

Existing conceptual guidance discusses the balance sheet as a stock statement that presents certain items of information as of a specific time.⁴⁴ However, constituents and the Board discussed the purpose of the balance sheet and the Board determined that the conceptual framework needed to better explain unique accounting issues such as why:

- the power to tax is not an asset but nonetheless is relevant to assessing the sustainability or the financial condition of the federal government;
- current deficits are indeed bad but that the problem is actually long-range rather than short-range;
- the timing of a cash flow problem is important; and
- the point estimates on the balance sheet have limitations for assessing financial condition.

This concepts project would address these issues and help guide the Board in resolving future standards-setting matters.

⁴⁴ Statement of Federal Financial Accounting Concepts 2, Entity and Display, par. 57.