



October 7, 2011

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Federal Reporting Model – TAB D¹

MEETING OBJECTIVE

The objective of the meeting is to discuss the recommendations presented in the report entitled, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General*. Attending the meeting to discuss the report will be:

- Danny Werfel, Controller, Office of Federal Financial Management, Office of Management and Budget
- James L. Taylor, Chief Financial Officer, Department of Labor
- Jon T. Rymer, Inspector General, Federal Deposit Insurance Corporation

In addition, staff would like to inform the Board of a USA Today reporter's suggestion for additional information to be included in the Financial Report of the U.S. Government (CFR).

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

BRIEFING MATERIALS

Attachment 1 - *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General*

Attachment 2 – Analysis of Recommendations presented in the report entitled, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General*.

Attachment 3 – USA Today Reporter’s Suggestion for the CFR

BACKGROUND

The Improper Payments Elimination and Recovery Act (IPERA) of 2010 required the Chief Financial Officers (CFO) Council and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to jointly

- A. examine the lessons learned during the first, 20 years of implementing the Chief Financial Officers Act of 1990 (31 U.S.C. 901) and identify reforms or improvements, if any, to the legislative and regulatory compliance framework for Federal financial management that will optimize Federal agency efforts to
 - o publish relevant, timely, and reliable reports on Government finances; and
 - o implement internal controls that mitigate the risk for fraud, waste, and error in Government programs; and
- B. submit a report on the results of the examination...

The CFO Council and the CIGIE recently issued their report, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General*. The report primarily discussed the following two recommendations:

1. The Congress should consider enhancing the role of the CFO by standardizing the CFO’s portfolio to include leadership responsibility for budget formulation and execution, planning and performance, risk management and internal controls, financial systems, and accounting. To provide continuity during the often lengthy period between appointments of agency CFOs, the Congress should also consider providing Deputy CFOs with the same breadth of responsibilities as their respective CFOs.
2. The Congress should consider directing OMB, GAO, and the Federal Accounting Standards Advisory Board (FASAB), in consultation with CIGIE, to evolve the financial reporting model by examining the entire process with an eye toward how to further improve and streamline current reporting requirements and to better meet the needs of all stakeholders.

Attachment 2 presents the staff analysis of the recommendations and proposals for the FASAB's consideration.

QUESTIONS FOR BOARD MEMBERS

Following the discussion with Messrs. Rymer, Taylor, and Wefel, the Board is asked to consider the following questions from staff:

1. Do you agree or disagree with the staff recommendations with respect to the CFO Council and CIGIE Report?
2. If you agree with the staff recommendations, are there additional issues you believe should be addressed through FASAB's reporting model project?
3. If you disagree with the recommendations, what do you believe should be the next steps for the FASAB as part of the reporting model or other project?

If you have questions or need additional information, please contact me at 202-512-2512 or by email at simmsr@fasab.gov as soon as possible. I will be able to consider and respond to your request more fully in advance of the meeting.

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Attachment 1: The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General

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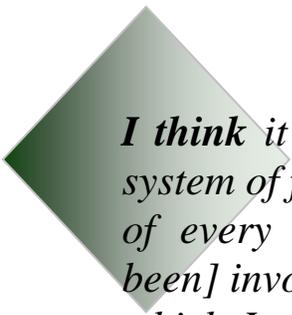


The Chief Financial Officers Act of 1990—20 Years Later

**Report to the Congress and the
Comptroller General**

**Prepared by
The Chief Financial Officers Council
and
The Council of the Inspectors General on Integrity and Efficiency**

July 2011



I think it an object of great importance...to simplify our system of finance, and to bring it within the comprehension of every member of Congress...the whole system [has been] involved in impenetrable fog. [T]here is a point...on which I should wish to keep my eye...a simplification of the form of accounts...so as to bring everything to a single centre[;] we might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them to investigate abuses, and consequently to control them.

*Thomas Jefferson
April 1802*





July 22, 2011

Jeffrey Zients, Executive Chair
Chief Financial Officers Council
Council of the Inspectors General
on Integrity and Efficiency

Danny I. Werfel, Chair
Chief Financial Officers Council

Phyllis K. Fong, Chair
Council of the Inspectors General
on Integrity and Efficiency

The Improper Payments Elimination and Recovery Act of 2010 requires the Chief Financial Officers (CFO) Council and Council of the Inspectors General on Integrity and Efficiency to issue a joint report focusing on the CFO Act of 1990. The purpose of this report is to present lessons learned from the Act and any legislative and regulatory compliance framework changes needed to Federal financial management—all in the interest of optimizing Federal agency efforts in financial reporting and internal controls. We are providing this final report to you for transmittal to the Senate Committee on Homeland Security and Governmental Affairs, House Committee on Oversight and Government Reform, and Comptroller General of the United States.

In examining the 20-year history of the Act, it is fitting to reflect on the successes of the past but also to look ahead at challenges facing us all. While there has been improvement in the reliability of financial data, no one involved in Federal financial management can be complacent. Instead, we need to build on past successes, monitor ongoing efforts, and keep pace with economic and financial changes, new technologies and operating environments across government, new legislative requirements, and ever-changing information needs. The requirement calling for a joint review of the Act provides an excellent opportunity for closer scrutiny and assessment of various aspects of the Act and the interplay of other important related financial management legislation.

Recent transparency initiatives and the needs of interested stakeholders have underscored the importance of sound financial management throughout the Federal government. Tight budgets and a rising Federal deficit call for the CFOs created by the Act to play a critical leadership role in all aspects of financial management activities, and for accountability and auditing professionals to continue to bring their independent oversight expertise to the financial management arena as we all seek cost efficiencies and enhanced cost effectiveness.

We consider this report to be an important first step in what we hope will be a continuing dialogue with stakeholders in the months ahead and a project that will yield additional valuable insights from readers in the Congress, Executive Branch, and the public. We thank the Congress for the opportunity to present the results of this important review and appreciate the efforts of the working group formed to undertake this project.

Sincerely,

James L. Taylor
Chief Financial Officer
Department of Labor

Jon T. Rymer
Inspector General
Federal Deposit Insurance Corporation

Executive Summary

WHY AND HOW WE CONDUCTED THE REVIEW

Section 3(e) of the Improper Payments Elimination and Recovery Act of 2010 calls for the Chief Financial Officers (CFO) Council and Council of the Inspectors General on Integrity and Efficiency (CIGIE) to jointly examine the CFO Act of 1990, 20 years after its enactment. The purpose of this study is to present lessons learned from the Act and any legislative and regulatory compliance framework changes needed to Federal financial management to optimize Federal agency efforts in financial reporting and internal controls. The joint report is to be sent to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform as well as the Comptroller General of the United States.

To accomplish this mandate, the CFO Council and CIGIE formed a working group of senior leaders from the government financial management and Inspector General (IG) communities, and included a senior official from the Government Accountability Office (GAO) to serve as an observer. The working group considered other relevant Federal financial management legislation and conducted various meetings and “listening sessions” to gather broad input from more than 250 current and past financial and audit community leaders as well as private-sector leaders and members of academia.

RESULTS

Overall, many benefits have been derived from the Act. These benefits are far-reaching and have impacted a number of programs, activities, entities, individuals, and Executive Branch and Congressional decision-makers. Implementation of the Act over the years has increased transparency, fostered accountability, established a government-wide financial management leadership structure and agency CFOs, promoted new accounting and reporting standards, generated auditable financial statements, strengthened internal control, improved financial management systems, and enhanced performance information.

Still, however, work must continue in a number of areas to fully optimize the impact of the CFO function. Our review advocates a continued focus on (1) enhancing the CFO’s role and organizational effectiveness; (2) evolving the financial reporting model for increased accountability; (3) strengthening internal control and risk management activities; and (4) continuing to improve financial management

systems. Attention to these matters is a shared responsibility of many—the Office of Management and Budget (OMB), CFOs, agency management, the IG community, the GAO, and the private sector. Importantly, Congressional attention to two broad areas is specifically warranted, and we make two recommendations to that effect.

RECOMMENDATIONS

- (1) The Congress should consider enhancing the role of the CFO by standardizing the CFO's portfolio to include leadership responsibility for budget formulation and execution, planning and performance, risk management and internal controls, financial systems, and accounting. To provide continuity during the often lengthy period between appointments of agency CFOs, the Congress should also consider providing Deputy CFOs with the same breadth of responsibilities as their respective CFOs.
- (2) The Congress should consider directing OMB, GAO, and the Federal Accounting Standards Advisory Board (FASAB), in consultation with CIGIE, to evolve the financial reporting model by examining the entire process with an eye toward how to further improve and streamline current reporting requirements and to better meet the needs of all stakeholders.

Overview

The CFO and IG communities are pleased to report the results of our joint review of the CFO Act of 1990. To provide meaningful context for the perspectives presented in this report, we first examine the historical background of the Act itself and then explain the legislative requirement and approach for this unprecedented review.

As we look back over the 20 years since passage of the Act and to the financial management challenges going forward, we present our discussion of the CFO Act in four main sections: **Federal Financial Management, Financial Accountability and Reporting, Internal Controls, and Financial Systems**. Each section includes a discussion of past successes and lessons learned as well as ongoing challenges and needed improvements. We make two recommendations to the Congress related to (1) enhancing the CFO and Deputy CFO roles, and (2) directing responsible entities to evolve the current financial reporting model. Appendix I presents the report objective and approach in more detail, along with a listing of the working group participants responsible for this project. Appendix II outlines key Federal financial management legislation and notes other references for readers seeking additional information.

BACKGROUND

The CFO Act of 1990, which called for major reforms in Federal financial management, is viewed by many as one of the most significant, comprehensive pieces of Federal financial management legislation. The CFO Act was the result of a strong partnership that formed between the Congress, OMB, and then-General Accounting Office¹ in promoting sound Federal financial management and accountability. This partnership, as evidenced by this report, still exists.

In 1985, Comptroller General of the United States Charles Bowsher issued a two-volume report, entitled *Managing the Cost of Government: Building an Effective Financial Management Structure*, which set the stage for the development and ultimate passage of the CFO Act. OMB Director Richard Darman subsequently agreed with the Comptroller General and called for financial management reform

¹ The General Accounting Office was renamed the Government Accountability Office on July 7, 2004, by the GAO Human Capital Reform Act (*Public Law 108-271*).

legislation. Senators John Glenn and William Roth along with Congressmen John Conyers and Frank Horton recognized the importance of improved government accountability and called on the Congress to debate and deliberate such legislation. The result, nearly 5 years later, was the CFO Act, *Public Law 101-576*, which President George H.W. Bush signed on November 15, 1990.

Purposes of the CFO Act of 1990 (as stated in Section 102 (b))

- ◆ **Bring more effective general and financial management practices to the Federal Government through statutory provisions which would establish in the Office of Management and Budget a Deputy Director for Management, establish an Office of Federal Financial Management headed by a Controller, and designate a Chief Financial Officer in each executive department and in each major executive agency in the Federal Government.**
- ◆ **Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources.**
- ◆ **Provide for the production of complete, reliable, timely and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs.**

Through the years, the CFO Act served as one of the principal pieces of management reform legislation seeking to improve government accountability. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) addressed internal controls in the Federal government, including both program management and financial controls. The Government Management Reform Act of 1994 expanded on the CFO Act by requiring 24 agencies² to have audited financial statements. The Federal Financial Management Improvement Act of 1996 added more specific financial system, financial management standardization, and internal control standard requirements to the previous acts. More recently, the Federal Funding Accountability and Transparency Act of 2006 added new transparency and accountability requirements to Federal financial management.

Tied to the CFO Act is the Government Performance and Results Act of 1993, which was recently updated and enhanced by the Government Performance and Results Modernization Act of 2010. These Acts focus

² The current CFO Act agencies include the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, Interior, Justice, Labor, State, Transportation, the Treasury, and Veterans Affairs; Environment Protection Agency; General Services Administration; National Aeronautics and Space Administration; National Science Foundation; Office of Personnel Management; Small Business Administration; Social Security Administration; U.S. Agency for International Development; and U.S. Nuclear Regulatory Commission. The Homeland Security Financial Accountability Act of 2004 included the Department of Homeland Security to the list of CFO Act agencies in place of the Federal Emergency Management Agency.

on government results, service quality, and customer satisfaction; integrate budget, financial, and performance measurement; and call for a strategic planning process, annual performance plans, and annual performance reports.

On their own, these pieces of legislation, and in particular the CFO Act, have stood the test of time and significantly improved critical aspects of Federal financial management. Taken together, they have changed the landscape for managing government financial information, internal controls, and systems.

LEGISLATIVE REQUIREMENT AND APPROACH FOR JOINT REVIEW

As required by Section 3(e) of the Improper Payments Elimination and Recovery Act of 2010, the CFO Council and CIGIE jointly undertook a study to examine the CFO Act of 1990, 20 years after its enactment. The purpose of the study is to present lessons learned from the Act and any legislative and regulatory compliance framework changes needed to Federal financial management to optimize Federal agency efforts on financial reporting and internal controls. Section 3(e) called for this joint report to be sent to the Senate Committee on Homeland Security and Governmental Affairs, House Committee on Oversight and Government Reform, and Comptroller General of the United States.

The CFO Act review project brought together the CFO and CIGIE communities, and included representatives from academia, GAO, private-sector auditing and accounting groups, and others for information sharing, best practices exchanges, lessons learned discussions, and a look toward the future. Spearheaded by a working group comprised of CFO Council and CIGIE representatives and a GAO observer, the project's overall approach included a number of guided "listening sessions" that provided participants an opportunity to share their perspectives. The views that were shared by many provide the basis for the observations in this report. These observations were supplemented, and in many cases supported, by an analysis of relevant documents and studies published over the past 20 years by the GAO, other Federal agencies, private-sector accounting and auditing organizations, and academicians. Insights from many such studies are referenced or reflected throughout this report.

Early on in the project, the working group decided to include laws, as noted above, related to Federal financial management to ensure that the review was all encompassing. As we looked to the future, we considered their combined impact as we examined the lessons learned from implementing the CFO Act and identified reforms and improvements to optimize relevant, timely, and reliable financial reporting and efforts to mitigate the risk of fraud, waste, and abuse in government programs.

The widespread input derived from the listening sessions and meetings along with the integration of insights from CFO-related publications over the years results in a report that reflects the views and opinions of many experts. The project allowed us to leverage the perspectives and experiences of knowledgeable individuals in compiling the benefits and lessons learned over the last 20 years, assessing where the CFO community stands today, articulating the many challenges going forward, and formulating two specific recommendations for the Congress to advance the role and effectiveness of the CFO function.

Successes and Lessons Learned; Challenges Going Forward

Overall, many benefits have been derived from the CFO Act and other associated financial management legislation. Some of these benefits are self-evident and others are less obvious but grounded in this monumental legislation. These benefits are far-reaching and have impacted programs, activities, entities, individuals, and Executive Branch and Congressional decision-makers. To date, the CFO Act has served the government, its programs, and its ultimate customer—the public—very well.

Simply stated, the CFO Act has gone a long way toward promoting sound financial management throughout the Federal government. Specifically, its implementation over the years has increased transparency, fostered accountability, established a government-wide financial management leadership structure and agency CFOs, promoted new accounting and reporting standards, generated auditable financial statements, strengthened internal controls, improved financial management systems, and enhanced performance information.

Today, with more robust financial management organization structures and a better integration of budget, performance, and financial data, stakeholders have a more thorough understanding of program effectiveness. Modern financial systems better deliver information to users and enable more effective governmental operations and decisions. Improved internal controls and consistent financial practices help reduce the potential for waste, fraud, and abuse.

Various initiatives and efforts are ongoing and further progress is being made to fully realize the intent of the CFO Act. For the most part, the authority exists through legislation to accomplish what needs to be done, but as noted in the recommendations below, Congressional consideration of two matters would assist in fully realizing the purposes set out in the CFO Act of 1990.

FEDERAL FINANCIAL MANAGEMENT

Until 1990, financial management clearly was not a focal point in the Federal government. Financial operations were viewed as largely ineffective and inefficient, weak internal controls left resources at risk, personnel were not adequately trained, and financial systems could not communicate with each other and were often redundant. Fund balances with the Department of the Treasury were reconciled inconsistently,

and the government had difficulty managing its assets and costs. Centralized financial management leadership was also lacking prior to the Act's passage.

Importantly, the CFO Act established a new governance structure for Federal financial management and outlined a clear approach to improving day-to-day Federal financial management, supporting better decision-making, and enhancing accountability. Still, opportunities exist to further evolve the roles and responsibilities of CFOs and strengthen the effectiveness and synergies of the Federal financial management workforce.

The CFO Plays a Key Financial Management Leadership Role

The lasting impact of the CFO Act is that it transformed Federal financial management from a “backroom” function, out of sight and out of mind to most Federal executives, to a “boardroom” function, a key component of planning and decision-making at the executive level. This cultural transformation over the last 20 years likely would not have happened without the Act's passage.

Key to this transformation was the establishment of accountable financial management leadership and oversight, both at OMB and within Federal agencies. The Act established within OMB a Deputy Director for Management and the Office of Federal Financial Management, headed by the Controller, who is appointed by the President and confirmed by the Senate. OMB's central leadership and guidance allowed for government-wide accountability and oversight and promoted improved financial management practices. In addition to standardizing guidance and ensuring consistency in operations across Federal agencies, OMB has over the years spearheaded a number of initiatives to improve the efficiency and effectiveness of financial operations.

An equally important mandate was the establishment of CFOs, with most being presidentially appointed and Senate-confirmed, as well as career Deputy CFOs in Departments and agencies to provide executive-level oversight and direction for agency financial operations. The Act charges the CFOs with improving financial management staff capabilities, and as a result, the government now has an improved cadre of professional financial management personnel who have been enriched through new training and educational opportunities and professional certifications for Federal financial management personnel.

A byproduct of the Act's success is the enhanced collaboration between the financial management community and the government oversight communities. The Act has strengthened the relationships between these communities significantly over the last 20 years, as CFOs, IGs, and the GAO have shared responsibility for monitoring and safeguarding resources. The communities continue to work together closely to promote accountability and transparency while reducing the

incidences of waste, fraud, and abuse. The Congress recognized this shared mission and collaboration in directing the CFO Council and CIGIE to prepare this report on the CFO Act's implementation and lessons learned, as both communities are intricately involved and affected.

Challenges in Evolving the CFO's Role and Organizational Effectiveness

CFOs generally now have a seat at the “boardroom” table, advising executive leadership on financial management matters, and have overseen a cultural transformation within the government that has emphasized the importance of sound financial management. It was acknowledged during the listening sessions that a high-performing CFO organization can help drive performance through strategic and operational planning and performance measurement, support program management improvements, and promote the assessment and cost-effective mitigation of program risk.

Nonetheless, challenges do remain regarding the CFO's role in many Federal agencies. These challenges relate to consistency among the CFOs' portfolios, continuity between appointees, information sharing, and human capital.

CFO Portfolio

While the Act mandated the existence of CFOs with certain broad responsibilities at Federal agencies, the specifics of determining the CFO's portfolio were largely left to the agencies, each of which had its own existing management structure to navigate. These circumstances led to CFOs at different agencies having vastly different day-to-day responsibilities. While some agencies created independent CFO organizations, others merged CFO functions with existing organizational components and seemed only to add the CFO title to the organizational chart to meet the Act's requirements. These divergent approaches to implementation have contributed to differing visions of what a CFO should be, and what a CFO oversees, at each agency.

Listening session participants were of the opinion that to be most effective and achieve the envisioned goals of the Act, CFOs across the government should be responsible for a wider, standardized, and consistent range of activities than some have today—to include budget formulation and execution, planning and performance, risk management and internal controls, financial systems, and accounting. This would enable the person in the CFO role to be responsible for the funding lifecycle, allowing for better strategic decision-making and operational oversight. Consolidation of these functions into every CFO's portfolio would provide the CFO information and insights akin to that of a chief risk officer, thereby positioning the CFO to better identify business risks across agency programs by having the full set of data and analysis this portfolio provides.

Standardizing the CFO's portfolio across agencies would also enable financial management to have a similar look and feel across government, which would be beneficial in financial reporting and financial systems development. It would serve to promote standardized financial management training and education and consistent skill sets across agencies, both at the executive and staff levels. It was further suggested in our listening sessions that the CFO community might benefit greatly from a legislative mandate similar to that of the IG community, which is statutorily defined in the IG Act of 1978, as amended, and that clearly delineates required offices and respective responsibilities. The IG Act serves as an example of how a revision to the CFO's responsibilities could be implemented.

Continuity Between Appointees

Turnover in the ranks of agency CFOs, even during the same Administration, was identified as a significant challenge as well. Major financial management improvement initiatives can take years to fully implement and realize, often outlasting the average tenure of the political appointee to the CFO position. Whether it is the implementation of a new financial management system, improper payment reduction efforts, or resolution of an audit finding, a CFO may not be in place to see an entire process through to its completion, and leadership turnover often leads to delays in implementing necessary reforms. With frequent CFO turnover and often lengthy intervals between official appointments, financial management organizations may lack long-term planning and leadership continuity because career Deputy CFOs often do not have the same breadth of responsibilities and broad oversight as their principals. To help ensure effective succession planning, Deputy CFOs should be sufficiently empowered, with a more standardized and consistent range of responsibilities, to continue financial management initiatives and improvements in the absence of political leadership, which could include broadening their statutory responsibilities to match those of the CFO.

Information Sharing

Challenges exist despite progress in sharing best practices and fostering a sense of community within the Federal financial management environment. Clearly within the Federal community, each agency's core mission differs, but financial management principles and practices are largely standardized in law, and opportunities exist to better share lessons learned and best practices. OMB and the CFO Council have made strides to promote intragovernmental interests, such as standardized financial reporting, and to establish groups to collaborate and advise on the development, maintenance, implementation, and enhancement of commonly used commercial off-the-shelf financial management systems for the Federal government. However, opportunities exist to strengthen information sharing between and among CFOs and their agencies more directly. Agencies, through their CFOs, should be encouraged to leverage the lessons learned and

successes experienced at other entities in addressing issues, thus saving resources and enhancing communication across the Federal government. The challenges agencies face are not unique and have been experienced elsewhere.

Opportunities also exist to improve the linkage between the agency CFO, component CFOs, and program managers. Sound financial management has a direct impact on the success of agency programs, and all parties have a vested interest in fulfilling the agency's mission through those programs. However, central CFO organizations may be insensitive or unaware of programmatic issues in instituting new directives, while program managers may be unreceptive to changes in existing practices and outside guidance on how to run their programs. Ultimately, it is in everyone's best interest to work together more closely to ensure that financial resources are managed effectively and sound internal controls are in place to minimize waste, fraud, and abuse.

Human Capital

Lastly, many feel that there is an opportunity for continued growth in developing the expertise of financial management human capital. The nature of Federal financial management has changed significantly over the last 20 years; technology has automated many processes, and personnel previously responsible for transaction processing now need to provide value-added services, such as data analysis and decision support. These services are responsibilities for which financial management personnel may not have received adequate training and education. Further, core competencies for financial staff have not been evaluated on a government-wide basis, and do not necessarily align with the needs of today's Federal financial management community.

It is important that the CFO Council work with the Office of Personnel Management to evaluate financial-related positions and strengthen educational and background requirements to serve in the financial management discipline. Agencies should make greater use of training and educational opportunities to develop staff competencies, and the government should study whether a professional certification or accreditation in Federal financial management should be a government-wide requirement for certain positions of responsibility. As stewards of Federal resources, those in the Federal financial management sector should be sufficiently qualified to conduct this important work.

Recommendation: The Congress should consider enhancing the role of the CFO by standardizing the CFO's portfolio to include leadership responsibility for budget formulation and execution, planning and performance, risk management and internal controls, financial systems, and accounting. Some CFOs have broader portfolios and the intent of this recommendation is not to change or diminish the current CFO responsibilities. To provide continuity during the often lengthy period between appointments of agency CFOs, the Congress should also

consider providing Deputy CFOs with the same breadth of responsibilities as their respective CFOs, consistent with the Vacancies Act.

FINANCIAL ACCOUNTABILITY AND REPORTING

The CFO Act along with other Federal financial management statutes addressed in this report have significantly improved the quality of financial management information and prompted stakeholders to expect a higher level of financial stewardship and accountability. Given the heightened expectations, Federal financial managers and the auditing community acknowledge the challenges as they continue to seek ways to further evolve the financial reporting model and thereby make it even more useful to stakeholders and responsive to their ever-changing needs.

Current Reporting Model Contributed to Increased Confidence, Consistent Reporting, and Enhanced Discipline

The current financial statement reporting model³ and independent audit process provide credibility and confidence in financial operations and information, allow for consistent and timelier reporting, and foster discipline throughout the financial management arena.

Increased Confidence in Financial Operations and Information

The CFO Act consolidated financial management operations and systems under the newly formed CFO position and established guidelines to improve the quality of financial information and financial reporting. The Act, as expanded by the Government Management Reform Act of 1994, mandated agencies to prepare annual financial statements and have the IG or an independent external auditor, as determined by the IG, audit those statements. Those very provisions, annual preparation and audit of agency and government-wide financial statements, have contributed to the evolution of reliable, timely, and useful financial information in the Federal government. Such advancements have provided increasing levels of credibility and confidence in government finances and improved the processes that produce financial data. In addition, the preparation of audited financial statements assists CFOs and agency leadership in assessing and mitigating enterprise risk.

³ The current financial reporting model includes statements reflecting the financial results and activity of the Federal government. The principal statements that agencies produce are the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. Accompanying notes are an integral part of these statements. Also, certain agencies may produce the Statement of Custodial Activity or the Statement of Social Insurance, if applicable.

Twenty-one of the 24 CFO Act agencies obtained unqualified or “clean” independent audit opinions on their fiscal year 2010 financial statements. That is, an opinion stated by an independent auditor reflecting that the financial statements were fairly presented in all material respects, in accordance with the generally accepted accounting principles used to prepare and present the financial statements. While three agencies did not achieve clean audit opinions in fiscal year 2010, they made significant strides towards that end. Clean opinions on an organization’s financial statements are a worldwide benchmark for strong financial management in the private sector and in state, local, and foreign governments. Efforts to obtain a clean opinion on the U.S. government’s consolidated financial statements are ongoing, with specific focus on the proper reconciliation of intragovernmental transactions and preparation of the financial statements.

Over the past 20 years, not only have Federal agencies improved the processes used to develop financial statements, they are also doing so in a timelier fashion. Initially, agencies would take until March to produce financial statements from the prior fiscal year. Today, nearly every CFO Act agency issues audited financial statements by November 15, or just 45 days from the end of the fiscal year. By December 15, the Department of the Treasury and OMB release a consolidated financial report for the entire Federal government.

Further expanded by the Accountability of Tax Dollars Act of 2002, which requires Federal agencies that do not have an existing legislative requirement to prepare audited financial statements to do so, the requirement for audited financial statements essentially transcends the entire executive branch as do the general concepts underlying the CFO Act. Also, other government organizations voluntarily prepare audited financial statements. These organizations also strive to carry out the other expectations of the CFO Act, including analyzing financial data, seeking to improve the effectiveness of internal controls, and developing powerful, integrated financial management systems, all of which have contributed to more efficient and effective government financial management.

Consistent Reporting Exists Across-the-Board

The CFO Act called for complete, reliable, timely, and consistent financial information. To ensure consistent information, a Federal accounting standards-setting body was created subsequent to passage of the Act. The FASAB develops Federal accounting standards, which are essential for public accountability and consistent reporting. Agencies follow generally accepted accounting principles to provide fair representation of financial results. Similar standard-setting bodies

already exist in the private sector⁴ and for state and local governments.⁵ Like these other bodies, the American Institute of Certified Public Accountants has recognized FASAB as the body that sets generally accepted accounting principles for the Federal government.

Similarly, the approach to conduct the financial audits has been standardized and improved throughout the years. The joint GAO/CIGIE *Financial Audit Manual*⁶ lays out an approach for performing financial statement audits, describes how the methodology relates to relevant auditing standards and OMB guidance, and outlines key issues to be considered in using the methodology.

The demand by stakeholders for financial reporting beyond the principal financial statements has also evolved. Budgetary and programmatic information is now consistently reported along with financial performance. Most agencies present their financial statements and reports in Performance and Accountability Reports and Annual Financial Reports, providing readers a financial context in which they can learn about program accomplishments, budget information, and future plans.

Discipline Fostered by the CFO Act Continues

The one observation the working group heard repeatedly was the discipline that the CFO Act, and in particular the requirement for audited financial statements, brought to the financial management arena. The old adage, “What gets audited gets attention,” is on point when describing a contributing factor to the success of the CFO Act and related financial management legislation. This discipline ensures that the focus remains on improving the framework for assessing and improving the effectiveness of internal controls over financial reporting; developing effective, integrated financial management systems that provide reliable, useful, and timely information for management decision-making; and demonstrating stewardship and accountability over Federal resources.

Challenges to Further Evolve the Financial Reporting Model and Address Stakeholder Needs

By implementing the CFO Act and other related financial management statutes, Federal financial managers have conquered many of the challenges they faced before 1990. By focusing on data assurance and auditing, the government has significantly improved financial

⁴ Financial Accounting Standards Board.

⁵ Government Accounting Standards Board.

⁶ The GAO and the IG community first issued the joint *Financial Audit Manual* in July 2001. This manual was more recently updated and jointly released in July 2008.

reporting. Given the changes in government, technology, and stakeholder expectations, it is an ongoing challenge to explore new and innovative ways to improve reporting and thus empower and inform a broad range of stakeholders with relevant and timely financial and budgetary information.

Evolving the Financial Reporting Model

Financial and budget-related information needs to serve multiple stakeholders, including program managers; elected, appointed, and career officials in both the legislative and executive branches; the public; and other entities, such as the media, private companies, and public interest groups. Program managers demand real-time data to enable more efficient and informed decision making. Elected officials require information that they can use to effect public policy and assist their constituents. The public is taking a greater interest in the finances of the government and is increasingly concerned about how tax dollars are spent. Finally, other groups, such as the media, businesses, non-profit organizations, and special interest groups, can use Federal financial data to more meaningfully convey information to their constituents or improve their own operations.

In today's increasingly digital-savvy society, there is an ever-increasing demand for enhanced financial information. Government has focused on past results for financial management; however, various stakeholders, given the current economic climate and future fiscal challenges, are now even more interested in both real-time and forward-looking financial information. Stakeholders have come to more fully appreciate the risks inherent in agency financial management and accountability, and want to understand the potential impact of these risks on future operations and programs.

The question, or challenge, remains—how do you balance the needs of all stakeholders? To evolve the financial reporting model to make it more useful for all concerned, many feel that agencies should explore how they report real-time information and future obligations, and even augment financial statements with additional financial information. With an increasing interest in forward-looking information, many believe financial reporting needs to look to the future as well as the past. To improve financial management and achieve current and long-term goals, program managers need real-time data to allow their organizations to quickly respond to new management challenges and associated risks. Federal financial managers can improve current reporting on past information by linking strategic goals, performance information, and financial information. By doing so, stakeholders will see how agencies are managing their resources to achieve goals and how this practice informs the future direction of an agency.

Through this project's listening sessions, we learned that several key qualities should be considered when evolving the current financial reporting model. Integrity, reliability, and utility of the data being

reported are paramount. As such, audit requirements that promote these qualities should be maintained. The financial reporting model should also consider more current stakeholder needs, such as developing a statement of spending, and include forward-looking information, such as future program costs. Such reporting would allow all involved to perform their duties as they relate to Federal spending and programs. Even more importantly, the reporting model should be mindful of the needs of external stakeholders and the focus on transparency, accuracy, and proper controls over Federal funds. Ongoing efforts within OMB, the CFO Council, and FASAB⁷ are making strides toward evolving financial reporting beyond the current model.

Efforts to Build Reporting Beyond Financial Statements

Although the information contained in financial statements and Annual Performance Reports for the CFO Act agencies is robust, many believe that there is limited demand for this information outside of government, perhaps due to its technical nature, seeming complexity, and granular characteristics. Analyzing financial statements requires an in-depth understanding of government accounting principles, and most financial and performance reports contain details that may only appeal to the financial management community. In the continuing quest to improve government financial reports and ensure data accuracy, the financial management community should increase efforts to make financial information more relevant to all of its stakeholders, including decision-makers, program managers, and the public.

In addition to meeting its current requirements, the CFO community should leverage the information that it produces and focus more proactively on managing risks, accomplishing goals, and devising strategies for managing data. Such an approach would allow the CFOs to add greater value across their Department or agency by supporting the leadership and program management with relevant and useful information. Further, CFOs could promote more meaningful communication to stakeholders and a more complete understanding of financial management information as it relates to the agency's mission. For example, the CFO community should look to build on reports like the *Treasury's Citizens Guide to the Financial Report of the United States Government*, published since 2007, which provides an overview of the government's financial position and fiscal sustainability efforts.

⁷ On December 22, 2010, the Financial Reporting Model Task Force issued a report to the FASAB. The Task Force's objective was to identify ways to increase users' access to, and understanding and use of, financial information contained in the consolidated financial report of the Federal government while avoiding costly requirements that do not add value.

As witnessed over the last few years, the Federal government has embraced the Internet, as seen by the extensive proliferation of the .GOV domains, to communicate with its stakeholders. In our sessions, CFOs acknowledged the challenges associated with the overabundance of these Web sites. In particular, a significant commitment of resources is being channeled to reconcile information available to the public and reported on these Web sites back to the financial statements to ensure that the information is accurate. CFOs recognize the social media environment that the government has evolved to and need to be ever-mindful of the primary role they play in ensuring that the information being communicated by their respective agencies is complete, accurate, reliable, and timely.

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

INTERNAL CONTROLS

Improving internal controls was a key tenet of the CFO Act, and over the past 20 years, much progress has been made in this regard. Legislation and policy guidance have focused on internal controls and strengthened the Federal financial management internal control environment measurably. Continued efforts are necessary to improve controls in program management and to continue to coordinate and leverage the activities of agency management and auditing and accountability professionals seeking to mitigate risks through appropriate, cost-effective internal controls.

Financial Management Internal Control Structure Is Strong

The legislative and policy foundation surrounding internal controls has been greatly enhanced over the years. FMFIA and the Federal Financial Management Improvement Act of 1996; OMB Circular A-123, *Management's Responsibility for Internal Controls*; and GAO's *Standards for Internal Control in the Federal Government*, or "Green Book," set out strong policies, standards, and an overall framework for internal controls in the Federal government. The CFO Act accentuated the need for strong controls in Federal financial management. After much hard work and refinement, these standards, policies, and the overall framework now mirror the well-known standards established for private-sector and worldwide organizations by the Committee of Sponsoring Organizations of the Treadway Commission, commonly called COSO internal control standards.

In addition, three appendices addressing key areas of financial management concern have been added to OMB's Internal Control Circular, A-123, to strengthen these standards and framework. Appendix A, *Internal Controls over Financial Reporting* was a

significant addition to the guidance for controls in the financial management and reporting area, and is similar to the Sarbanes-Oxley legislation for the private sector as well. The CFO Council also issued an Implementation Guide for this Appendix. Appendix B of the Circular addresses *Improving the Management of Government Charge Card Programs*, and Appendix C addresses *Requirements for Effective Measurement and Remediation of Improper Payments*. The Congress also enacted the Improper Payments Information Act of 2002 and subsequently the Improper Payments Elimination and Recovery Act of 2010, to emphasize controls over this critical area of program management.

Compared to 1990, we are now seeing a stronger internal control environment over financial reporting. A few examples of internal control improvements deserving mention follow:

- ◆ Financial and budget reporting today is more accurate. In 1990, financial reports, such as the Report on Budget Execution and the “actual” column of the President’s Budget did not agree. Today, because of the CFO Act and improved systems and controls, these do agree allowing for better budget decisions by both the Executive Branch and the Congress.
- ◆ Far better controls over government property exist today. Before the CFO Act, agencies could not validate the existence of their government property or provide a value for it. Today, support for much of the government’s property and its physical location is audited as part of financial statement audits.
- ◆ The cash balance reconciliation between the Department of the Treasury and other government organizations is markedly better, with far fewer “out of balance” situations today than in the past.
- ◆ “Material weaknesses” reflected on financial statement audits have been significantly reduced. A material weakness is cited when there are significant issues with one or more internal controls, which create the potential for a material misstatement of the financial statement.

Challenges Remain to Enhance Internal Control and Risk Management Activities

Despite such successes, there are still issues that need to be addressed to further strengthen internal controls and risk management activities. Such challenges need to be addressed by OMB, CFOs, agency program managers, and auditing and accounting professionals alike.

Moving Beyond Financial Management Controls

While the basic framework for internal control is very strong, misunderstandings exist today regarding internal controls that are not related to financial reporting, such as those related to program and

administrative activities and compliance. The terminology related to internal controls often uses accounting terms that at times are interpreted as applicable principally to internal controls over financial reporting. The FMFIA, however, stresses controls over the management of Federal programs.

While CFOs are not responsible for program management, they do play a role in ensuring that program managers are aware of their responsibilities for internal control, know what tools are available to implement effective controls over programs, and report on internal controls subject to FMFIA for the programs they administer. Thus, CFOs have significant responsibilities for internal controls that extend beyond controls over financial reporting to areas involving program administration and management. These extended responsibilities need to be better understood by CFOs, program managers, and audit and accountability professionals as well.

Leveraging Management’s Testing of Internal Control

Another challenge going forward is how an auditor can best leverage management’s internal control work during the financial statement audit process. OMB issued Appendix A to OMB Circular A-123 to further address internal controls over financial reporting. This appendix added significant internal control work and internal control testing as well as certifications to the management of agencies. Some participants at the listening sessions expressed strong concerns, indicating that in certain cases, auditors are reluctant to accept management’s internal control work and instead do additional work that is viewed as unnecessary.

Auditing standards require auditors to maintain independence from the entity and management when conducting their work. These standards also state that an entity’s monitoring of controls is one factor that auditors should consider in testing the operating effectiveness of the entity’s controls. To achieve maximum efficiency and cost-effectiveness in the audit process, many participants expressed the view that a better balance should be struck between the respective roles of auditors and agency management in the area of internal controls and the extent to which auditors leverage management’s internal control testing and assertions.

In a related vein, from an auditing perspective, and at a time of budget cuts and scarce resources, auditors would agree with the perspectives voiced by some management officials that the cost of ensuring effective controls is an issue of concern that warrants scrutiny. As part of a broader study, GAO is looking at the integration of management’s internal control work related to financial reporting and financial audits at selected agencies. The IG community as well as the CFO community may be well served to build on the results of this work and examine ways to better integrate management’s internal control work with financial audits.

Need for Collaborative Risk Assessment and Internal Control Efforts

A further challenge for CFOs is the assessment of risk relating to the CFO's agency or organization as a whole and the establishment of internal controls to address such risk to key areas of mission accomplishment. Many Federal organizations have not yet integrated a risk assessment approach in examining the organization and assessing its programs for threats to success in achieving its mission. These organizations also have not integrated risk assessment in establishing effective overall internal control or as a key feedback loop to the budget process or work planning for the future.

Absent a robust and effective risk identification and assessment process, it will not be clear what types of controls should be established to best mitigate the risks. Without a clear understanding of risk, there is also a possibility of duplicative or unnecessary controls, which can increase organizational costs substantially. As part of its implementing guidelines for internal controls, OMB intends to address these points. Clearly, an inclusive, "harmonized" process that involves all parties—CFOs, agency management, and auditors—in a risk-based approach to identify internal controls warranting review is a course of action allowing for broad-based input and analysis and one that should yield optimum results.

Going forward, CFOs should continue to work with their IGs, the IG community as a whole, and GAO, as a part of their efforts to identify organizational and financial management risks. Financial management professionals and the audit community must seek opportunities for greater efficiencies and cost-effectiveness in carrying out internal control responsibilities as they serve the best interest of the public.

FINANCIAL SYSTEMS

Achieving success in the financial systems arena was a key goal of the CFO Act, and some of that success has been realized. The enactment of the CFO Act and Federal Financial Management Improvement Act of 1996, as well as the continued attention of GAO, the IG community, and the Congress has placed increased emphasis on improving accounting and financial management systems. As discussed below, while successes have been realized, much more remains to be done in the financial management systems arena.

Strides Acknowledged in the Financial Systems Arena

Over the past 20 years, the government has worked to reduce the number of financial systems, and systems that integrate or interface with the financial systems, with an eye toward minimizing internal control problems, reducing costs, and eliminating confusion for program manager users. Information technology has been a high priority within OMB and at the Department and agency level. GAO and the IG community have also played a role by identifying system problems and offering recommendations through individual and cross-

cutting audits and evaluations. In fact, information technology and specific information technology projects have been on GAO's high-risk list and are routinely identified as a top management and performance challenge in CIGIE's annual report, *A Progress Report to the President*.

Information systems today are more robust and easier to use, as well as better integrated with other administrative areas, such as procurement, grants management, and human resources. Financial information terminology and data standards exist today that help reduce systems costs and improve communication among financial systems users. Finally, the systems today are getting better at providing information to meet the needs of multiple users, with the goal of eliminating the user-specific systems of the past.

The notion of government-developed financial software has become almost a thing of the past. Today, the Federal government is almost exclusively using commercial software—adapting its processes to tried-and-true practices rather than creating unique software that would be unable to communicate with software in other systems. The opposite was the case 20 years ago prior to enactment of the CFO Act, with individual agencies most often developing their own financial information technology software.

Agencies and OMB Continue to Focus on Systems Challenges with Support from IGs and GAO

Despite the improvements witnessed over the last 20 years, there are still too many individual agency financial management systems, implementations that have not lived up to their promised cost effectiveness, and systems that do not interface with financial systems. Further, too many attempts to develop and install new systems are met with failure, schedule delays, or cost overruns. OMB has established an oversight council comprised of systems experts from across government to ensure government-wide oversight. OMB has required that projects be broken into manageable pieces (rather than total “big bang” projects) that have a better chance of overall success and meeting initial cost, schedule, and performance objectives. OMB's action aligns with the current private-sector emphasis on successful information technology project development and implementation from a cost and schedule perspective. In addition, CFOs and their counterpart Chief Information Officers are working together to integrate and oversee systems effectively.

Improved efficiency is an expectation when introducing a new system and interfacing with an existing system. The entry of data is still all too often made by financial personnel rather than the real customers of these systems—program managers, agency management, and other administrative users. One of the goals of the CFO Act was the integration of systems, with a focus on the entry of data where it was

created rather than the movement of paper between offices. This is a goal that continues to be addressed today with increasing progress.

Finally, financial systems in the future should continue to look toward addressing users' needs. During the listening sessions, we heard that cost and performance management information was in demand among stakeholders. "Transparency reporting," as addressed in the Financial Funding Accountability and Transparency Act of 2006 and the American Recovery and Reinvestment Act of 2009, is another example of user needs that financial systems must support. While Recovery Act reporting (via Recovery.GOV) could not have been achieved without the improvements in financial systems over the last 20 years, more will need to be done to meet current and future mandates for transparency and accountability reporting. Accurate data contained in well-designed financial systems is critical to support the dashboards and other social media methods that the government employs to be better connected with the public.

OMB and the CFO Council are working closely together and have established goals to reduce redundant systems, reduce system problems in cost and schedule, improve cost accounting, provide better performance reporting, and provide transparency in reporting to the public and the Congress. These goals focus on business process improvement and technology enhancement.

Over the years, GAO and the IGs have examined financial systems, identified problem issues, and made recommendations to support their agencies' efforts to achieve improved financial systems, as envisioned by the CFO Act. As noted throughout this report, the degree of collaboration and coordination between and among OMB, the CFO Council, agency CFOs, IGs, and GAO is promising and will continue to focus attention on this important area.

Conclusion

The CFO Act of 1990 served as the impetus for major improvements in Federal government financial management, including improved senior financial management leadership, published and independently audited financial statements, far better internal controls over financial management activities, better financial systems, greatly improved financial reporting, far better reporting to the public, and a more cooperative relationship between CFOs, IGs, and GAO.

This report highlights how far the CFO Act has come in the last 20 years and where it still needs to go. It details many of the ongoing efforts by OMB, the CFO Council, GAO, FASAB, and CIGIE to further improve Federal financial management. The good news is that the parties involved recognize the areas warranting increased attention and are committing time and talents to move forward. Various initiatives and efforts are ongoing and progress is being made to fully realize the intent of the CFO Act. For the most part, the authority exists to accomplish what needs to be done, but as noted in the two recommendations made in this report, additional Congressional consideration would assist in fully realizing the purposes set out in the CFO Act of 1990.

The CFO and IG communities appreciate the opportunity to have examined the impact of the CFO Act over the years and count on the continued support of the Executive Branch and the Congress in our continuing efforts to successfully carry out the lasting mandates of this landmark legislation.



APPENDIX I: Report Objective and Approach

The Improper Payments Elimination and Recovery Act of 2010, which was signed into law on July 22, 2010, directed the CFO Council and CIGIE to jointly examine the lessons learned during the first 20 years of implementing the CFO Act of 1990 and identify reforms or improvements, if any, to the legislative and regulatory framework for Federal financial management—all in the interest of optimizing Federal agency efforts on financial reporting and internal controls. In conducting this work, the CFO Council and CIGIE were to consult with a broad cross-section of experts and stakeholders in government accounting and financial management. The joint report was to be submitted to the Senate Committee on Homeland Security and Governmental Affairs, House Committee on Oversight and Government Reform, and Comptroller General, not later than 1 year after the enactment of the Improper Payments Act.

To begin the study, the CFO Council and CIGIE formed a working group of senior leaders from the Federal financial management community and the IG community, and included a senior official from the GAO to serve as an observer. Jim Taylor, the CFO of the Department of Labor, and CFO Council representative, and Jon Rymer, the IG of the Federal Deposit Insurance Corporation, and CIGIE Audit Committee Chair, were co-leaders of the working group. As noted below, a broad spectrum of political CFOs and career Deputy CFOs as well as IGs and Assistant IGs were either invited or volunteered to participate on this joint project.

Early on in the project, the working group decided that to be all-encompassing in its review, other Acts related to Federal financial management should also be examined. It was the consensus of the working group that these laws be considered when examining Federal financial management, and in particular, when considering efforts to optimize relevant, timely, and reliable reporting and efforts to mitigate the risk of fraud, waste, and error in government programs. Appendix II lists the related laws that were considered.

The working group employed several methods to gather input from a wide spectrum of current and past financial and audit community leaders as well as private-sector leaders and academia in financial

management and auditing. A high-level seminar on government financial management, held in conjunction with the 20th anniversary of the CFO Act of 1990, was the first such information-gathering effort. This seminar, which was held on November 19, 2010, included “thought leader” sessions to address key financial topics looking toward the future of Federal financial management. Preliminary discussions and group meetings on key financial management issues that were held prior to the seminar served as the basis of the information shared during the “thought leader” sessions.

Over the next several months, the working group received briefings and held small-group meetings with selected experts and “listening sessions” to collect input and perspectives on the CFO’s role and organization, financial reporting and accountability, internal controls, and financial systems. In total, more than 250 individuals participated in at least one of the gatherings, as follows:

January 21, 2011	Briefing: History of the CFO Act
January 21, 2011	Briefing: Federal Accounting Standards Advisory Board
January 21, 2011	Briefing: Results of the Association of Government Accountants’ CFO Survey
March 2, 2011	Small-Group Meeting: Current and Former OMB Officials
March 17, 2011	Listening Session: Commercial Sector and Academia
March 21, 2011	Listening Session: CFO Community
March 23, 2011	Listening Session: IG Community

The views that were shared through the working group’s information collection efforts and follow-on meetings provide the basis for the observations in this report. These observations were supplemented, and in many cases supported, by an analysis of relevant documents published over the past 20 years by the GAO, other Federal agencies, private-sector accounting and auditing organizations, and academicians. Insights from many such publications are reflected throughout this report, and the documents themselves are referenced in Appendix II.

Several members of the working group were tasked with drafting the report. The draft report was first shared with the entire working group for review and comment, and those comments were incorporated, as appropriate. The draft was then shared concurrently with CFO Council and CIGIE members as well as OMB officials for review, comment, and clearance. Those comments were also incorporated, as appropriate.

WORKING GROUP MEMBERS

Co-Leaders

Jim Taylor, CFO, Department of Labor

Jon Rymer, IG, FDIC, and CIGIE Audit Committee Chair

CFO Council Representatives

Lisa Casias, Deputy CFO, Department of Commerce

Doug Criscitello, CFO, Department of Housing and Urban Development

Mark Easton, Deputy CFO, Department of Defense

David Gabel, Deputy Director, Financial Policy & Travel, Department of Labor

W. Todd Grams, CFO, Department of Veterans Affairs

Regina Kearney, Office of Federal Financial Management, OMB

Lee Lofthus, CFO, Department of Justice

Alexander Louie, Program Analyst, Department of Housing and Urban Development

Gary Maupin, CFO Academy, iCollege, National Defense University

Tong Qin, Deputy CFO, Small Business Administration

Scott Quehl, CFO, Department of Commerce

CIGIE Representatives

Leslee Bollea, CIGIE Audit Committee Liaison, FDIC Office of Inspector General (OIG)

Greg Friedman, IG, Department of Energy

Matt Jadacki, Assistant IG for Emergency Management Oversight, Department of Homeland Security

Jo King, Administrative Support Specialist, FDIC OIG

Elliot Lewis, Assistant IG for Audit, Department of Labor

Sharon Tushin, Communications Director, FDIC OIG

GAO (Observer)

Bob Dacey, Chief Accountant

Appendix II: Key Legislation and Other References

KEY FEDERAL FINANCIAL MANAGEMENT LEGISLATION

1921	Budget and Accounting Act
1950	Accounting and Auditing Act
1974	Budget Impoundment and Control Act
1978	Inspector General Act, as amended
1982	Federal Managers' Financial Integrity Act of 1982
1982	Debt Collection Act (Debt Collection Improvement Act of 1996)
1982	Prompt Payment Act
1984	Single Audit Act (Single Audit Act Amendments of 1996)
1990	CFO Act
1990	Federal Credit Reform Act
1990	Cash Management Improvement Act
1993	Government Performance and Results Act (Amended in 2010)
1994	Government Management Reform Act
1996	Federal Financial Management Improvement Act
1996	Clinger-Cohen Act
2000	Government Information Security Reform Act
2002	Federal Information Security Management Act
2002	Accountability of Tax Dollars Act
2002	E-Government Act
2003	Improper Payments Information Act
2004	Homeland Security Financial Accountability Act
2006	Federal Funding Accountability and Transparency Act
2009	American Recovery and Reinvestment Act
2010	Patient Protection and Affordable Care Act (Title VI)
2010	Improper Payments Elimination and Recovery Act
2010	Government Performance and Results Modernization Act

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Abbreviations and Acronyms

CFO	Chief Financial Officer
CIGIE	Council of the Inspectors General on Integrity and Efficiency
FASAB	Federal Accounting Standards Advisory Board
FMFIA	Federal Managers Financial Integrity Act of 1982
GAO	Government Accountability Office
IG	Inspector General
OIG	Office of Inspector General
OMB	Office of Management and Budget



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Attachment 2: Analysis of the Recommendations Presented in *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General*

Analysis

Introduction

The CFO Council and CIGIE recently issued its report on the lessons learned from implementing the CFO Act of 1990. The report, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General* discussed two recommendations, Enhancing the Role of the CFO and Evolve the Reporting Model, and staff prepared an analysis of the recommendations with a focus on possible implications for FASAB. The following sections provide an analysis of the recommendations.

Enhancing the Role of the CFO

The CFO Council and CIGIE recommended that

The Congress should consider enhancing the role of the CFO by standardizing the CFO's portfolio to include leadership responsibility for budget formulation and execution, planning and performance, risk management and internal controls, financial systems, and accounting. To provide continuity during the often lengthy period between appointments of agency CFOs, the Congress should also consider providing Deputy CFOs with the same breadth of responsibilities as their respective CFOs.

This recommendation recognizes the evolving role of the CFO in the federal government and provides some insights into the type of information that may be sought for managing agency programs (internal user needs). The report discussed that CFOs now have a seat at the “board table” and advise executive leadership on financial matters. However, the report noted that CFOs at different agencies have different day-to-day responsibilities.² According to the CFO Council and CIGIE, standardizing the role of the CFO across government could help achieve the goals of the CFO Act and that role should include budget formulation and execution, planning and performance, risk management and internal controls, financial systems, and accounting.³ By consolidating these functions, the CFO could have information to “better identify business risks across agency programs by having the full set of data and analysis this portfolio provides.”⁴ Accordingly, the report appears to indicate that information to assess business risks across programs may be sought by executives and confirms the user needs analysis expressed in FASAB's conceptual guidance.

FASAB has noted that accounting standards can influence the activities of accounting personnel and the decisions of those who review the accountant's reports⁵ and, although the phrase “business risk” is not particularly used, FASAB's conceptual guidance discusses the need for information on events and trends that could affect programs in the future. The need for business risk information is implied in FASAB's

² The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General, July 2011, p.9

³ Ibid.

⁴ Ibid.

⁵ SFFAC 1, par. 152.

stewardship and systems and control objectives. In explaining the stewardship objective, FASAB notes that

Information about the results of past government operations is useful in assessing the stewardship exercised by the government. Users of financial reports also want help in assessing the likelihood that the government will continue to provide the current level of benefits and services to constituent groups, such as farmers, retirees, and the poor.

Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible from sources such as government-sponsored enterprises, deposit insurance, and disaster relief programs. It could also include information such as

- the long-term financial implications of the budgetary process,
- the status of trust funds, and
- backlogs of deferred maintenance.⁶

In addition, in FASAB's recent citizens user needs survey, it was determined that citizens have an interest in knowing about the federal government's current financial condition and future viability.⁷ FASAB also notes that providing this type of information may require reporting mechanisms other than traditional financial statements.⁸

In the systems and control objective, FASAB discusses the concerns of taxpayers and the need to mitigate risks to tax dollars. In particular, FASAB states

Because the government spends such large amounts of monies, taxpayers and other citizens are naturally concerned that the resources they supply are being protected from fraud, waste, and abuse and that the errors are minimal. They want to know that controls are in place and operating effectively and that problems are being quickly identified and corrected. They are particularly concerned that identified high risks are addressed and that adequate funds are devoted to eliminating the risk.⁹

Thus, FASAB has recognized the need for information that may be useful to both internal and external users. Currently, FASAB has initiated a project to study the significant risks assumed by the federal government and develop reporting guidance. Plans for the project include developing: (a) definitions of risk assumed; (b) related recognition and measurement criteria; and (c) disclosure and / or required supplementary information (RSI) guidance that federal agencies can apply consistently in accordance with generally accepted accounting principles (GAAP).¹⁰ Also, the project is designed to contribute to achieving the stewardship and systems and control objectives and will coordinate with the reporting model project.

⁶ Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, pars. 140 and 141.

⁷ See Board Issue Paper for April 2010 located at <http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/>.

⁸ SFFAC 1, par. 142.

⁹ SFFAC 1, par. 263.

¹⁰ <http://www.fasab.gov/projects/active-projects/risk-assumed/> accessed September 19, 2011.

Staff Recommendation

While the CFO Council and CIGIE report recommendation is not directed to FASAB, the report discusses the need for risk information that would be useful in managing component entities. FASAB considers the information needs of users in developing accounting standards and has recognized the need for information on risks. Consequently, because FASAB has started a project on risks, staff proposes no additional actions at this time.

Evolve the Reporting Model

With respect to the reporting model, the CFO Council and CIGIE report discussed achievements that have been made and the challenges that remain. In particular, the CFO Council and CIGIE recommended that

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

Achievements

In the early 1990's FASAB developed objectives to identify the goals and purposes of financial reporting and help guide the Board in developing accounting standards. As part of those objectives, FASAB noted that "the processes of preparing and auditing financial reports can enhance the government's overall accountability structure by providing greater assurance that transactions are recorded and reported accurately, that consistent definitions are used to describe the transactions, etc."¹¹ Thus, FASAB believed that the reporting model should provide information that is useful for managing programs and demonstrating accountability and the CFO Council and CIGIE report noted progress toward achievement of FASAB's intent.

The CFO Council and CIGIE report noted that the reporting model and audit process promotes discipline, provides credibility and confidence in financial operations, and facilitates consistent and timelier reporting.¹² Also, it noted that the preparation and audit of financial statements contributed to the evolution of useful financial information and helps agency leaders assess and mitigate enterprise risk.¹³

In addition, FASAB envisioned that financial reporting in the federal government would integrate both financial information and "nonfinancial" information, such as performance goals and results and the possible future effects of risks and uncertainties.¹⁴ Also, FASAB's user needs research indicated that users sought not only information provided by traditional financial statements, but information on performance and future budgetary

¹¹ SFFAC 1, par. 21.

¹² The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General, July 2011, p.12.

¹³ Ibid.

¹⁴ SFFAC 3, *Management's Discussion and Analysis*.

resource needs.¹⁵ Consequently, the CFO Council and CIGIE report confirmed FASAB's views and research by noting that the demand for financial reporting evolved beyond the principal financial statements. Agencies present financial statements along with information on accomplishments, budget information, and future plans.¹⁶

Remaining Challenges

While the CFO Council and CIGIE report confirmed achievements toward FASAB's objectives for the reporting model, the report noted that challenges remain in streamlining reporting requirements and addressing current user needs. Regarding users, the report noted particular challenges remain in integrating the information; presenting real-time and forward looking information; and there is a need for a statement of spending.

Streamlining Reporting Requirements

FASAB has conducted projects to review existing accounting standards. For instance, Table 1: Status of Accounting Standards Review shows accounting standards that FASAB has reviewed since December 2008 and the progress to date.

Table 1: Status of Accounting Standards Review

Standards	Progress
SFFAS 1, <i>Accounting for Selected Assets and Liabilities as applied to Grant Accruals</i>	Issued Technical Release 12, <i>Accrual Estimates for Grant Programs</i>
SFFAS 4, <i>Managerial Cost Accounting Standards and Concepts</i>	Hosted educational forums on this topic and made resources available on its website. Also, communicated a willingness to support a CFO Council effort to identify or develop resources and the council indicated no support was needed.
SFFAS 6, <i>Accounting for PP&E</i>	Issued Technical Release 11, <i>Implementation Guidance on Cleanup Costs Associated with Equipment</i> ; Technical Release 13, <i>Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment</i> ; and other related Accounting and Auditing Policy Committee (AAPC) projects are

¹⁵ Board Issue Paper for April 2010 located at <http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/>.

¹⁶ Ibid.

Standards	Progress
	ongoing.
SFFAS 10, <i>Internal Use Software</i>	The Board reviewed preliminary review findings and concluded the project was not a priority.
SFFAS 15, <i>Management’s Discussion and Analysis</i>	AAPC issued <i>MD&A Best Practices Report</i>
SFFAS 27, <i>Identifying and Reporting Earmarked Funds</i>	Analyzing comments received on the exposure draft (ED) entitled, <i>Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27</i> , issued on June 22, 2011.

As part of future projects, the Board plans to remain mindful of the need to reduce the reporting burden on preparers.

Integrating Information

With respect to integrating information in financial reports, the CFO Council and CIGIE report noted that

...Federal financial managers can improve current reporting on past information by **linking** strategic goals, performance information, and financial information. By doing so, stakeholders will see how agencies are managing their resources to achieve goals and how this practice informs the future direction of an agency.¹⁷ [emphasis added]

FASAB has noted that users need to understand how the different elements of financial statements and other financial report sections relate to each other.¹⁸ For example, sub-objective 1C of the budgetary integrity objective states that information is needed to help users determine, “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.”¹⁹ Accordingly, FASAB suggested a statement of financing that reconciles budgetary resources obligated for operating an entity to the net cost of operating the entity.

¹⁷ The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General, July 2011, p.15.

¹⁸ *Financial Reporting Model Task Force Report to the FASAB*, December 2010.

¹⁹ SFFAC 1, par. 119.

Additionally, during our survey of citizens, we determined that 77% of respondents believed that understandable performance information is very/extremely important.²⁰ FASAB has recognized the need for performance information in reports and the need to relate this information to the cost of programs. For instance, SFFAC 2, *Entity and Display*, discusses a statement of program performance measures. This statement would present service efforts and accomplishments measures and would help users, “determine the efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs.”²¹

Also, FASAB’s Reporting Model Task Force noted the need to relate the different measures presented in financial reports and noted that users focus on the cost of programs rather than on the agency that conducts them. They recommended a functional statement of net cost in the CFR with departmental net cost by function in required supplementary information (RSI). Moreover, they recommended a presentation of the relationship between the net cost and budgetary amounts or outlays. This approach would help users compare the amount spent with the net cost of each function and assess financial performance in relation to the budget. To help integrate the various measures, the task force recommended electronic reporting which would permit users to view information in a variety of ways – by function, program, agency, etc.²²

Recently, the Board has focused on the management’s discussion and analysis (MD&A)²³ to facilitate user understanding. SFFAC 3, *Management’s Discussion and Analysis*, states

As a part of their stewardship responsibility, managers should explain the significance of key financial and nonfinancial information shown in the report, the strategies that led to the results reported, and the implications for future operations of events that have occurred or are likely to occur.²⁴

The conceptual guidance also states that the “MD&A should make federal financial statements understandable to a wide audience, not just to users who are specialized analysts or members of the entity’s management.”²⁵ Consequently, FASAB developed standards to improve reporting in the MD&A and issued SFFAS 37, *Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements*. This standard discusses requirements for agencies that prepare a statement of social insurance (SOSI) and the government-wide entity and states,

Component entities that present a SOSI and the government-wide entity should discuss critical measures from their basic statements in a separate section of their management’s discussion and analysis (MD&A). They should explain the significance of key amounts, the major changes in those amounts during the reporting period, and the causes thereof. In particular, the entity should

²⁰ FASAB, *User Needs Study: Citizens*, April 2010.

²¹ SFFAC 2, par. 65.

²² *Financial Reporting Model Task Force Report to the FASAB*, December 2010.

²³ While the CFO Council and CIGIE Report definition of reporting model does not include the MD&A, this section of a financial report presents information required by generally accepted accounting principles.

²⁴ SFFAC 3, par. 4.

²⁵ SFFAC 3, par. 37.

explain why the changes occurred and what they imply for the program's operation. The entity should explain how costs and commitments incurred during the period were or will be financed. The entity should describe important existing and currently-known demands, risks, uncertainties, events, and conditions—both favorable and unfavorable—that affect the amounts reported in the basic financial statements. The discussion should go beyond a mere description of existing conditions and should encompass the possible future effects of anticipated future events, conditions, and trends regarding social insurance programs.²⁶

Additional Information

The CFO Council and CIGIE noted that users need additional items of information. The report noted that

To improve financial management and achieve current and long-term goals, program managers need **real-time** data to allow their organizations to quickly respond to new management challenges and associated risks.²⁷ [emphasis added]

The financial reporting model should also consider more current stakeholder needs, such as developing a **statement of spending**, and include **forward-looking information**, such as future program costs. Such reporting would allow all involved to perform their duties as they relate to Federal spending and programs.²⁸ [emphasis added]

Real-time Information

In a real-time environment, information relevant to decision-making is updated continuously. Also, FASAB's Reporting Model Task Force recommended that financial reporting move away from static reporting.²⁹ Although FASAB considers the information needs of internal users³⁰ and acknowledges that, to be useful, information must be provided soon enough to affect decisions,³¹ guidance on reporting intervals or continuous reporting is not within the Board's domain.

With that said, FASAB has encouraged information to help advance overall financial reporting, and FASAB considers reporting requirements to help achieve the systems and control reporting objective. Mature systems and internal controls would be needed to provide agency officials and staff with reliable real-time information.

Also, the need for real-time information may require continued research on the electronic delivery of information. The Association of Government Accountants (AGA) is undertaking a research project on electronic reporting and the Governmental Accounting Standards Board (GASB) has initiated a research project on the effect of

²⁶ SFFAS 37, par. 23.

²⁷ The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General, July 2011, p.15.

²⁸ Ibid. p.16.

²⁹ *Financial Reporting Model Task Force Report to the FASAB*, December 2010.

³⁰ SFFAC 1, par. 3.

³¹ SFFAC 1, par. 162.

electronic media on information delivery and user needs. FASAB is currently considering how standards could evolve to guide electronic reporting.

Statement of Spending

The CFO Council and CIGIE report noted the need for a statement of spending. Currently, agencies are experimenting with the statement and, during FASAB's February 2011 meeting, Board members noted the importance of continued experimentation. The Board believed it would be premature to address the addition of the statement to the model while experimentation is in progress, but will be considering user needs related to the spending information.

Forward-looking Information

Regarding forward-looking information, FASAB has considered standards for presenting this information since its early years of operations. For example, as noted earlier, FASAB concepts note the need for information that discusses "the long-term financial implications of the budgetary process"³² and SFFAS 17, *Accounting for Social Insurance*, as amended by SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, requires a SOSI which presents the actuarial present values of future benefits and contributions and tax income for social insurance programs. In addition, SFFAS 15, *Management's Discussion and Analysis*, requires that the MD&A discuss forward-looking information³³ and, in May 2011, the Accounting and Auditing Policy Committee issued an MD&A best practices report that provides examples of forward-looking information presentations.³⁴

Also, SFFAS 36, *Comprehensive Long-Term Projections for the U.S. Government*, discusses fiscal sustainability reporting for the CFR. Fiscal sustainability reporting provides users with information on where the federal government might be headed in the long-term absent a change in policy. Reporting on fiscal sustainability involves present value projections for the whole of government and key programs that are financed by dedicated collections. Accordingly, the Board would need to consider whether projections by programs are feasible and useful, given the scope of fiscal sustainability reporting.

Staff Recommendations

The CFO Council and CIGIE report raises potential matters that FASAB could consider as part of its efforts to review the reporting model. Staff recommendations regarding these matters are discussed below.

³² SFFAC 1, par. 141.

³³ SFFAS 15, par. 3.

³⁴ See <http://www.fasab.gov/accounting-standards/other-sources-of-information/other-reports-documents/>.

1. As part of the component entity phase of the reporting model project, conduct inquiries and review existing research to assess user needs for information that may not be provided by the current model, including risk, real-time, and forward-looking information.

The CFO Council and CIGIE report indicated a need for risk, real-time, and forward-looking information and each type is recognized to some degree in FASAB literature. However, risk, real-time, and forward-looking information can ultimately contribute to the same goal – to help users be proactive and assist them in addressing fiscal exposures or potential issues timely. Therefore, a holistic approach is needed because: (a) considering risk, real-time, and forward-looking information as separate topics and independently developing reporting requirements could result in the presentation of redundant information and hindering a user's understanding; and (b) ensuring that constituents (preparers, auditors, and users) understand how any new items of information relate to existing and commonly known items such as contingencies, would help facilitate its usefulness.

As part of the component entity phase of the reporting model project, staff could ask a task force (consisting of representatives from the various user groups) for their views on what additional information may be needed to enhance the existing model. In addition, as part of the inquiry, the task force could be asked about: (a) the need for risk, forward-looking, and real-time information; (2) how the risk, forward-looking, and real-time information might be used; (3) what information they currently use; and (4) how any resulting proposals for new information differ from what is currently available. The task force could also consider other aspects of the CFO Council and CIGIE report, along with other user needs research. Moreover, staff would coordinate with other relevant FASAB projects, such as the Risk Assumed project. This approach would assist the Board in its continuing efforts to address the current needs of users. TAB D-1 provides the project plan for the reporting model project.

2. Consider user needs for spending information.

As noted by the Board in February 2011, it would be premature to address the statement while experimentation is ongoing. Consequently, staff recommends that, as part of the reporting model project, FASAB consider user needs for spending information and how the information would relate to existing information in financial reports. TAB D-1 provides the project plan for the reporting model project.

3. Consider how to better articulate information as part of the component entity phase of the reporting model project.

To assist users in understanding the various perspectives being presented in the reporting model, the Board has recognized the need to improve integration of the information. For example, as discussed earlier, FASAB issued SFFAS 37 which

provides guidance to help users understand the relationship among key financial measures. However, because the standard focuses on integrating critical measures of financial statements, additional guidance may be needed to address better integration of financial and nonfinancial information. As noted earlier and during the August 2011 FASAB meeting, users are seeking nonfinancial information, including performance measures, at the component entity level and financial information is needed for reporting at the government-wide level. Consequently, determining how to better articulate information from various perspectives could enhance a reader's overall understanding of the model and may help identify opportunities to streamline reporting requirements.

Staff plans to organize a task force to help review the existing model for enhancements. In addition to reviewing what additional information may be needed, the task force members could consider how to better present the information using current technologies. TAB D-1 provides the project plan for the reporting model project.

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Attachment 3: USA Today Reporter's Suggestion for the CFR

USA Today Reporter's Suggestion for the CFR

On September 20, 2011, USA Today Reporter, Dennis Cauchon, provided the Board with a suggestion for additional information. He noted that the CFR has improved over the years and was especially valuable in establishing information on liabilities. However, he suggested that information on actual cash payments be added to Note 15, Federal Employee and Veteran Benefits Payable.³⁵ He stated that he would find it hard to believe that a company Chief Financial Officer would not know how much the company spends on retirement benefits. Thus, Mr. Cauchon proposed the following information.

Federal compensation to former workers, fiscal 2010, in millions:		
	Spending	Liability
By program	2010	2010
Civilian retiree pensions	69,288	1,632,900
Civilian retiree health care	13,200	355,500
Civilian retiree workers comp	2,778	30,100
Civilian retiree life insurance	520	44,000
Civilian TSP match	6,950	
Civilian other	-	400
Military pensions	50,417	1,262,700
Military retiree health care (regular)	11,162	904,700
Military retiree Tricare for Life	8,429	
Military other	559	15,200
VA cash benefits (disability, pension, etc.)	58,603	1,474,800
VA Health	51,111	
VA other	2,221	
Total	275,238	5,720,300
By type of service		
Civilian	92,736	

³⁵ See http://www.fms.treas.gov/finrep/note_finstmts/fr_notes_fin_stmts_note15.html.

Military	182,502	
Total	275,238	
By type of benefit		
Cash	188,036	
Medical	83,902	
Other	3,300	
Total	275,238	

As noted in Attachment 2: Analysis of the Recommendations Presented in *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General*, agencies are experimenting with a statement that provides spending information and the Board believes that it would be premature to consider addition of the statement while experimentation is in progress. The Board could consider Mr. Cauchon’s suggestion as part of considering the results of agency experimentation with spending information. In addition, the Board may consider the Phase 1 task force recommendation to relate cost and spending information. For example, Mr. Cauchon’s information might be enhanced by also reporting the normal cost of current employee benefits for the period because these also affect the liability balances.

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October 7, 2011

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model Component Entity Project Plan – **Tab D-1**¹

OBJECTIVE

The objective of this session is to **approve the attached project plan** for the project on the Reporting Model – Component Entity, **so that staff may take action on the next agreed-upon step.**

BRIEFING MATERIAL

The proposed Project Plan is attached to this transmittal memorandum. In addition, there is a separate Appendix containing reference material that provides additional information should you desire more details. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, 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 e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov.

Attachments:

Project Plan
Appendix

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

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REPORTING MODEL – COMPONENT ENTITY

PROJECT PLAN



October 2011



Why

Why is a project on the Reporting Model – Component Entity needed?

- Increased demand for information from various perspectives to facilitate decision-making and demonstrate accountability, e.g. performance measures, budget execution, costs, and risks.
- Citizens expect financial information about agencies, but have difficulty understanding financial reports.
- The public relies on electronic media to obtain information and recent legislation requires Web-based reporting of agency performance information.



What

What questions / issues does the Reporting Model – Component Entity project plan to address?

- What additional information would be helpful for decision-making, demonstrating accountability, and achieving the reporting objectives?
- How should diverse information be better integrated and presented in a manner that is most responsive to users and the manner in which they obtain information?

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REPORTING MODEL – COMPONENT ENTITY

PROJECT PLAN

- Purpose:** This project is being undertaken by the Federal Accounting Standards Advisory Board (FASAB or Board) because of increased demands for information from various perspectives to facilitate decision-making and demonstrate accountability, and the changes in how users expect this information to be delivered. For example, our research has noted that:
- Users are seeking information on the full cost of programs, performance measures, risks, and budget execution,² all of which requires the integration of information from different perspectives.
 - Citizens expect financial information about component entities but they have difficulty understanding current financial reports.³
 - The public is relying increasingly on electronic media (digital devices, complex networks, and interactivity) to obtain information on demand.⁴
 - Recent legislation requires web-based reporting of performance measures.

For additional information, you may read the Background section of the Appendix to Tab D-1.

- Applicability:** This project applies to component entities that prepare and present general purpose financial reports in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Also, any conceptual guidance developed as a result of the project would guide the Board's development of accounting and reporting standards. Knowledge of the concepts that the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards understand the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

- Objectives:** The primary objectives of this project are to:
- a. Determine what additional information would be helpful for decision-making, demonstrating accountability, and achieving the reporting objectives.
 - b. Determine how to better integrate and present diverse information to be most responsive to users and the manner in which they obtain

² Preparers Focus Group Discussion, February 10, 2009.

³ FASAB, *User Needs Study: Citizens*, April 2010.

⁴ FASAB Reporting Model Task Force, *Report to the FASAB*, December 22, 2010.

information.

Assigned staff:

Ross Simms

Other resources:

Staff plans to engage a task force to help accomplish the project objectives. Also, staff plans to consider any ongoing efforts to improve the reporting model. Optional resources include access to Web-based meeting software like Webex to reduce meeting logistics issues and permit wide participation.

Timeline:

October 2011

- Conduct focus groups with citizens to determine their perceptions regarding component entity financial reports

November 2011

- Staff organizes a task force and at the initial meeting provides task force with the results of prior research, i.e., user needs studies, focus group discussions, Chief Financial Officers (CFO) and Council of the Inspectors General on Integrity and Efficiency (CIGIE) Report, and Financial Reporting Model Task Force Report.⁵

December 2011 - March 2012

- Task force meetings and development of recommendations for FASAB consideration

April 2012 Meeting

- FASAB discussion of task force recommendations

June 2012 Meeting

- FASAB discussion of task force recommendations (continued from April 2012)

August 2012 Meeting

- Staff presents issues and proposals.

October 2012 Meeting

- Staff presents issues and proposals (continued from August 2012).

December 2012 - February 2013

- Draft ED and field testing

⁵ While the Financial Reporting Model Task Force Report primarily focused on government-wide reporting, three of the task force's recommendations also applied to agencies. The recommendations concerned the following: (1) establish minimum requirements for a statement of spending; (2) include intergovernmental financial dependency reporting in required supplementary information (RSI); and (3) re-orient the balance sheet display and enhance the related MD&A discussion. The recommendation regarding intergovernmental financial dependency reporting is being considered as part of FASAB's Risk Assumed project. See the Appendix for additional information.

April, June, August, October 2013 Meetings

- Discuss draft ED with FASAB

December 2013

- Issue ED for comment

March – June 2014

- Discuss analysis of ED comments and finalize standard

June 2014 Meeting

- Submit standard to sponsors

September 2014

- Issue standard

PROPOSED APPROACH

I. Consider Existing Concepts, Standards, Other Guidance, and Legislation:

Existing concepts

- Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, objectives of federal financial reporting, paragraphs 112 -150.
- SFFAC 2, *Entity and Display*, displaying financial information, paragraphs 54 – 67, and 74, and Table 1: Factors to Consider in Distinguishing Basic Information from RSI.
- SFFAC 3, *Management’s Discussion and Analysis*, making financial statements understandable, paragraph 37.
- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, elements of financial statements and basic recognition criteria, paragraph. 5.

Existing standards

- Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, sources of financing for component entities, paragraph 23; presentation of budgetary information, paragraph 77; and explaining the relationship between budgetary resources obligated by the entity during the period and the net cost of operations, paragraph 80.
- SFFAS 17, *Accounting for Social Insurance*, as amended by SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, requirement for a statement of social insurance
- SFFAS 37, *Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements*, requirements for presentations in the Management Discussion and Analysis (MD&A) and a statement of changes in social insurance amounts, paragraph 2.

Existing Guidance

- Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the financial section of financial reports, section II.4.

Legislation

- Federal Managers Financial Integrity Act of 1982
- Chief Financial Officer's (CFO) Act of 1990
- Government Performance and Results Act of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Sarbanes-Oxley Act of 2002
- Department of Homeland Security Financial Accountability Act
- Improper Payments Elimination and Recovery Act (IPERA) of 2010
- GPRA Modernization Act of 2010

II. Resources

Staff plans to engage a task force to help achieve the project objectives. The task force will consist of representatives from each of the user groups (citizen, managers, executives, and Congress), preparers, and auditors. Also, staff may seek input from experts in disciplines such as actuarial science, federal budgeting, federal performance management, information technology, and communications.

III. Research Steps

- a. Research other accounting standards setter's guidance on component entity reporting and guidance on integrating financial information and operating performance information.
- b. Organize a task force to review user needs and the existing model and determine: (1) what additional information would be helpful for decision-making, demonstrating accountability, and achieving the reporting objectives; and (2) how information could be better articulated to users.
 - i. Seek representatives from each of the user groups (citizens, program managers, executives, and Congress) and include preparers and auditors.

- ii. Provide task force members with an example of the existing model and previous research (user needs results, Financial Reporting Model Task Force recommendations, FASAB Strategic Directions, and CFO Council and CIGIE recommendations).
- c. Review the existing model and previous research and determine what additional information would be helpful for decision-making, demonstrating accountability, and achieving the reporting objectives. As part of the review, consider needs for risk, forward-looking, and real-time⁶ information; performance measures; and progress on developing a statement of spending and inquire regarding:
 - i. how the information might be used;
 - ii. what information is currently used; and
 - iii. how any proposals for new information differs from what is currently available.
- d. Consider the results of the previous step and determine how to enhance (improved format, medium, articulation, etc.) the existing reporting model.
 - i. Is the content of the existing and proposed statements structured in a manner that is most responsive to the needs of users and the manner in which they obtain information?
 - 1. Consider the following:
 - a. Should only tabular formats with text and numbers be used, considering that many users obtain information from “tweets,” “texting,” and graphics?
 - b. How can technology be maximized to present information in the least costly manner?
 - c. What enhancements may be needed to better articulate the various perspectives that may be presented (accrual basis, budget basis, projections, and performance measures)?
 - d. What are the implications of the GPRA Modernization Act of 2010 requirements for Web-based reporting of performance information?
 - ii. Develop preliminary models to facilitate review and discussion.

⁶ Setting requirements for “when” information should be provided is not within FASAB’s domain. However, the Board’s standards may require data that is useful for real-time decisions.

- e. Report task force results to the Board.
- f. Develop an ED that provides guidelines for: presenting any new items of information; and better integrating and presenting diverse information to users and the manner in which they obtain information and conduct testing.
- g. Issue ED for comment.
- h. Analyze comments.
- i. Issue standard.

POTENTIAL PROJECT MANAGEMENT CONCERNS

Task Force

Previously, obtaining input from representatives of some user groups has been a challenge. For example, managers and executives were reluctant to participate in user needs focus group discussions because they were not aware of or did not understand the value of annual financial reports. However, staff has subsequently developed a wider base of task force candidates, which should help mitigate the challenges experienced during the early stages of the overall reporting model project effort.

The objective of this session is to approve this project plan for the project on the Reporting Model – Component Entity, so that staff may take action on the next agreed-upon step.

If you require additional information or wish to suggest another alternative not considered in the staff proposal, 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 e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov.

**Tab D-1 – Appendix
Reporting Model – Component Entity
Reference Material
(For More Information)**

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BACKGROUND

FASAB initiated the overall reporting model project to determine necessary improvements to the existing federal reporting model. To determine how best to improve the model while balancing the cost and benefit of its decisions, the Board sought input from users and the financial reporting community and organized a task force to consider enhancements to the model. The task force focused on the government-wide level because this was the level that users would likely begin their search for financial information about the federal government. Upon completion of reviewing this level, the task force prepared a report with recommendations for FASAB and its sponsors and the Board discussed the report and recommendations during the December 2010 meeting. Also, during the February 2011 meeting, the Board discussed an analysis of the recommendations that could likely be addressed by FASAB. Subsequently, the Board noted that many of the task force proposals could be implemented voluntarily by preparers and experimentation would be needed before the Board could consider addressing other proposals.

In April 2011, the FASAB discussed a staff proposal to develop a new basic financial statement that would articulate (link) information in the existing financial statements. The Board had initiated work to develop this statement as part of its Social Insurance project and staff suggested continuing this work while concurrently enhancing the conceptual framework. The conceptual framework segment would address voids and concerns that Board members raised during their deliberations on social insurance and other topics. Upon discussing the staff proposal, the Board determined that adding a new basic financial statement to articulate existing information would not be beneficial to readers. Instead, the focus should be on better presenting or communicating the existing information. Also, the Board believed that it would be premature to revisit the conceptual framework at that time. The Board acknowledged that the financial reporting community had a number of initiatives ongoing that may inform an analysis of the conceptual guidance.

Consequently, the Board has reviewed the government-wide level model and staff is preparing to proceed to the next phase – a review of the component entity level model.

EXISTING RESEARCH

As part of the reporting model project, staff conducted an inquiry of OECD countries. In January and February 2010, staff inquired of OECD countries to determine their overall financial reporting practices. Staff received inquiry responses from 10 OECD member countries (Australia, Austria, Canada, France, Italy, New Zealand, Norway, Portugal, Sweden, and United Kingdom) and the following summarizes the results:

- All of the respondents indicated that they make their government-wide financial report available on the internet.
- Most of the respondents indicated that departmental financial statements are prepared and audited.
- Many of the countries indicated similar financial statement users as the U.S. For example, all the respondents noted that legislative bodies (parliament) and citizens or the public were considered users. In addition to parliament, some countries noted other internal users such as those within ministries or departments.
- Financial statements were used for various purposes, including budget decisions, demonstrating stewardship over assets or asset management, monitoring efficiency, and accountability and decision-making in general.
- Most of the survey respondents use accrual accounting and some countries consider private sector accounting standards in preparing their financial reports.
- Respondents generally used the same basis for budgeting and accounting and some countries indicated that they currently use or are moving to accrual budgeting and accounting.¹

In addition, staff conducted a series of user studies involving citizens, executives and managers, and the Congress. Upon completion of the studies, staff developed a user needs inventory for use in determining improvements in existing federal financial reports. The financial reporting objectives are broad enough to encompass the user needs identified and the following are some of the highlights of the user needs studies:

- Citizens and some executives and managers noted difficulty in understanding information in financial reports. They believed that the documents are intended for accountants or economists rather than citizens and managers. In some instances, executives and managers develop their own data and reports.
- Congress seeks timely, easy to understand information to address particular issues.
- Citizens were not aware that the federal government and agencies prepared audited financial statements and some executives and managers had not seen their agency's financial statements.

¹ Staff Issue Paper for February 2010, available at <http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/>.

- Some executives and managers noted that they need training in financial management.
- Congress seeks financial information about specific issues of the day and uses many sources to obtain the information it needs such as obtaining the information directly from agencies and utilizing legislative support organizations, i.e., the Government Accountability Office, Congressional Budget Office, and Congressional Research Service.
- Congress also routinely seeks information about the budgetary effect of legislative proposals on the budget and the cumulative effects of legislation.
- Executives and managers use multiple systems, cuff systems, or systems other than financial systems to get financial information, including basic budgetary information.
- Both cash and accrual basis accounting appears to be needed to provide the information users need.
- Executives and managers need information at least monthly, but timelier, if possible. However, some did not believe that timelier information was possible.²

Subsequently, staff organized a task force to consider the user needs work and FASAB member concerns and determine enhancements to the government-wide model. The task force believed that to best meet FASAB's objectives and the public's needs for transparency and accountability, the federal government should adopt an electronic, Web-based method of communicating information about the financial condition and performance of the federal government. They noted that this method would enable the federal government to meet more user needs more quickly and at a lower cost than the paper-based method currently used. The task force envisioned that the electronic, Web-based method would involve a central Web site for financial and performance information with multimedia presentations to help educate users about the significance of the information. In addition, the site should include: the ability for users to "drill-down" to the appropriate level of detailed material; machine-readable data to enable users to conduct searches and download data for analysis; and the ability to report cost and accomplishments in a variety of ways based on user preferences. The task force also recommended reporting additional financial and non-financial measures and changes in the presentation of information in existing financial reports to assist users in understanding the financial condition and performance of the federal government.³

In addition, the task force believed that the success of the electronic, Web-based method of reporting and its other recommendations requires adequate public awareness of federal financial reporting. Thus, the task force recommended

² Staff Issue Paper for April 2010, available at <http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/>.

³ FASAB Reporting Model Task Force, *Report to the FASAB*, December 22, 2010.

establishing a federal financial information Web site and taking steps to raise public awareness of its availability.⁴

Although the task force focused on the government-wide reporting model, three of their recommendations concerned the component entity level. Those recommendations are listed below.

Establish Minimum Requirements for a Statement of Spending

Establish minimum requirements for fair presentation of a Statement of Spending by agencies. We understand that the CFO Council is developing a Statement of Spending for agencies. At a minimum, a statement of spending for agencies and government-wide should: (a) be designed to help the public learn where and how their tax dollars are being spent, (b) present spending data in relation to net cost (covered in recommendation #3), and (c) include an explanation of the differences between spending and net cost.

Include Intergovernmental Financial Dependency Reporting in RSI

Include summary-level information on intergovernmental financial dependency (i.e., direct flows, indirect flows, and obligations held as investments), organized by state, in RSI. Intergovernmental financial dependency is the reliance of one level of government on another level for direct financial flows, or indirect financial flows derived from the purchases of goods and services and/or payments to individuals within a governmental jurisdiction by another level of government. Such dependency can also be associated with the holding of the financial obligation of one level of government by another as an income-producing asset.

The nation's critical programs, such as addressing health care needs and countering terrorism, involve the joint efforts of all levels of government. The federal government relies on state and local government management and resources to deliver these national programs. Accordingly, the fiscal health and policy decisions of each level of government have become significantly interdependent. To the extent state and local governments face fiscal challenges that impair their ability to carry out federal programs, there is a fiscal risk to the federal government as demonstrated by the hundreds of billions of dollars of recovery funding provided to state and local government. And conversely, to the extent the federal government curtails its spending in response to its own fiscal gap state and local governments' financial condition would be significantly affected.⁵

⁴ Ibid.

⁵ This recommendation is being considered as part of FASAB's Risk Assumed project.

Re-orient the Balance Sheet Display and Enhance the Related MD&A Discussion

Change the format of the balance sheet such that the “bottom line” is “net position.” This would focus users’ attention on how the comparative values of assets and liabilities produce the resulting net position. Related discussions in MD&A should highlight why and how the assets of the government are important to the ongoing operations of the government and also identify and categorize the stakeholders that are reliant on the government meeting its liabilities and obligations.

Also, the project will consider the results of the CFO Council initiative to develop a statement of spending and some agencies have started to pilot the statement. For example, the General Services Administration has prepared a Schedule of Spending. See Figure 1: Example Schedule of Spending.

Figure 1: Example Schedule of Spending

SCHEDULE OF SPENDING

(UNAUDITED)

The Schedule of Spending presented below is not a required report, but was developed in an attempt to present GSA's spending in a reader friendly format. To achieve this goal, standard accounting terms were modified to improve understanding of common federal accounting terms for the general public. For example the line item labeled Available to Spend matches the Total Budgetary Resources line in GSA's Combining Statements of Budgetary Resources (CSBR). The Committed to Spend section equals Obligations Incurred, Amounts Remaining after Agreements equals the Unobligated Balances, and the Payments Made section equals Gross Outlays all from the CSBR.

For the Fiscal Years Ended September 30, 2010 and 2009
(Dollars in Millions)

	2010				2009			
	Federal Buildings Fund	Acquisition Services Fund	Other Funds	GSA Combined Totals	Federal Buildings Fund	Acquisition Services Fund	Other Funds	GSA Combined Totals
Available to Spend	20,822	12,641	1,074	34,537	20,925	12,038	1,280	34,243
Committed to Spend								
Employee Salaries, Benefits and Travel	818	441	307	1,566	730	408	310	1,448
Building Leases	5,280	52	35	5,367	4,916	51	34	5,001
Utilities, Communications	463	1,176	29	1,668	466	1,184	33	1,683
Other Services	2,861	5,217	374	8,452	2,859	4,834	336	8,029
Supplies and Materials	34	3,131	47	3,212	39	3,392	303	3,734
Equipment	286	813	44	1,143	46	815	27	888
Land and Structures	4,966	8	0	4,974	2,395	4	0	2,399
Other	178	53	3	234	184	52	4	240
Total Agreements	14,886	10,891	839	26,616	11,635	10,740	1,047	23,422
Amounts Remaining after Commitments	5,936	1,750	235	7,921	9,290	1,298	233	10,821

	2010				2009			
	Federal Buildings Fund	Acquisition Services Fund	Other Funds	GSA Combined Totals	Federal Buildings Fund	Acquisition Services Fund	Other Funds	GSA Combined Totals
Payments Made								
Employee Salaries, Benefits and Travel	804	437	307	1,548	726	404	307	1,437
Space Rental	5,212	51	33	5,296	4,822	51	35	4,908
Communications, Utilities	449	1,188	25	1,662	446	1,139	32	1,617
Other Services	2,796	4,496	333	7,625	3,138	4,404	315	7,857
Supplies and Materials	36	3,071	95	3,202	39	3,145	253	3,437
Equipment	86	753	39	878	43	812	30	888
Land and Structures	1,675	2	0	1,677	776	3	0	779
Other	174	51	5	230	193	50	5	248
Total Payments	11,232	10,049	837	22,118	10,183	10,008	977	21,168

EXCERPTS FROM EXISTING CONCEPTS, STANDARDS, OTHER GUIDANCE, AND LEGISLATION

The project will consider existing concepts, standards, and legislation regarding financial statements of component entities. The concepts and standards consider legislation and help address the financial information needs of users. Accordingly, the resulting broad set of financial statements may require information from various systems in addition to accounting systems.

Also, while the concepts and standards call for an array of financial statements, the particular set of financial statements may not be the same for all component entities. For example, only component entities that collect nonexchange revenue for the government as a whole will have a statement of custodial activities among its set of financial statements; and only entities with social insurance programs will have a statement of social insurance and statement of changes in social insurance amounts included in its set of statements.

Given the possible range of financial statements that an entity may need to prepare, Management's Discussion and Analysis (MD&A) becomes a key component of a financial report. In this section, management can link the financial statements and assist users in understanding the various measures presented. Thus, the FASAB considers the various needs of users and the unique characteristics of individual component entities when determining what information should be required and how that information should be presented.

Concepts

Existing concepts that will be considered include Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, and SFFAC 2, *Entity and Display*. The project will consider each of the reporting objectives (budgetary integrity, operating performance, stewardship, and systems and control) discussed in SFFAC 1. The concepts statement states that the reporting objectives "reflect many of the needs expressed by current and potential users of federal financial information."⁶ However, in deciding whether to address these needs only through financial statements, the concepts state,

The FASAB notes that many information sources other than financial statements help to attain these objectives. The objectives relate to the management and financial reporting systems in the federal government in their entirety.⁷

SFFAC 1 also discusses systems and internal controls. The different users of financial reports require data at different levels of aggregation, involving different

⁶ SFFAC 1, par. 4.

⁷ SFFAC 1, par. 5.

time periods, and requiring different formats. Consequently, some level of assurance is needed regarding the data that may need to be accessed. SFFAC 1 states that “the processes of preparing and auditing financial reports can enhance the government’s overall accountability structure by providing greater assurance that transactions are recorded and reported accurately, that consistent definitions are used to describe the transactions, etc.”⁸

Meeting the requirements of a set of accounting standards requires systems with common data definitions, classification structures, and on-going internal controls to ensure data reliability. Fundamentally, the accounting standards provide a “common language” that can be used across entities, facilitate collaboration, streamline processes, and plan information technology investments. Also, systems and control activities synchronized throughout the organization may be used to provide executives and managers with daily or real-time data for other decision-making. As a result, the systems and control activities used in preparing information in conformity with generally accepted accounting principles can contribute to ensuring the reliability of data used for other purposes, including communications to executives and managers and data presented to Congress.

In addition, SFFAC 2 discusses the role of financial statements, identifies the types of financial statements for communicating financial information about component level entities, and suggests the types of information each statement should convey. Regarding the role of financial statements, the conceptual guidance states,

Financial statements represent the principal means of communicating accounting information about an entity’s resources, obligations, revenues, costs, etc. to those outside the entity. However, financial statements, and particularly those prepared for governmental and other not-for-profit organizations, may also contain information from sources other than accounting records.⁹

While it is clear that FASAB intends for financial statements to be the principal method of communicating financial information, two additional notions about financial statements can be derived. First, it appears that financial statements are not limited to presenting information traditionally captured in accounting systems. Thus, financial statements may present information on service efforts and accomplishments, sustainability of programs, and other issues.

Second, the concept implies that financial statements do not necessarily need to link or articulate. Accounting systems are governed by double-entry which means that a single event has an equal and opposite effect in at least two accounts. This convention facilitates the preparation of financial statements that can show different aspects of the same event. Given that the Board envisions financial statements derived from sources other than such systems, the conceptual guidance does not appear to preclude considering a broad set of financial statements that do not articulate.

⁸ SFFAC 1, par. 21.

⁹ SFFAC 2, par. 54.

The flexibility implied in the guidance seems to distinguish federal accounting concepts from commercial accounting concepts which state that, “the financial statements of an entity are a fundamentally related set that articulate with each other and derive from the same underlying data.”¹⁰ However, current Board members have expressed concern that nonarticulation can hinder a reader’s understanding.

SFFAC 2 suggests that financial reports of component entities include the following financial statements:

- statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities (appropriate for those entities whose primary mission is collecting taxes or other revenues intended to finance the federal government as a whole);
- statement of budgetary resources; and
- statement of financing (currently presented as a schedule in the disclosures).¹¹

The conceptual guidance also provides illustrations of the different types of financial statements suggested.¹² However, not all the financial statements listed in SFFAC 2 are basic statements and subsequent to the issuance of SFFAC 2, the need for additional financial statements developed. See Table 1: Basic Financial Statements for Component Entities on page 10 for a listing of the current set of component entity financial statements.

Acknowledging the need to ensure that users understand the array of component entity financial statements, SFFAC 3, *Management’s Discussion and Analysis*, states,

MD&A should make federal financial statements understandable to a wide audience, not just to users who are specialized analysts or members of the entity’s management. There may be many potential sources of misunderstanding. Management should try to identify those sources of misunderstanding that may be important and deal with them in MD&A. Some of these are general and pervasive, such as those that may arise in the minds of new users of federal financial statements. New users may have been budget-oriented rather than accrual-accounting oriented, or may be accustomed to seeing financial statements prepared on the basis of private sector accounting standards. A general discussion and reference to the Statement of Financing and the basis of accounting footnote may be sufficient for such users, although more

¹⁰ Financial Accounting Standards Board (FASAB) Statement of Financial Accounting Concepts 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, par. 6.

¹¹ SFFAC 2, par. 74.

¹² See SFFAC 2, Appendix 1.

specific treatment may be appropriate where the resulting differences in the reported amounts may be important to the understanding of users.¹³

Thus, the conceptual guidance notes that a basic financial statement can provide the link between financial statements prepared from different bases. SFFAC 3 refers to a Statement of Financing¹⁴ which served that purpose and the MD&A could discuss and refer to that statement.

Additional concepts that may be considered during the project include SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*. SFFAC 5 defines the five elements of accrual basis financial statements (asset, liability, net position, revenue, and expense) and the two basic criteria for recognizing an item in the body of a financial statement:

- (1) the item meets the definition of an element; and
- (2) the item must be measurable.¹⁵

Also, SFFAC 2 discusses factors that the Board may consider in determining whether an item of information should be considered basic information or required supplementary information (RSI). The following provides an example:

For example, members may consider the relevance of the information to fair presentation. If the information has a high relevance to fair presentation, it may be a candidate for basic information communicated by financial statements and notes to the financial statements. The financial statements and notes could not be considered fairly presented if the information is missing or materially misstated.¹⁶

Table 1: Basic Financial Statements for Component Entities

Financial Statement	According to concepts or standards, this statement ...	Directly helps to achieve the _____ reporting objective(s)	Basis used in preparing the statement	Linkage to other financial statements
Statement of Financial Position (Balance Sheet)	presents “the total balances of assets, liabilities, and net position of an organization as of a specific time.” (SFFAC 2, par. 57)	operating performance and stewardship	Accrual	Linked to the Statement of Net Cost via the Statement of Changes in Net Position
Statement of Net	presents “how	operating	Accrual	Linked to the

¹³ SFFAC 3, par. 37.

¹⁴ The Statement of Financing is currently presented as a schedule in the disclosures. SFFAC 2, footnote 12a states that “The Statement of Financing may be presented as a financial statement or as a schedule in the notes to the financial statements. The OMB will provide guidance regarding details of how the information will be displayed.

¹⁵ SFFAC 5, par. 5.

¹⁶ SFFAC 3, par. 73E.

Excerpts from Existing Concepts, Standards, Other Guidance, and Legislation

Financial Statement	According to concepts or standards, this statement ...	Directly helps to achieve the _____ reporting objective(s)	Basis used in preparing the statement	Linkage to other financial statements
Cost	much of the services provided by the entity was financed by the taxpayers.” (SFFAC 2, par. 59)	performance		Balance Sheet via the Statement of Changes in Net Position and linked to the Statement of Budgetary Resources via a schedule in the disclosures
Statement of Budgetary Resources	subjects budget execution information to audit and helps address concerns that had been expressed about “whether the budget is being properly executed in all cases. “ (SFFAS 7, par. 9)	budgetary integrity	Budgetary (obligation and cash)	Not linked via a basic statement (linked to the Statement of Net Cost via a schedule in the disclosures)
Statement of Changes in Net Position	presents “the manner in which the entity’s net costs were financed and the resulting effect on the entity’s net position.” (SFFAC 2, par. 60)	budgetary integrity	Budgetary (obligation and cash)	Links the Balance Sheet and Statement of Net Cost
Statement of Custodial Activities	“...provides an understanding of from whom the taxes or other monies were collected and to whom they were distributed.” (SFFAC 2, par. 61).	stewardship	Cash	Not linked
Statement of Social Insurance	“...information for an assessment of sustainability of specific programs in governmentwide	stewardship	Long-term projections	Links to the Statement of Changes in Social Insurance Amounts, but not

Excerpts from Existing Concepts, Standards, Other Guidance, and Legislation

Financial Statement	According to concepts or standards, this statement ...	Directly helps to achieve the _____ reporting objective(s)	Basis used in preparing the statement	Linkage to other financial statements
	financial reports and in the financial reports of component entities that administer social insurance programs.” SFFAS 37, par. 8.			linked to accrual or budgetary basis statements
Statement of Changes in Social Insurance Amounts	is intended to “reconcile beginning and ending open group measures and present the components of the changes in the open group measure from the end of the previous reporting period.” (SFFAS 37, par. 31)	stewardship	Long-term projections	Links to the Statement of Social Insurance, but not linked to accrual or budgetary basis statements

Standards (Including those Standards that Discuss Concepts)

In addition to financial statements suggested by conceptual guidance, existing standards discuss principles important to understanding component entity financial statements and require financial statements. Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* discusses that multiple bases of accounting are needed to provide readers with a comprehensive perspective of a component entity. One reason for different bases is that many component entities finance their operations through the budget process, which is distinct from the government as a whole. SFFAS 7 states,

The main sources of financing for the Government as a whole are exchange and nonexchange revenues and borrowing from the public. For component reporting entities, however, the sources of financing are provided through the budget and are largely financing sources other than revenue. Appropriations and other budget authority provide an agency with the authority to incur obligations to acquire goods and services or to provide benefits and grants. These other financing sources are not earned by an entity's operations. Therefore, as with nonexchange revenue, they should be accounted for in a way that does not obscure the entity's net cost.¹⁷

Given that component entities are financed through the budget process rather than earning revenue, SFFAS 7 requires a presentation of the following budgetary information:

- total budgetary resources available to the reporting entity during the period;
- the status of those resources (including "obligations incurred"); and
- outlays.¹⁸

The budgetary information is required for those entities whose financing comes wholly or partially from the budget.¹⁹ Thus, the standard allows a level of flexibility and the budgetary information requirements may not apply to self-financing component entities.

Also, while obligations and cash are the bases of accounting that are helpful for reporting on budgetary execution, SFFAS 7 notes that accrual accounting provides better information for evaluating operating performance. It states,

Those who prepare financial statements have recognized that accrual accounting and the budget are complementary. Accrual-basis accounting often provides better information than cash-basis accounting for evaluating performance. It can provide more information for planning and control of operations. Accrual accounting provides an understanding of a reporting entity's net position and cost of operations.²⁰

Table 2: Summary of Accounting Bases Used in Federal Financial Reporting provides a brief description of when the obligation, cash, and accrual bases recognize different economic events. The summary shows that each has a particular purpose but, for the purposes of determining the cost of programs, the accrual basis recognizes events that the others do not, such as the use of assets or depreciation.

The term depreciation and possibly others used in accrual basis statements may be misunderstood in the federal financial reporting environment. For example, during staff user needs discussions, some participants referred to depreciation in terms of an economic event for remeasuring the *value* of assets. However, FASAB literature

¹⁷ SFFAS 7, par. 23.

¹⁸ SFFAS 7, par. 77.

¹⁹ Ibid.

²⁰ SFFAS 7, par. 26.

refers to depreciation in terms of recognizing the *use* of assets and in determining the *costs* incurred during the reporting period. This would facilitate comparing program costs with program outcomes. FASAB exposure draft, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, explains the difference between economic events that reflect changes in an asset’s value versus adjustments that do not reflect such a change. It states,

Remeasured amounts of assets and liabilities are determined using one of several possible measurement attributes that reflect economic conditions at the financial statement date, including, for example, fair value or settlement amount. Remeasurement updates a previously determined carrying amount to reflect a change in the economic value of an asset or liability that has occurred since the previous financial statement date. A remeasured amount thus differs from an adjustment to an initial amount that does not reflect a change in value. For example, an increase in the accumulated depreciation balance on a building does not change the economic value of the building and does not constitute remeasurement of its carrying amount. Unless the value of the building itself is remeasured at, for example, its fair value, the reported amount will continue to be considered the initial amount. In contrast, an adjustment to an allowance for uncollectible accounts receivable due to an increased risk of noncollection constitutes remeasurement of the carrying amount, even when the gross amount of receivables is not remeasured, because the adjustment reflects a change in the economic value of the receivables—the anticipated net settlement amount.²¹

Table 2: Summary of Accounting Bases Used in Federal Financial Reporting

Type of Event	Obligation – useful for controlling expenditures. Under this basis, the event is recorded when...	Cash – useful for managing cashflow. Under this basis, the event is recorded when...	Accrual – useful for managing costs. Under this basis, the event is recorded when...
Revenue	not recognized	received	the entity performs the services
Purchase of property, plant, and equipment	the contract is awarded	vendor is paid and is recorded as an outlay	the item of property, plant, and equipment is received and is

²¹ FASAB exposure draft, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, September 13, 2010, par. 20.

Type of Event	Obligation – useful for controlling expenditures. Under this basis, the event is recorded when...	Cash – useful for managing cashflow. Under this basis, the event is recorded when...	Accrual – useful for managing costs. Under this basis, the event is recorded when...
			recorded as an asset
Acquisition of goods and services	the contract is awarded	vendor is paid and is recorded as an outlay	the services are performed and are recorded as an expense or cost
Use of property, plant, and equipment (depreciation)	not recognized	not recognized	the equipment is used and is recorded as an expense or cost

SFFAS 7 also requires a reconciliation to explain “the relationship between budgetary resources obligated by the entity during the period and the net cost of operations.”²² Thus, FASAB recognizes that basic information is needed to “reconcile the use of budgetary resources to acquire or provide goods and services with the net cost of using those goods and services.”²³

In addition to obligation, cash, and accrual bases financial statements, SFFAS 17, *Accounting for Social Insurance*, as amended by SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25* introduced a financial statement that focuses on another perspective, long-term projections of future costs. The standard requires a statement of social insurance (SOSI) which presents the actuarial present values of future benefits and contributions and tax income for social insurance programs. While the standard primarily affects component entities with social insurance programs, it helps achieve the stewardship objective.

Understanding the need to explain the relationship among the different financial statements and help ensure that readers comprehend them, FASAB appeared to focus on additional RSI rather than basic as in the case of SFFAS 7. FASAB issued SFFAS 37, *Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements* which required additional information in the MD&A (a component of RSI), changes to the SOSI, and a new basic statement. In particular, the standard

...amends sections of SFFAS 17, *Accounting for Social Insurance*. In addition to the current requirements in SFFAS 17, the standard requires the

²² SFFAS 7, par. 80.

²³ SFFAS 7, par. 89.

government-wide entity as well as entities that present a statement of social insurance (SOSI) to:

- a. include in one section of management’s discussion and analysis (MD&A) information [footnote omitted] about costs, assets and liabilities, social insurance commitments, budget flows, and long-term fiscal projections; [footnote omitted]
- b. include in MD&A a table or other singular presentation of key measures drawn from the basic financial statements;
- c. add a section within the SOSI that summarizes the net present values of cash flows and presents certain subtotals and totals (see Appendix C: Illustrative Statement of Social Insurance, Part I, Government-wide SOSI); and
- d. present a statement of changes in social insurance amounts (SCSIA) that indicates the reasons for changes in the open group measure from the end of the previous reporting period (see Appendix D: Illustrative Statement of Changes in Social Insurance Amounts).²⁴

In addition to some accrual basis terms, the long-term projections provide another opportunity to improve community understanding. During our analysis of the government-wide level reporting, staff noted that analysts combine the long-term projections with liabilities reported on the balance sheet. This may result from an effort to determine the significant risks that the government assumes; however, the measures were not intended to be combined.

Consequently, FASAB standards require a range of measures to provide a comprehensive view of a component entity’s activities during the period and its prospects for the future. Standards require basic information to help explain the relationship between budgetary and accrual bases statements, but call for RSI to help relate the long-term projections statements to the other statements. Table 1: Basic Financial Statements provides an overview of the basic financial statements currently presented by component entities.

Existing Guidance

The project will consider the financial section (section II.4) of OMB A-136, *Financial Reporting Requirements*. The complete section can be accessed at http://www.whitehouse.gov/omb/circulars_default.

²⁴ SFFAS 37, par. 2.

Legislation

Legislation that will be considered during the project includes those described in [FASAB's Strategic Directions, Appendix IV](#). The document, accessible at <http://www.fasab.gov/about/mission-objectives/>, provides a discussion and analysis of the following legislation:

- Federal Managers Financial Integrity Act of 1982
- Chief Financial Officer's (CFO) Act of 1990
- Government Performance and Results Act (GPRA) of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Sarbanes-Oxley Act of 2002
- Department of Homeland Security Financial Accountability Act

Generally, the laws require components of the federal government to provide audited financial statements and other information such as strategic plans and information on operating performance and systems and control. Accordingly, each component is responsible for managing its resources and program performance and developing discrete financial and performance information. Also, components may need to develop systems and internal controls to help them accomplish these responsibilities. However, while developing discrete financial and performance information, components must rely on centralized processes conducted for the benefit of the government as a whole. Those processes include taxation, borrowing from the public, acquisition services, and employee retirement, health benefits, and life insurance programs.

In addition, the project will consider the results of particular Improper Payments Elimination and Recovery Act (IPERA) of 2010 requirements. IPERA requires the CFO Council and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to

- A. jointly examine the lessons learned during the first, 20 years of implementing the Chief Financial Officers Act of 1990 (31 U.S.C. 901) and identify reforms or improvements, if any, to the legislative and regulatory compliance framework for Federal financial management that will optimize Federal agency efforts to
 - publish relevant, timely, and reliable reports on Government finances; and

- implement internal controls that mitigate the risk for fraud, waste, and error in Government programs; and
- B. jointly submit a report on the results of the examination...²⁵

The project will also consider the GPRA Modernization Act of 2010 which updated the GPRA of 1993 and was intended to take advantage of advancements in technology and lessons learned in performance management over the years.²⁶ The Act requires agencies to provide performance information in a searchable, machine-readable format and make the information available on their public websites.

²⁵ IPERA of 2010, Section 3(e).

²⁶ United States Senate, *Report of the Committee on Homeland Security and Governmental Affairs*, Washington, 2010.

FEDERAL FINANCIAL REPORTING SUPPLY CHAIN

Federal financial reporting involves processes for:

- considering the financial information needs of users and developing accounting standards;
- developing additional reporting requirements to address particular concerns such as the adequacy of systems and internal controls;
- preparing financial reports in conformity with accounting standards and additional reporting requirements;
- auditing financial statements and reporting on the fair presentation of financial statements, internal controls, and compliance with laws and regulations (audits are conducted in accordance with generally accepted government auditing standards (GAGAS)); and
- analyzing financial reports and/or the data underlying those reports and making economic, operational, and political decisions (includes users such as citizen intermediaries who help deliver financial information to other users).

These processes may be considered the financial reporting supply chain and are illustrated in Figure 2: Federal Financial Reporting Supply Chain. While each process is important to ultimately delivering financial information to users, the scope of the project will focus on considering the financial information needs of users and developing accounting standards rather than each component of the supply chain.

Figure 2: Federal Financial Reporting Supply Chain



* Auditors report on the fair presentation of financial statements, internal control, and compliance with laws and regulations

Source: FASAB staff.

ABBREVIATIONS

CFO	Chief Financial Officer
CIGIE	Council of the Inspectors General on Integrity and Efficiency
FASAB	Federal Accounting Standards Advisory Board or Board
GAGAS	Generally Accepted Government Auditing Standards
OECD	Organization for Economic Co-operation and Development
IPERA	Improper Payments Elimination and Recovery Act
IPSASB	International Public Sector Accounting Standards Board
MD&A	Management's Discussion and Analysis
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

KEY TERMS

Federal Financial Reporting Supply Chain refers to the processes used in delivering financial information.

Reporting model refers to the financial statements, terminology, and methods used to communicate basic federal financial information