



October 18, 2013

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model – **TAB C**¹

MEETING OBJECTIVE

The objectives of the meeting are to discuss feedback from the ideal reporting model task force and determine whether to develop a mockup of an ideal model that can be used to inform conceptual guidance; and obtain feedback on topics for conceptual guidance.

BRIEFING MATERIALS

Attachment I: Ideal Model Mockup provides a brief overview of the ideal reporting model task force discussion and the suggestion that a web-based mockup be developed to facilitate testing, development of features, and facilitate user feedback and further discussions. Minutes of the discussion will be provided to members upon completion.

Attachment II: Draft Conceptual Guidance Outline presents the outline of a concepts statement. The statement would provide principles for presenting information to achieve the objectives of financial reporting (Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control) regardless of the medium of delivery, e.g., printed document or web-based electronic.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations

Attachment III: Cost Study Statement of Work provides information regarding a study to be conducted by the National Academy of Public Administration in support of the reporting model and managerial cost accounting projects. This study will inform the development of the ideal reporting model.

BACKGROUND

The current objective of the reporting model project is to develop a conceptual (ideal) reporting model that integrates the information necessary for achieving the federal financial reporting objectives. Development of the model would not be constrained by considering existing systems and what the Board could accomplish immediately. Staff is conducting task force discussions to determine the ideal model.

MEMBER FEEDBACK

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

Questions for the Board

1. Task force participants discussed an electronic reporting model that links data across programs and entities, includes audited and unaudited data, and permits customized outputs. A web-based mockup of this model would be helpful in determining features, obtaining user feedback, and facilitating further discussions. See Attachment I: Ideal Model Mockup. Do you agree or disagree with the idea of having a mockup of an ideal reporting model developed?
2. To begin discussions on what conceptual guidance might be needed, staff has drafted an initial outline for a concepts statement. The concepts statement would help guide the development of the ideal model and provide principles for determining how to present diverse information to a broad range of users regardless of the medium of delivery, e.g., printed document or electronic, web-based presentation, and achieve the reporting objectives. A web-based mockup of the ideal model could inform development of the conceptual guidance. See Attachment II: Draft Conceptual Guidance Outline. What topics do you believe should be discussed in the conceptual guidance?

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Attachments

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Attachment I: Ideal Model Mockup

Ideal Model Mockup

Task force participants discussed current reporting model concerns, including the perception that financial reports are not being read; users have been expecting information about federal programs, but meeting that expectation has yet to be achieved; users do not understand what the federal government does; and what would be the role of management's discussion and analysis (MD&A) in an electronic environment where data is highly interconnected or linked and each agency is unique. Also, the participants discussed a high-level view of an ideal electronic reporting model and noted that the ideal model would link the data in existing websites as necessary to provide users with the information they need. Cloud computing and other technologies could be used to enable virtual data warehouses so that users can access information across federal programs and entities. The model would include audited and unaudited data and permit customized output.

Although the participants noted fundamental features of an ideal model, they noted that it is difficult to discuss details of the model in abstract. Consequently, they suggested that a web-based mockup be developed. A mockup could capture ideas and help with testing possible designs, demonstrating features, identifying challenges and questions that would need to be resolved, and obtaining citizen and other user feedback. Also, it would facilitate more in-depth discussions. Minutes from the task force discussion will be provided upon completion.

Staff Analysis

FASAB staff believes that a web-based mockup of an ideal model would be beneficial. Mockups are often used to present ideas and obtain feedback and, based on staff's experience in working with focus groups, participants need illustrations or a model that they can visualize and react to versus discuss in abstract. For instance, staff provided focus group participants with alternative presentations of cost and budget information. This approach enabled the participants to discuss their likes and dislikes, raise questions about terms used, and offer suggestions for improvement.

Also, the initial scope of the mockup could focus on a single area and use existing data. The results of obtaining feedback on the mockup would inform the development of conceptual guidance and, if the Board believes that a mockup would be helpful to the project, staff would proceed to research the cost and time requirements.

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Draft Conceptual Guidance Outline

Component reporting entities of the federal government can be complex. They generally manage the performance of various, yet distinct programs. For instance, a single component entity is responsible for managing hydroelectric power facilities, loan guarantees, research laboratories, and nuclear weapons security. Although administered by a single component entity, each of these programs involve 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.

Despite these significant differences, the current practice for components is to summarize the data for these programs into a common presentation across the reporting entity. Consequently, as the details that distinguish the management of these programs are summarized for the reporting entity, the level of meaningful information available to make decisions and assess their accountability decreases and internal and external users lack useful information.

For instance, during multiple task force discussions, it was noted that the general public has difficulty understanding what the federal government does. Some may understand the need for defense, but they may not have an understanding of what other discretionary programs do. They may not know that there would be fewer weather satellites to forecast the weather or fewer food safety inspections if the budgets for those programs were reduced. More granularity could help the public better understand what the federal government does and get a sense of what services may no longer be provided in a budget constrained environment.

Also, although all users expect information about programs, including their costs and results, existing practices have not clearly yielded this information. The federal financial reporting objectives include providing financial information that helps internal

users improve management and understanding cost data facilitates performance management. Current practices include presenting performance reports issued separately from financial reports and not integrated with cost data. Cost data helps users determine the efficiency and effectiveness of the resources used to provide outputs and outcomes.

Moreover, with respect to budget information, users expect to determine to what extent entities used their budgetary resources; therefore, they expect to compare budgeted and actual amounts. However, current reporting of budgetary information is complex and users do not understand the presentation and terminology.

Additionally, technologies enable users to access volumes of government data and perform their own analyses and create their own websites and other presentations. This collaboration with respect to analyzing and communicating data expands the amount of information available to inform discussions. However, as collaboration increases, the lines that distinguish government reporting from other sources may not be apparent.

Consequently, conceptual guidance is needed to provide principles for determining how to present information so that users understand the various missions of the federal government and how they are managed and integrate different subjects that have typically been presented independently. The guidance would also provide criteria for deciding key cost objectives, time periods to provide, when projections should be provided and the range of the projections. The federal financial reporting objectives reflect the information needs of both internal and external users and the guidance would help improve financial reporting and contribute to meeting the reporting objectives by enhancing the information being made available to all user groups.

To begin discussions on areas that would need to be included in the conceptual guidance, staff has prepared an initial outline of a concepts statement. The following outline presents the topics that could be discussed in the statement. Based on the Board's input on topics, staff will begin to conduct any additional research and fill-in the outline.

Draft Outline of a Concepts Statement

- I) Executive Summary
 - a) What is the Board Proposing
 - i) This Statement would provide fundamental principles for determining how to present federal financial information to a broad range of users.
 - b) How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?
 - i) Provide principles for presenting information for achieving the federal financial reporting objectives.
- II) Table of Contents
- III) Question for Respondents
- IV) Introduction
 - a) Purpose
- V) Proposed Concepts
 - a) Scope – Component Entity Financial reports²
 - b) Federal Financial Accounting Enables Performance Management
 - i) This section provides context for the conceptual guidance discussed in subsequent sections. The section is not intended to discuss guidance for how to manage program performance. Instead, it discusses the role of federal financial accounting in performance management.
 - ii) Facilitates discipline needed for reliable performance management data
 - iii) Support information on
 - (1) What citizens get in return for the use of resources
 - (2) Efficiency and effectiveness
 - c) Principles for designing presentations that deliver financial information
 - i) Discuss principles regardless of the medium used (print, PDF, HTML, etc.)
 - d) Criteria for deciding on key cost objectives

² The Financial Report of the U.S. Government (CFR) could be covered in a subsequent phase.

- i) This section will be developed based on the results of the NAPA study of financial and related information for decision making (see Attachment III)
- e) Criteria for reporting classes of information
 - i) This section will be developed based on the results of the NAPA study of financial and related information for decision making (see Attachment III)
- f) Criteria for time periods and projections
 - i) This section will be developed based on the results of the NAPA study of financial and related information for decision making (see Attachment III)
- g) Amending Existing Concepts
 - i) Update existing concepts to reflect current views

VI) Appendix A: Basis for Conclusions

- a) Project History
- b) Concepts

VII) Appendix B: Reserved for Use as Needed

VIII) Appendix C: Abbreviations

IX) Appendix D: Glossary

STATEMENT OF WORK

FINANCIAL AND RELATED INFORMATION FOR DECISION MAKING

Scope of Work

Significant reforms relating to financial and performance reporting were initiated in the 1990s and sustained into the present decade. The Federal Accounting Standards Advisory Board (FASAB or the Board) established managerial cost accounting standards in 1995 yet continues to be advised of a need to improve the internal availability of cost information and its linkage to performance information. To support the Board's agenda decisions, FASAB requests a research organization to conduct a study addressing the following questions:

- Are good financial and related data³ (e.g., cost data, forecasts, and analysis) available to senior managers?⁴
- Are the financial and related data being effectively used by senior managers or others within the organization in making decisions?
- What are the current and desired roles of the Chief Financial Officer's (CFO) staff with regard to management's access to and use of good financial and related data?
- If a gap exists, what options are most likely to be helpful in closing that gap?

Significant effort has been devoted to identifying and making improvements in systems development and internal controls for both financial and mixed systems (systems supporting both financial and non-financial functions). The study should also include information to enlighten the Board regarding organizational capacity today; that is, the general capacity of CFO staff to apply their financial knowledge to support operational decision-makers as well as senior managers' ability to seek and apply that knowledge. Further, identifying options that would increase the availability and use of financial and related information by decision makers would help the Board set its agenda.

³ The primary focus should be on financial information while recognizing that non-financial information is often included in the same systems as financial information (mixed systems) and needed to provide context. For example, financial information may relate to hours worked, types of facility, cost-drivers/objects, or other contextual information.

⁴ "Senior managers" include agency heads (consider both departmental and operating divisions), heads of support functions such as facilities managers, and program managers.

Financial and Related Information Needs for Managerial and Reporting Purposes⁵

Report on (1) needs, (2) current fit to needs, and (3) barriers to improving financial and related information in federal agencies. If possible, (4) explore options for enhancing financial and related information available to managers.

Primary research should include consultation with a diverse group of senior managers (e.g., fellows, focus groups or structured interviews), surveys of senior non-financial managers, OMB staff, and CFO/DCFO staff, and literature review.

- a. What financial and related information does a senior manager need to support sound decision-making about (1) the cost-benefit of programs or other initiatives and (2) improving the efficiency of operations? (A broad approach is preferred including but not limited to consideration of management of assets such as receivables and facilities, program execution, cost-savings initiatives, long-term planning, and other areas.)
 - i. Can we identify classes of information or analyses that are most important and explain why they are needed (e.g., cost-driver analysis, cost trends, cost of “what” (activities, programs))?
 - ii. What training may be needed (e.g., general such as “finance for the non-financial manager” or very specific skills such as earned value management) to aid the manager in seeking and using the needed information? What areas are most critical?
 - iii. Do senior managers expect to gain insights from analyzing large collections of digital data? (To explore the use of “big data” for internal management purposes.)

- b. How do senior managers access the information or conduct the analysis they need?
 - i. What is the source, timeliness, and quality of the information or analysis available?
 1. To what degree is information obtained from the financial system supporting the audited financial statements?
 2. To what degree is internal information subject to internal controls?
 - ii. Who is responsible for assuring the quality of financial data used by senior managers?
 - iii. Is the same information or analysis accessible to higher-level managers, OMB, and Congress?

⁵ The primary focus is on internal information needs within the executive branch. Other outreach has or will adequately cover the needs of external users (including Congressional staff).

- iv. Are managers accessing larger collections of digital data (highly granular data) for their analyses?
 - v. Are more or less granular data of greater use to managers?
- c. To what degree do senior managers rely on CFO staff for support, analysis, and advice?
- i. What is the role of the CFO office in providing and analyzing information?
 - 1. Do senior managers develop their own financial information (independent of the CFO staff) and, if so, is this meeting their needs?
 - 2. Do senior managers use information provided by someone other than the CFO staff? If so, by whom is it provided?
 - 3. Is the non-financial manager treated as a customer by the CFO shop?
 - 4. Do non-financial managers expect to be treated as customers?
 - 5. Do CFO offices have access to the non-financial information needed to understand and analyze financial data?
 - ii. Is the CFO organization a leader/partner in internal efficiency efforts?
 - iii. What key skills and abilities do CFO staff need to develop?
- d. Are senior managers able to obtain the information they need to report on the cost of performance consistent with requirements for external reporting and strategic planning?
- i. How do senior managers define “cost”? (e.g., direct program outlays, full cost)
 - ii. Is the information quality about right? (e.g., complete, comparable across the organization and consistent over time, reliable, and relevant)
 - iii. Is the level of detail about right? (e.g., by goals, objectives, programs, or activities)
- e. If there are un-met needs, what are the key challenges to meeting those needs?
- i. Capacity (financial, human and systems)
 - ii. Stove-piped decision making and accountability (e.g., facilities budgeted separately from program)

- iii. Focus on annual budgetary process to the exclusion of long-term financial needs and efficiency improvements
 - iv. Incentives in the budget process
 - v. Communication across the organization
- f. Consideration of Best Options to Drive Needed Improvement
- i. Provide Education to:
 - 1. Financial staff
 - 2. Non-financial staff
 - 3. Audit staff
 - ii. Development of a Knowledge-Base Shared Across Agencies
 - 1. Maturity Models for management services
 - 2. Best fit of costing techniques based on characteristics of programs/organizations
 - 3. Inventory of Costing Tools with best practices, guidebooks, etc.
 - 4. Inventory of Analysis Tools
 - iii. Certification of Managerial Cost (Support Systems or Financial Information for Managers) Systems based on standards of performance for effective internal managerial information
 - iv. Required presentation of more granular information in external financial reports (an indirect method of forcing improvements)