



February 10, 2012

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Federal Reporting Model – **TAB E**¹

MEETING OBJECTIVE

The objective of the meeting is to update the Board on the status of the Reporting Model project and determine the next steps.

BRIEFING MATERIALS

The transmittal memorandum includes a discussion of the status of the Reporting Model project beginning on page 2. In addition, the briefing materials include the following five attachments to assist members in their consideration of the next steps:

- Attachment I: CFO Roundtables provides minutes of the roundtable discussions with Chief Financial Officers (CFOs) during December 2011 and January 2012
- Attachment II: Auditor Roundtable provides minutes of the roundtable discussion with the audit community.
- Attachment III: Methodology for Obtaining User Views presents the approach used to gather views on what users expect from federal financial reports.

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

- Attachment IV: The Road Forward: The Federal Budget and Budgeting Profession. This attachment includes a report of the American Association for Budget and Program Analysis (AABPA). The report provides the results of the first survey of federal budget professionals and discusses issues associated with the federal budget. One issue area that may be of interest to FASAB members is budget and performance integration (see pages 8 – 11 of the report).
- Attachment V: Towards Transparency. This attachment provides Ernst & Young's report, *Toward Transparency: A Comparative Study on the Challenges of Reporting for Governments and Public Bodies around the World*. The report discusses trends and developments in public sector accounting.

Also, a separate TAB, Reporting Model - TAB E-1, will include a summary of staff's discussions with external analysts. Staff is in the process of conducting the discussions to determine what financial information they would expect to consider about a federal entity. The participants include officials with the World Bank and International Monetary Fund and an expert in defense management. Because the discussions are ongoing, staff will provide TAB E-1 during the week of February 13, 2012.

BACKGROUND

During the October 2011 meeting, the Board discussed the report entitled, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General* (CFO Act Report) and the Board determined that staff should begin reviewing the component entity level by conducting discussions with CFOs and representatives from various groups to help the Board better determine what information is of value to users. At the December 2011 meeting, staff provided the Board with the status report on the project; however, the project was not on the discussion agenda.

STAFF ANALYSIS AND RECOMMENDATIONS

Staff conducted two roundtable discussions with CFOs. The primary objective of the discussions was to identify changes CFOs believe are needed in light of the current environment. A secondary objective was to identify ways FASAB may be helpful to the CFO community as it strives to improve linkages between CFOs and program managers as described at page 11 of the CFO Act Report.² The first discussion, conducted December 8, 2011 involved department level CFOs while the second discussion, conducted January 24, 2012 involved agency level CFOs. Details of the discussions are provided in Attachment I: CFO Roundtables.

² The report notes that opportunities exist to "improve the linkage between the agency CFO, component CFOs, and program managers."

Also, staff conducted a roundtable discussion with individuals from the audit community and conducted interviews to help develop perspectives from internal and external users. The interviews involved program managers, agency information and knowledge professionals (information technology professionals, analysts, and others engaged in the sharing of information and knowledge for managing organizations), and external analysts. However, staff is in the process of completing discussions with external analysts. Staff plans to complete this segment of the work by February 13, 2012. See Attachments II: Auditor Roundtable and III: Methodology for Obtaining User Views.

Moreover, staff is coordinating with the AABPA to conduct a symposium session on federal financial statements. The AABPA serves budget and policy professionals at the federal, state, and local levels and their members have been active in designing and implementing federal budget and performance management systems. Also, Attachment IV: The Road Forward: The Federal Budget and Budgeting Profession includes a discussion on the issues involved in integrating budget and performance data. The symposium will be conducted in May 2012.

1. Considerations for Reporting Model Changes

Financial report preparers and auditors identified a number of possible reporting model changes for FASAB consideration. During December 2011 to February 2012, staff conducted three roundtable discussions to determine how FASAB could help affect changes needed in the current environment. As a result, some aspect of performance reporting arose during each of the roundtable deliberations. Each group of participants appeared to believe that users expect contextualized information on the performance of programs. Also, the roundtables discussed possible reporting model changes ranging from those that could be adapted voluntarily to those that are outside of the Board's domain.

The initial, December 8, 2011, roundtable involved the preparer community and the participants noted that the Board could:

- a. Restructure the financial statements and develop a statement of spending³
- b. Introduce a statement that aligns with the Recovery Act reporting model (what are we spending money on and how can we spend it more wisely)
- c. Require that less time be spent on asset valuation
- d. Ensure that the audit work focuses on more relevant areas
- e. Require audits of internal controls
- f. In the discussion about management challenges, talk about management risks and programmatic performance. Also, risks need to be more clearly addressed.
- g. Pilot test proposed changes

Some of these items are related. For example, items a. and b. focus on a statement of spending, i.e., develop a statement of spending and introduce a statement that aligns with the Recovery Act reporting model (what are we spending money on). Also, item b. refers to integrating the statement of spending with performance information, i.e. how can we spend it more wisely. Additionally, items d. and e. concern generally accepted government auditing standards (GAGAS) and/or legislative requirements which are matters that are not within the Board's domain.

The second roundtable, conducted January 24, 2012, also involved the preparer community and the participants primarily discussed different presentations and using Internet-based, electronic reporting tools to better communicate data that may be useful to users. Additionally, similar to the earlier roundtable held with preparers, the participants noted that the Board could reconsider the structure of the current set of financial statements and the need for reporting the dollar amount of property, plant, and equipment (PP&E). In summary, they discussed the following suggestions:

³ Note that the term "spending" as used in the federal financial reporting environment commonly refers to amounts obligated.

- h. Develop a presentation that shows costs and value delivered
- i. Develop a presentation with drilldown capability
- j. Present the key financial items
- k. Improve user interactivity
- l. Consider the need for financial statements
- m. Consider the need for reporting the dollar amount of PP&E
- n. Raise awareness of performance goals
- o. Explore how to better communicate financial information
- p. Improve reporting of budget data

The third and final roundtable involved the audit community. The audit community participants did not note a need for changes to the basic structure of the reporting model. They noted that the existing reporting model provides a level of assurance that the data generated by the related systems are reliable. However, “breaking” the model apart and removing some parts could compromise the integrity of the systems and data. In addition, the participants noted that the audit resources committed to financial statement audits are small in relation to program performance audits, including internal controls over programs. This indicates the level of efforts already committed to program performance issues. Also, the participants believed that the Board could consider improvements regarding the following topics:

- q. Provide more useful information in the Statement of Net Cost, such as costs by program rather than responsibility segment
- r. Provide additional cost accounting standards
- s. Improve performance reporting

Staff observed that FASAB has deliberated many of the issues embodied in the three roundtable discussions. Consequently, rather than re-deliberate each of those issues, staff believes that it would be more efficient for the Board to consider a summary of previous decisions. Table 1: Related Board Decisions summarizes previous FASAB determinations that could assist the Board in prioritizing next steps for the project.

Table 1: Related Board Decisions

Reference	Topic	Related Board Decision	Staff Comment
A.	Restructure Financial Statements and Develop a Statement of Spending	<ol style="list-style-type: none"> 1. The Board acknowledged that the financial reporting community had a number of projects ongoing, including the development of a statement of spending. Consequently, the Board determined that when information on the statement is available, the Board could consider conceptual issues, such as how the statement would relate to the other statements and whether it would be a new statement or a modification of an existing statement.⁴ 2. The Board has determined that budgetary (obligations and cash) <u>and</u> accrual basis information is needed for federal financial reporting. Budgetary basis information is needed for controlling funds and reporting on budget execution and accrual basis information is needed for evaluating performance.⁵ 	None
B.	Introduce a Statement that Aligns with the Recovery Act reporting model (what are we spending money on and how can money be spent more wisely)	<ol style="list-style-type: none"> 1. See A.1. and A.2 2. The Board believes that the operating performance reporting objective should be its top priority.⁶ 3. The Board believes that while policy and budget analysts deal with what <u>should</u> occur, accountants primarily deal with what <u>did</u> occur. Also, 	<ol style="list-style-type: none"> 1. While the Board has issued standards to assist in reporting on performance,¹⁰ the Board has not issued standards or other guidance on the broader topic of

⁴ Board minutes February 2011 and April 2011.

⁵ SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, pars. 25 and 26.

⁶ FASAB's *Strategic Objectives*, p. 16, accessible at <http://www.fasab.gov/about/our-annual-reports/>.

Reference	Topic	Related Board Decision	Staff Comment
		<p>“financial reporting goes hand in hand with accountability and performance evaluation.”⁷</p> <p>4. The Board stated that “reporting on performance and other matters in a way that is understandable to diverse audiences is important.”⁸</p> <p>5. Conceptual guidance calls for a statement of program performance measures.⁹</p>	performance reporting.
C.	Require that less time be spent on asset valuation	<p>1. In reference to assets, the Board stated that, “users of financial reports focus on the use of these resources in program operations, not solely on their financial value.”¹¹</p> <p>2. A significant financial statement item that has involved substantial Board deliberations is property, plant, and equipment (PP&E). The Accounting and Audit Policy Committee (AAPC) has established a task force to assist in developing implementation guidance for general PP&E and, in particular, the task force established a subgroup to identify and present “recommendations to the AAPC that address the complexities of allocating programmatic, managerial, and administrative costs to G-PP&E consistent with current standards.”¹²</p>	None

¹⁰ For example, see SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.

⁷ Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, pars. 227 and 228.

⁸ SFFAC 3, Management’s Discussion and Analysis, par. 7.

⁹ SFFAC 2, Entity and Display, par. 65.

¹¹ SFFAC 1, par. 131.

¹² <http://www.fasab.gov/about/aapc/task-forces/gppe/> accessed January 20, 2012.

Reference	Topic	Related Board Decision	Staff Comment
D.	Ensure that the audit work focuses on more relevant areas	<ol style="list-style-type: none"> 1. GAGAS is not within the Board's domain. 2. The Board's <i>Rules of Procedure</i>, 2010, discusses its deliberative process for considering accounting standards. 	None
E.	Require audits of internal controls	<ol style="list-style-type: none"> 1. GAGAS is not within the Board's domain. 2. FASAB believes that "the ability to prepare financial reports that report all transactions, classified in appropriate ways that faithfully represent the underlying events, is itself an indication that certain essential controls are in place and operating effectively. The preparation of reliable financial reports also helps to ensure that reporting entities have early warning systems to indicate potential problems and take actions to correct material weaknesses or problems."¹³ 	None
F.	In the discussion about management challenges, talk about management risks and programmatic performance. Also, risks need to be more clearly addressed.	<ol style="list-style-type: none"> 1. The Board has initiated a project on risks that considers the need for definitions and reporting methods. 	None
G.	Pilot test proposed changes	<ol style="list-style-type: none"> 1. FASAB considers pilot testing as part of the process for developing new standards. 	None

¹³ SFFAC 1, par. 148.

Reference	Topic	Related Board Decision	Staff Comment
H.	Develop a presentation that shows costs and value delivered	1. With respect to adding statements other than a statement of spending, the Board noted that the focus should be on better presenting or communicating the existing information. ¹⁴	1. The suggestion concerns better presenting cost data and could be considered as part of a performance reporting project.
I.	Develop a presentation with drilldown capability	1. Electronic reporting is a potential Board project discussed in the <i>Report to Stakeholders: FASAB Three-Year Plan, 2012</i> .	1. The suggestion is consistent with FASAB's Reporting Model Task Force recommendation and consistent with focus group discussions.
J.	Present the key financial items	1. See H.1.	1. See H.1.1.
K.	Improve user interactivity	1. See I.1.	1. See I.1.1.
L.	Consider the need for financial statements	1. See A.2. and E.2	None
M.	Consider the need for reporting the dollar amount of PP&E	1. See C.1. and C.2	None
N.	Raise awareness of performance goals	1. FASAB has conducted educational initiatives, such as providing resources and conducting forums on managerial cost accounting.	None

¹⁴ Board minutes April 2011.

Reference	Topic	Related Board Decision	Staff Comment
O.	Explore how to better communicate financial information	1. See H.1. and I.1.	1. See H.1.1. and I.1.1.
P.	Improve reporting of budget data	1. See A.2. and H.1. The Board has discussed format alternatives for existing statements, but believed that the changes could be adopted voluntarily. ¹⁵	None
Q.	Provide more meaningful information in the Statement of Net Cost, such as costs by program rather than responsibility segment.	1. See P.2.	None
R.	Provide additional cost accounting standards	1. The Board's potential project on Linking Cost and Performance includes assessing the effectiveness of SFFAS 4, <i>Managerial Cost Accounting Standards and Concepts</i> , as an objective.	None
S.	Improve performance reporting	1. See B.2., B.3., B.4., and B.5.	1. See B.1.1.

¹⁵ Board minutes February 2011.

2. Discussions on Useful Information

Internal users expressed concern about future reductions in budgetary resources and are seeking a range of data to assist them in managing their responsible areas. Also, rather than stressing a lack of data, participants appeared to note that a range of data already existed. For instance, to obtain the range of data they need, internal participants noted that they may access various systems, including financial systems. This is consistent with the Board's view that financial information alone may not be sufficient for decision-making.¹⁶ Also, some noted that the department level financial statements are highly aggregated and that level of aggregation makes it challenging for them to learn about their specific area of responsibility. Consequently, they create reports based on the data used in preparing the statements.

The types of data internal users may need depend on the area of responsibility or topic. For example, based on participant feedback, there appears to be a need for data on the economic value of assets to help with cost/benefit decisions.¹⁷ Also, to facilitate reporting and analysis, technologies are being used to store and integrate a range of data. Table 2: Examples of Data Being Sought, illustrates the data that internal users seek for different matters.

Table 2: Examples of Data Being Sought

Topic	Examples of Data Being Sought	Use
Infrastructure/Physical Capital	Capitalized costs (by year) Dates of service Service Life Depreciated Value Operating and maintenance costs for each capitalized asset or groups of assets Deferred maintenance	Determine recapitalization ratios for comparisons to industry standards and compare historical trends with levels identified in the capital planning process Assist with cost/benefit decisions on continuing, recapitalizing or replacing/discontinuing a mission or capability. Help with understanding how well current funding levels are addressing the most urgent deferred maintenance

¹⁶ SFFAC 1, par. 70.

¹⁷ In addition to participant feedback, see Department of Defense news transcript, "DOD News Briefing with Major General Spoehr via Teleconference from Iraq," November 3, 2011, which discusses logistics issues and includes an example of how the economic value of assets is considered in logistics decision-making. The transcript may be accessed from <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4918>.

Topic	Examples of Data Being Sought	Use
Research Grant	<p>Performance data such as:</p> <ul style="list-style-type: none"> • Outcome type • Outcome measure (description of intended outcome) • Actual measure (outcome achieved) • Issue being addressed by the project • What has been done • Results • Obligation dollars • FTE <p>Prompts, such as whether:</p> <ul style="list-style-type: none"> • Project Has Been Awarded • New Progress Report Been Submitted • New Termination Report Been Submitted • Project Status Has Changed • Grant Termination Report Is Overdue • Grant Termination Report Is Due • Grant Progress Report Is Due 	Help determine the status of the project and level of funding provided

Topic	Examples of Data Being Sought	Use
Human Capital	Budget and personnel data, e.g., salary, attrition rate, estimated awards, overtime, the level of within grade step increases, area of discipline/skills, hire date, etc.	Assess the impact of labor decisions on budget and determine when and in what areas additional personnel may be hired.
Program Performance	Strategic goal Objective Fiscal Year Activity type, e.g. research Outcome type e.g. action, knowledge Outcome measure (description of intended outcome) Actual outcome (outcome achieved) Status/Accomplishments to date Results Costs	To determine what was provided and achieved with the resources used

Given the wide-variety of issues that may require data, users appear to prefer flexible end reporting. For instance, staff observed agencies using executive dashboards which integrate data from various systems. Managers and executives can access the dashboard to: view summarized, standard reports with graphics; “drill-down” to lower levels of aggregation; or simply create their own reports. Staff observed one dashboard that presented performance and financial data. The dashboard used data warehousing to present data from the performance monitoring and financial systems. Consequently, managers and executives could view high-level reports on strategic goals and perform various queries to review outcome data.

Additionally, users would like to use the data to make comparisons and assist them in identifying potential issues early. Staff observed how one program created a peer to peer (P2P) review initiative to help monitor its grant recipients nation-wide. P2P involved accessing financial data and developing a set of key financial metrics that could be used in comparing each recipient with its peers. When a particular metric exceeded a pre-determined range, the recipient would be contacted and a meeting held

to discuss possible improvements. Thus, P2P illustrated the use of financial metrics as a management tool.

FASAB has considered that users may need different report formats and levels of aggregation for their analysis. For example, in February 2011, the Board discussed a statement of net cost that presents costs by function. Although Board members noted that preparers can voluntarily implement format improvements, one user noted that the accounting data provided tends to focus on “was the money spent on the appropriate purpose,” but accounting data is also needed to determine how the expenditure reduces infrastructure risks.

In summary, internal users confront multifarious issues and they appear to expect multiple accounting models. A model is needed to capture budgetary data and a model is needed that recognizes economic events regardless of when cash events take place. FASAB’s reporting objectives acknowledge the need for comprehensive reporting and appears to be compatible with the financial reporting initiatives taking place in other countries. The Ernst & Young report, *Toward Transparency: A Comparative Study on the Challenges of Reporting for Governments and Public Bodies around the World*, discusses public reporting trends and noted that countries worldwide are moving toward accrual accounting systems. See Attachment V: Towards Transparency.

3. Next Steps for the Project – Revisit Conceptual Guidance and Existing Standards for Displaying Financial Information

The Board's conceptual guidance for displaying financial information could be updated and enhanced. The reporting model project began as an effort to describe the financial statements used to present the elements critical to meeting the reporting objectives and explain what statements are fundamental to meeting those objectives. Subsequently, the Board's Reporting Model Task Force results and feedback from roundtables and interviews helped confirm the need for improvements in the conceptual guidance as well as adjustments to existing standards. Table 3: Summary Analysis of Task Force Recommendations presents some of the issues that might be addressed.

Also, during the April 2011 meeting, the Board discussed voids in the conceptual guidance. For example, the Board noted that Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, does not discuss the purpose of the statement of social insurance and the statement of long-term fiscal projections and how those statements fundamentally relate to the balance sheet and other statements. In addition, it was noted that conceptual guidance could help managers and executives understand the purpose and links among the financial statements. However, at that time, the financial reporting community had a number of projects ongoing and the Board believed that it would best to revisit the concepts when the community has made more progress and as resources permit.

Table 3: Summary Analysis of Task Force Recommendations

Task Force Recommendation	Existing Concepts	Existing Standards	Questions FASAB Might Address
<p>Recommendation 2: Explore How Best to Report Additional Government-wide Performance Information</p>	<p>Concepts:</p> <p>SFFAC 2, "...operating performance can be best met with financial statements from organizations/suborganizations and programs"</p> <p>SFFAC 3 encourages references to comprehensive performance reports as a supplement to summary performance information presented in MD&A</p> <p>SFFAC 4, "...it is particularly fundamental that the CFR be timely and understandable for citizens and citizen intermediaries. The content and structure of the CFR should be clear and complete to citizens and citizen intermediaries and the CFR should be available on a timely basis."</p> <p>Impact:</p> <p>Conceptually, operating performance not viewed from a government-wide perspective, but an agency and/or program perspective.</p>	<p>Standards:</p> <p>SFFAS 15, "MD&A should contain sections that address the entity's: mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls, and legal compliance. "</p> <p>Impact:</p> <p>Management has great discretion regarding what to say in the MD&A.</p>	<ol style="list-style-type: none"> 1. Should the level of flexibility afforded in the MD&A guidance be narrowed by providing some minimum criteria? 2. Should FASAB update the discussion in SFFAC 3 in light of the move to electronic performance reporting? Information may be refreshed more frequently than annually.

Task Force Recommendation	Existing Concepts	Existing Standards	Questions FASAB Might Address
	<p>Also, assumes that operating performance and the Financial Report of the U.S. Government (CFR) are printed documents rather than an electronic document with links and “pop-up” displays of additional information and the ability to be refreshed throughout the year. Thus, the CFR lists agencies and includes references to the agencies for information while citizens are not familiar with the role of agencies and the functions they administer.</p>		
<p>Recommendation 3: Present a Functional Statement of Net Cost in the CFR with Departmental Net Cost by Function as Required Supplementary Information (RSI)</p>	<p>Concepts:</p> <p>SFFAC 2 discusses the statement of net cost and presenting net cost by organization. Also, it illustrates net cost by program and suborganization.</p> <p>Impact:</p> <p>Net cost should be presented from an organizational perspective rather than a perspective that presents functions of the entity. However, organizational titles do not necessarily indicate the functions being administered.</p>	<p>Standards:</p> <p>SFFAS 7 discusses gross cost and earned revenue and discusses reconciling obligations and net cost.</p> <p>SFFAS 32, Basis for Conclusion assumes a printed document and discusses the need for a concise CFR.</p> <p>Impact:</p> <p>Reconciliation of budgetary outlays to net cost not considered basic, accordingly reconciling items are not defined.</p> <p>The possibilities of providing information electronically on the Web are vast. Existing</p>	<ol style="list-style-type: none"> 1. What concepts will be needed to address or prepare for electronic reporting issues? 2. How best to present “spending” and receipts information drawn from budgetary reports? 3. How to define the terms for the reconciling columns (terms for reconciling outlays to net cost)? 4. How best to present information by function?

Task Force Recommendation	Existing Concepts	Existing Standards	Questions FASAB Might Address
		standards may seem restrictive in terms of the various perspectives that can be presented as basic information.	
Recommendation 4: Establish Minimum Requirements for a Statement of Spending	<p>Concepts:</p> <p>SFFAC 2 states “...the most useful information a flow statement could present is the total and net costs of the services,”</p> <p>SFFAC 6, to determine whether an item of information should be required, the Board should consider among other things whether the item is consistent with the reporting objectives.</p> <p>SFFAC 1 discusses the budgetary integrity objective and sub-objective 1A states that financial reporting should help readers determine “how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization” and the conceptual guidance notes that outlay data may help meet this objective.</p> <p>Impact:</p> <p>Outlay data may be needed to help meet the budgetary integrity</p>	<p>Standards:</p> <p>SFFAS 24, states that the following elements are important at the government-wide level: (1) net operating revenue (or cost); (2) the unified budget surplus (or deficit); and (3) the change in the government’s cash during the period. Financial statements at the government-wide level should include a reconciliation of net operating revenue (or cost) to the unified budget surplus (or deficit) and a statement of changes in cash balance from budget and other activities.</p> <p>Also, the Basis for Conclusions, discusses the distinction between what budgetary basis information should be presented at the government-wide level and what budgetary basis information should be presented at the</p>	<ol style="list-style-type: none"> 1. How should a statement of spending be categorized (basic, RSI, or other accompanying information)? 2. How should a statement of spending relate to the other statement? 3. What minimum information should be presented to ensure that users understand how the information relates to other flow statements presented? 4. What are the Board’s views on what budgetary information should be presented at the government-wide level versus the agency level, considering the differences in financing? 5. How best to achieve the budgetary integrity objective at the government-wide level, given that other government entities provide budget-to-actual comparisons?

Task Force Recommendation	Existing Concepts	Existing Standards	Questions FASAB Might Address
	objective. However, past Boards believed that a statement of net cost is the most useful flow statement. Perhaps outlays should be considered RSI.	component entity or agency level.	
Recommendation 5: Include Intergovernmental Financial Dependency Reporting in RSI	<p>Concepts:</p> <p>SFFAC 1 discusses the stewardship objective of financial reporting.</p> <p>Impact:</p> <p>Information is needed to help users understand the impact on the country of the government's operations and investments; whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and whether government operations have contributed to the nation's current and future well-being.</p>	<p>Standards:</p> <p>SFFAS 17, requires social insurance information about the solvency of state unemployment insurance funds. This information should categorized as RSI.</p> <p>SFFAS 8 requires reporting of stewardship investments (nonfederal physical property, costs incurred for human capital and research and development.). This information remains in the required supplementary stewardship information category,</p> <p>Impact:</p> <p>Existing standards require some information about the risks of partnering with states and local governments (SLG) to provide goods and services and about stewardship investments.</p>	<ol style="list-style-type: none"> 1. What should be the objectives of risk disclosures? 2. What should be the key indicators or measures of risk? 3. How should decisions about "Significant risk" be framed? 4. What narrative explanations should be provided to help users understand risks? 5. At what level should risk information be presented (program, SLG, entity, other.) 6. Should FASAB help enhance the quality of the data being provided in other reports by: <ol style="list-style-type: none"> a. defining and measuring intergovernmental financial dependency (IFD) information b. attributing flows and stocks to geographical areas c. determining what performance information might be provided d. developing criteria for narrative explanations to help users' understanding.

Task Force Recommendation	Existing Concepts	Existing Standards	Questions FASAB Might Address
Recommendation 6: Enhance the Information Value of the Reconciliation of Net Operating Cost and Unified Budget Deficit Statement through Re-labeling		Standards: SFFAS 24 requires the statement as basic information but did not intend to provide prescriptive guidance. Also, the statement provided an illustration that task force members believed to be superior to the existing presentation. Impact: Preparers have flexibility in presenting the information.	1. Should the level of flexibility be narrowed to ensure clarity in the presentation?
Recommendation 7: Reclassify the Information in the Statement of Changes in Cash Balance from Unified Budget and Other Activities	Concepts: SFFAC 6 states that the Board determines the category (basic information versus RSI) of information. Impact: Board determination is needed to reclassify the statement to RSI.	Standards: SFFAS 24 requires the statement as basic information. Impact: The Board determined that the information is essential for fair presentation.	1. Should the Statement of Changes in Cash Balance from Unified Budget and Other Activities be a schedule in RSI, given a limited audience for the information?
Recommendation 8: Re-orient the Balance Sheet Display and Enhance the Related MD&A Discussion	Concepts: SFFAC 2, provides an illustrative balance sheet with liabilities and net position as the bottom line, but does not particularly discuss the purpose of the balance sheet for the federal government. SFFAC 5 defines net position as	Standards: SFFAS 37 requires a discussion of critical measures in a separate section of the MD&A. The government-wide entity should present and explain total assets, liabilities, and	1. What is the purpose of the balance sheet for the federal government? 2. What should net position inform a reader about the federal government?

Task Force Recommendation	Existing Concepts	Existing Standards	Questions FASAB Might Address
	<p>the “arithmetic difference between the total assets and total liabilities recognized in the federal government’s or a component entity’s balance sheet.”</p> <p>Impact:</p> <p>Challenge in determining the role of the statement from a federal government perspective and how the net position amount should be viewed.</p>	<p>net position.</p> <p>Impact:</p> <p>The details of the MD&A discussion may be determined by the intended purpose of the balance sheet and the Board’s view of net position.</p>	
<p>Recommendation 9: Explain the Difference between Net Position and Fiscal Gap</p>	<p>Concepts:</p> <p>SFFAC 1, the broad reporting objectives require point-in-time and forward looking information (financial position, fiscal gap, social insurance).</p> <p>SFFAC 2 discusses a point-in-time balance sheet.</p> <p>SFFAC 3, MD&A should make financial statement understandable to a wide audience</p> <p>SFFAC 4, the CFR should be understandable to the average citizen and should be clear and complete.</p>	<p>Standards:</p> <p>SFFAS 15 provides guidance for the MD&A</p> <p>SFFAS 17 requires long-term projections</p> <p>SFFAS 36 requires long-term projections</p> <p>Impact:</p> <p>Management has great discretion regarding what to say in the MD&A.</p> <p>To achieve the reporting objectives, financial</p>	<p>1. Given the various types of financial statements needed to communicate the activity and fiscal health of the federal government, what additional information should be presented (narrative, tabular, etc.) that would help users understand how the financial statements relate to each other and help reduce the risk of confusion? The additional information could include discussing: the purpose of each financial statement; interrelationships among components of financial statements; and significant differences in the information provided in the statements.</p>

Task Force Recommendation	Existing Concepts	Existing Standards	Questions FASAB Might Address
	<p>Impact:</p> <p>Although the CFR should be comprehensive to meet the reporting objectives, the relationship among the information, such as point-in-time and long-term projections, should be clear.</p> <p>Management should anticipate misunderstanding of the financial statements given that some users may be accustomed to financial statements prepared in conformity to private sector standards or accustomed to budgetary reporting versus accrual accounting.</p>	<p>statements present budgetary and accrual basis information and long-term projections. Explanatory material may be needed to help users understand the relationship among the information presented.</p>	

Question 1 for the Board:

Does the Board wish to revisit its conceptual guidance and selected standards for displaying financial information?

4. Next Steps for the Project – Segment the Project into at least Two Areas

The roundtable participants identified concerns with existing standards that do not require consideration of the “reporting model” in a holistic sense. These concerns will be discussed during the strategic planning session.

Staff suggests that the Board segment the project into at least two areas – performance reporting and electronic reporting. While the Board acknowledged the importance of performance reporting and considers it a high priority, the Board has not provided standards on this topic. Additionally, users are increasingly obtaining their information electronically and the Board’s Reporting Model Task Force recommended that the reporting model move toward electronic, Internet-based approach.¹⁸ The Board’s Three-Year Plan provides a brief discussion of the objective and approach for both projects.¹⁹ Segmenting the project and conducting the segments concurrently, could assist the Board in considering and responding to issues more timely and use the results to inform decisions on subsequent matters such as presenting a statement of spending. Moreover, both proposed projects could contribute to addressing some of the Reporting Model Task Force’s recommendations (See Table 4: Task Force Recommendations) and the project on performance reporting would be timely taking into account that the International Public Sector Accounting Standards Board is considering performance reporting guidance.

Table 4: Task Force Recommendations

Task Force Recommendation	Could be Considered in a Performance Reporting Project	Could be Considered in an Electronic Reporting Project
1. Adopt an electronic, web-based reporting method		X
2. Explore how best to report additional government-wide performance information	X	
3. Present a functional statement of net cost in the consolidated financial report with departmental net cost by function as required supplementary information (RSI)	X	

¹⁸ Report of the Reporting Model Task Force, accessed from <http://www.fasab.gov/accounting-standards/other-sources-of-information/other-reports-documents/>, January 27, 2012

¹⁹ Federal Accounting Standards Advisory Board Report to Stakeholders: FASAB Three-Year Plan, January 11, 2012, accessed from <http://www.fasab.gov/about/our-annual-reports/>, January 27, 2012.

Task Force Recommendation	Could be Considered in a Performance Reporting Project	Could be Considered in an Electronic Reporting Project
10. Establish a federal financial information web site and raise awareness of federal financial information		X

Question 2 for the Board:

Does the Board agree with the staff's proposal to segment the project into at least two projects - performance reporting and electronic reporting?

Question 3 for the Board:

If the Board does not agree with the staff proposal, what should be the next steps for the project?

QUESTIONS FOR THE BOARD

1. Does the Board wish to revisit its conceptual guidance for displaying financial information?
2. Does the Board agree with the staff's proposal to segment the project into at least two projects - performance reporting and electronic reporting?
3. If the Board does not agree with the staff proposal, what should be the next steps for the project?

**Federal Financial Reporting
CFO Roundtable
December 8, 2011
Government Accountability Office Room 7B16
Washington DC 20548**

Purpose

The recent report, *The Chief Financial Officers Act of 1990-20 Years Later: Report to the Congress and the Comptroller General* (CFO Act Report), discusses the current reporting environment. The primary objective of the meeting was to identify changes that Chief Financial Officers (CFO) believe are needed in light of the current environment. Also, a secondary objective was to identify ways FASAB may be helpful to the CFO community as it strives to improve linkages between CFOs and program managers. The discussion was a part of a series of discussions that staff will be conducting to determine enhancements to the component entity reporting model.

Background

During its October 2011 meeting, the Federal Accounting Standards Advisory Board (FASAB or Board) discussed the CFO Act report which identified the lessons learned since the CFO Act of 1990 was enacted and offered the following 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 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.

The Board determined that staff should begin the component entity phase of the reporting model project by conducting discussions with CFOs and representatives from various groups to help the Board better determine what information is of value to users.

Scope and Methodology

Staff conducted separate roundtable discussions with larger agency CFO's, smaller agency CFO's, and auditors. Also, staff conducted discussions with program

managers, agency knowledge professionals, and sovereign government analysts. Today's initial CFO discussion consisted of the larger agency CFOs or their representatives. Staff invited CFOs from the following organizations to participate in the discussion:

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Homeland Security
Department of Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury

The actual attendees and observers are listed in the Roundtable Participants section.

Discussion

The participants discussed some background matters to help provide some perspective for their views on the federal reporting model. It was noted that the CFO Act was enacted because of the recognized importance of good financial management and particularly the reliability of the agencies' financial information. The Act therefore had two purposes: 1) establish and enhance the role of the agency CFO; and 2) improve the integrity of the financial information. Accordingly, the reporting model should contribute to those purposes.

The Act viewed audited financial statements as probably the best way to achieve and demonstrate the integrity of the financial information and therefore required them from the agencies covered by the Act. (The requirement for an audited government-wide financial statement was not enacted until four years later in the Government Management Reform Act.) Initially, only a few of the agencies could issue financial statements for which an auditor could provide an unqualified opinion, which would encompass the reliability of the information. However, the information's reliability gradually improved and all but two agencies (Department of Defense and Department of Homeland Security) were able to eventually obtain unqualified opinions. However, several agencies that had obtained unqualified opinions subsequently lost them (e. g., the Departments of Energy, Labor, and State, National Aeronautics and Space Administration (NASA), Federal Aviation Administration (FAA)) and had to take steps to once again have reliable information and reacquire the unqualified auditor opinions. Some may question whether those agencies would have taken the steps to once again

have reliable financial information if the requirement for audited financial statements did not exist.

However, when considering the evolution of various technologies, the reporting requirements of the American Recovery and Reinvestment Act of 2009 (Recovery Act)²⁰ was a disruption.²¹ The Recovery Act was a response to a strong customer need and it required a high degree of transparency. Also, it required agencies to use the web to disseminate and distribute information and agencies would not have been in a position to execute the Recovery.gov website if it had not been for the efforts and discipline of the last 20 years since the CFO Act.

The participants noted a range of potential changes to the reporting model in light of the current environment. The changes presented during the discussion included the following:

- Implementing the reporting and audit model needs to be more efficient. CFOs have expressed concern about the reporting workload and the reporting level of the model
 - Why prepare financial statements beyond the government-wide level?
 - Why is the model organization focused rather than program focused? Congress and others focus on programs. Also, when programs are combined, the result is not always very meaningful. Consider the consolidated financial report for the Department of Commerce.
- Present audited financial statements at the government-wide level (agencies will continue to prepare financial statements, but only items material to the government-wide level would be audited)
- Streamline agency reporting requirements. Consider that the Office of Management and Budget Circular A-136 requires additional formats and notes
- Reconsider Audit Planning Guidance and the Areas Subject to Certain Audit Procedures
 - Raise the audit materiality level to that of the government-wide financial statements and focus on auditing internal controls.
 - Audit programmatic performance. This would hold programs more accountable and the public would be more comfortable that there are controls in place and someone is auditing them.

²⁰ Among other things, the Recovery Act required recipients of federal funds to report quarterly on how they were spending the funds and the data would be presented on the Recovery.gov website so that the public could track the spending.

²¹ The term “disruption” refers to a major change.

- Auditors could place more reliance on management's review of internal control. Attachment A to OMB Circular A-123 requires management to review internal control.
- Provide users with information on spending
 - Make detailed spending data available rapidly (see the Recovery.gov model)
 - Show the public where the money is going
- Stakeholders also need budget, cost, and performance data.
 - Managers should be able to get and use cost information, but it is challenging to provide because, for example, programs cut across various budget accounts.
 - Budget and cost information at the program level provides insight as to where the resources should be invested
- Consider Risk Reporting
 - Better define the type of risk that needs to be reported. There are many types of risk, such as financial risk and operational risk.
 - Start small, then expand to enterprise level
- Management's Discussion and Analysis (MD&A) could focus on providing information on the future rather than simply historical information.
- Consider Presentation Enhancements
 - Eliminate the Net Position Section of the Statement of Changes in Net Position (SCNP). Information in the SCNP duplicates information in the Balance Sheet.
 - Enable users to mouseover cost figures and view graphics on the purpose of the cost figure.
- Reconsider property, plant and equipment accounting from a government's perspective.

With respect to how FASAB could help achieve some of the suggested changes, the participants noted the following:

- Financial Statements
 - Restructure the financial statements and develop a statement of spending
 - Introduce a statement that aligns with the Recovery Act reporting model (what are we spending money on and how can we spend it more wisely)

- Require that less time be spent on asset valuation
- Items subject to audit
 - Ensure that the audit work focuses on more relevant areas
 - Audit internal controls
- In the discussion about management challenges, talk about management risks and programmatic performance. Also, risks need to be more clearly addressed.
- Pilot test proposed changes

Roundtable Participants

The FASAB staff wishes to thank each of the following participants for their willingness to assist on this project and express their views regarding the federal financial reporting model:

Owen Barwell, Acting CFO, Department of Energy
Donjette Gilmore, Director, Accounting & Finance Policy, Department of Defense
Gary Maupin, Department of Labor, CFO Academy
Helen Tierney, Executive Director, Department of Veterans Affairs

FASAB Staff and Observers

Wendy Payne, Executive Director, FASAB
Hal Steinberg, Board Member, FASAB
Ross Simms, Assistant Director, FASAB
Eileen Parlow, Assistant Director, FASAB
Julia Ranagan, Assistant Director, FASAB
Ann Davis, Department of the Treasury
Phyllis Anderson, Assistant Director, Government Accountability Office (GAO)
Frank Synowiec, Assistant Director, GAO

**Federal Financial Reporting
CFO Roundtable
January 24, 2012
Government Accountability Office Room 7C13
Washington DC 20548**

Purpose

The recent report, *The Chief Financial Officers Act of 1990-20 Years Later: Report to the Congress and the Comptroller General* (CFO Act Report), discusses the current reporting environment. The primary objective of the meeting was to identify changes that Chief Financial Officers (CFO) believe are needed in light of the current environment. Also, a secondary objective was to identify ways FASAB may be helpful to the CFO community as it strives to improve linkages between CFOs and program managers. The discussion was a part of a series of discussions that staff will be conducting to determine enhancements to the component entity reporting model.

Background

During its October 2011 meeting, the Federal Accounting Standards Advisory Board (FASAB or Board) discussed the CFO Act report which identified the lessons learned since the CFO Act of 1990 was enacted and offered the following 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 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.

The Board determined that staff should begin the component entity phase of the reporting model project by conducting discussions with CFOs and representatives from various groups to help the Board better determine what information is of value to users.

Scope and Methodology

Staff conducted separate roundtable discussions with larger agency CFO's, smaller agency CFO's, and auditors. Also, conducted discussions with program managers, agency knowledge professionals, and sovereign government analysts. Today's CFO

discussion consisted of agency CFOs or their representatives. Staff invited CFOs from the following organizations to participate in the discussion:

Environmental Protection Agency
Federal Communications Commission
Federal Energy Regulatory Commission
Federal Trade Commission
General Service Administration
National Aeronautics and Space Administration
National Science Foundation
Nuclear Regulatory Commission
Office of Personnel Management
Small Business Administration
Social Security Administration
United States Agency for International Development
United States Department of Interior

The actual attendees and observers are listed in the Roundtable Participants section.

Discussion

The participants noted a range of potential changes in light of the current environment. They generally discussed methods for improving how data should be made available to users. This included using web-based, highly interactive, electronic reporting. Details of the discussion follow.

Develop a presentation that reports benefits with costs

Agencies have developed the discipline to collect cost and expenditure data and attribute that data to programs. However, the community has not reported to taxpayers on what they got for those costs. At Department of Interior, they are working on a schedule of costs and benefits. It shows totals costs for each bureau and the value that the bureau delivered. This data could help taxpayers learn about what they are getting for their tax dollars. Also, in these times of reducing budgetary resources, budget directors, CFOs, and agency secretaries can have conversations with Congressional budget committees about the value they provided for those costs.

Develop a Presentation with drilldown capability

Users appear to seek data that relates to their particular area of interest and, for example, determine how a program impacted them. Users may not be interested in reading an entire financial report simply to find a few items that are of interest to them. However, they would likely prefer to click on a chart or graph on the Internet and more readily access the data of interest to them.

The General Services Administration (GSA) provides an Internet-based presentation that enables users to click on charts and drill down to lower levels of data. This allows a user to obtain the data that is of interest to them rather than going through the process of obtaining a printed version of the report and reading the entire document. Also, Recovery.gov has drill down capability and receives a significant amount of “hits” in relation to an agency financial report. The drilldown feature enables users to review data and determine how the Recovery Act program impacted their community.

In addition to expense type, a list of codes, similar to object classes, could be developed that relate to the federal mission area (such as citizen services or resources management, healthcare) and that link data to the benefits that the public received. The public could drilldown and query the database.

Present the Key Financial Items

Focus on presenting the key financial items similar to a financial highlights document. Users may not be interested in reading a lengthy financial report or a lengthy presentation. The key items in the presentation could include cost and value data.

Improve User Interactivity

Incorporate tools to help users access the data they need. Such tools could include drilldowns, query capability like “googling,” and Really Simple Syndication (RSS) Feeds. For example, a search feature could enable a user to perform tasks such as identifying the amount of costs related to a zip code or other analysis. Also, the Recovery.gov and ITdashboard.gov websites have mouseover capability and Recovery.gov permits users to query by zip code. Additionally, when an issue develops in the news media, RSS feeds could be used to assist the public in locating related data on the entity’s or entities’ website(s). This way, users could gain context for what they learn in the news. Highly interactive presentations could enhance a user’s experience with financial data.

Consider the Need for Financial Statements

The community has developed the discipline to provide quality data and now we should consider whether all the financial statements are still needed or whether a particular financial statement would be adequate. Preparing and auditing financial statements demonstrate a good internal control practice, but the statements themselves do not necessarily provide valuable information. Program managers do not use the financial statements.

Also, improving the interactivity of financial reports would require resources at a time when resources are being reduced. Consequently, reconsidering the set of financial statements could result in redirecting limited resources to other areas that could help provide valuable data. In addition, audits could be conducted on other than an annual basis.

Consider the Need for Reporting the Dollar Amount of PP&E

Consider the need for reporting the dollar amount of property, plant, and equipment (PP&E). Managers focus on budget and spending data and do not use accrual basis amounts such as depreciation. Also, auditing historical costs for PP&E requires significant resources because detailed records are required for review purposes. Consequently, PP&E could be expensed rather than capitalized (reported on a balance sheet) and depreciated.

Raise Awareness of Performance Goals

Consider ways of increasing awareness of performance goals. Citizens and stakeholders may not be aware of some of the federal government's goals and how they relate to the budget. Integrating financial and performance information may be helpful because financial statements alone may not be sufficient. This environment of reducing budgets has provided managers with some additional incentive for linking financial and performance information.

Explore How to Better Communicate Financial Information

For example, the statement of net cost is a table that presents a lot of line items and figures. Also, the statements typically present strategic goals and uses terms that may not be meaningful to citizens. Citizens would be more likely to understand a chart or graph with visual appeal.

Improve Reporting of Budget Data

Present information to help users understand “did we spend the money on what we said we would” and disaggregate data on the statement of budgetary resources. Organizations like grant recipients read budget data like the Congressional Budget Justifications because that data could affect their organization's finances.

Challenges and Other Matters

Developing a “one size fits all” type report may be challenging because programs are diverse and have different goals. Also, some users need detail while others seek high level information. In addition, program managers develop systems and reports themselves.

Program management typically seek information on commitments, obligations, and expenditures by object class. They typically do not seek help in analyzing the data. Also, providing detailed data requires detailed data recording, which increases the risk of errors.

Questions have been asked regarding how much it costs to operate a center but answering that question has been difficult. Answering the question would involve calculations such as overhead rates. Establishing a cost accounting system may help. Also, program areas may not properly use object codes.

The statements of net cost appear to present strategic goals and highly aggregated information that may not be meaningful to citizens. Also, readers may have difficulty relating to department-level strategic goals. They would need to review notes to understand the details that support the broad goal. Citizens may be more likely to understand cost by function, which would require a lower level of aggregation. However, there are complexities involved in presenting data at that level.

Transparency can involve making financial data available to the public so that they can understand what an organization is doing. As a result, agency personnel would be more aware of their actions and how those actions could be perceived by the public. However, transactions that could compromise national security should be considered for restriction. Also, users may not adequately understand the data.

Standards or external requirements are needed to help support changes and help obtain the resources necessary to present new information.

Roundtable Participants

The FASAB staff wishes to thank each of the following participants for their willingness to assist on this project and express their views regarding the federal financial reporting model:

Milton Brown, Deputy Chief Financial Officer, Nuclear Regulatory Commission

Rafael Cotto, Policy and Audit Program Manager, Division of Financial Management, National Science Foundation

Kim Farington, Chief Accountant, Office of Personnel Management

Douglas A. Glenn, Deputy Chief Financial Officer and Director, Office of Financial Management, Department of Interior

Reggie Mitchell, Nuclear Regulatory Commission

Tong Qin, Deputy Chief Financial Officer, Small Business Administration

Becky Shoustal, Small Business Administration

Stefan Silzer, Director, Office of Financial Management, Environmental Protection Agency

FASAB Staff and Observers

Wendy Payne, Executive Director, FASAB

Ross Simms, Assistant Director, FASAB

Frank Synowiec, Assistant Director, Government Accountability Office

**Federal Financial Reporting
Auditor Roundtable
February 1, 2012
Government Accountability Office Room 7B16
Washington DC 20548**

Purpose

The recent report, *The Chief Financial Officers Act of 1990-20 Years Later: Report to the Congress and the Comptroller General* (CFO Act Report), discusses the current reporting environment. The primary objective of the meeting was to identify changes that may be needed in light of the current environment. The discussion was a part of a series of discussions that staff conducted to determine enhancements to the component entity reporting model.

Background

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2. The Congress should consider directing OMB, GAO, and the 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.

The Board determined that staff should begin the component entity phase of the reporting model project by conducting discussions with CFOs and representatives from various groups to help the Board better determine what information is of value to users.

Scope and Methodology

Staff conducted separate roundtable discussions with larger agency CFO's, smaller agency CFO's, and auditors. Also, staff conducted discussions with program managers, agency knowledge professionals, and sovereign government analysts. Participants in today's discussion are listed in Roundtable Participants section.

Discussion

The participants discussed the basic structure of the financial statement audits and possible reporting model improvements that may be needed in light of the current environment. The discussion of these and other topics follows.

Basic Structure of the Financial Statement Audits

The participants did not express support for changes to the basic structure of the financial statement audits which includes annual audits of the current set of agency level financial statements. The government-wide report provides very highly aggregated data; therefore, to learn about the major programs, one must go to the agency level reports. Also, if the agency reporting model is broken apart and different parts removed, how would the model continue to "hang together?" Breaking apart the accounting equation ($\text{assets} = \text{liabilities} + \text{capital}$) and the requirement for double-entry accounting (debits must equal credits) would likely result in lists of items without the assurance that all the items have been accounted for. Consequently, the integrity once provided by the model would be compromised. In addition, regarding the statement of spending, the data would need to be reconciled to something, perhaps a revised Statement of Net Costs to ensure that they are reliable.

Prior to the CFO Act, agencies had various systems that were not integrated. Today, the existing reporting model requires items to "fit together" and balance (properly accounting for all transactions). This helps ensure the integrity of the systems and data. Also, it is very difficult to conduct a cost efficient audit without beginning account balances. Although individuals may not be using the existing set of financial statements, they can have a level of assurance that the data generated by the related systems are reliable. This benefit is difficult for some to see.

The preparation and audit of financial statements is a world-wide accepted process that offers a sense of accountability and integrity. Whether we conduct a financial audit at the agency level is irrespective of the need for managerial cost accounting. Traditional financial statement reporting and auditing is not an impediment to managerial cost accounting. Good data could be obtained for reporting on spending, and program managers could accomplish good program level accounting and analysis and managerial cost accounting. However, systems challenges and perhaps challenges in available skills could hinder agencies' efforts. Agencies with a significant balance sheet like \$800 billion in assets should be audited.

Auditing some statements or line items and not others would present a lot of technical issues and practical problems that may impede the ultimate goal. According to generally accepted government auditing standards (GAGAS), auditing a particular line item of a statement requires auditing at the materiality level of that line item. As a result, materiality is lowered from the department-wide level to that of a line item. Also, GAGAS requires considering related accounts. For example, auditing a net receivables balance may require auditing cash disbursements, the origination process, collections, fees related to credit reform, and credit reform accounting. Consequently, the audit would necessarily involve other balance sheet and operating statement items as well.

Improvements that may be needed

The Statement of Net Cost (SNC) could provide more meaningful information. It currently provides costs by responsibility segment; however, most readers want to know about the cost of programs. The responsibility segment presentation may be easier to prepare because current systems may not be able to provide lower levels of data such as costs at the program level.

Also, more requirements for cost accounting are needed. Statement of Federal Financial Accounting Standard 4, *Managerial Cost Accounting Standards and Concepts*, permits a high level of flexibility; however, cost accounting standards should help promote a level of comparability. Currently, cost accounting is not performed throughout the year and the SNC is prepared at the end of the year primarily because it is a required financial statement.

While users may seek information on the cost of programs, the term “program” needs to be defined because each agency interprets it differently. Also, some agencies have over 100 programs and a statement presenting over 100 programs may be confusing to a reader. In such cases, the data would need to be aggregated in some meaningful way. In addition, the statement could show cost by object class, salaries, interest or other terms that would be of interest to the public.

Initially, the Office of Management and Budget (OMB) issued guidance that required measuring the indirect cost of programs. However, programs are diverse and they use different methods to determine indirect costs. Also, when the community realized that the data would be used to compare and prioritize programs, concern about comparability developed and subsequently OMB moved toward a statement of spending.

There have been discussions about the scope of financial audits in the past. For example, performance measures are reported in Management’s Discussion and Analysis (MD&A) which is considered required supplementary information (RSI) and previous OMB audit bulletins required the auditor to assess the existence and completeness assertions by management relevant to performance measures (i.e., determine if the controls over performance measures were properly designed to ensure

completeness and existence). However, OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, eliminated this requirement and reduced the auditors' responsibilities to conducting inquiries and reviewing the information to ensure there were no material inconsistencies with the financial statements. Also, some reporting changes appeared to be initiated to help reduce the audit coverage and resources used in presenting the data. However, the change generally did not affect the audit scope and data required. For example, the statement of financing was moved from a basic financial statement to a schedule in the note disclosures. However, note disclosures are a part of the basic financial statements; therefore, the level of audit coverage and data requirements remained the same.

Improving comparability may be a good topic to consider, but agencies have unique purposes and allocating costs is not relevant to some agencies, such as agencies with loan and guarantee programs and grant programs. Also, legislation sometimes specifies a ceiling on the amount of administrative costs at an agency which means administrative costs are well controlled. In addition, it was noted that when program managers think about cost, they may be thinking about whether they can determine the amount of dollars going out or are individuals coding data to the proper project. With respect to a notion that audit resources could be shifted from financial audits to increased audits of program controls, financial audits represent only a small part of Inspector General (IG) budgets. IGs already primarily conduct performance audits, including the internal controls over programs. Ultimately, the practical outcomes of notions regarding changes to the reporting model should be considered.

There are many users of financial information and different users expect different items of information. For example consider the following:

- According to the FASAB citizens survey, citizens expect information on assets and liabilities.
- Other users may be interested in cost information. For example, recently, the news media has been interested in knowing how much an airport costs. Also, some users are looking for the cost of products.

Although the data may not be presented in the form of a financial statement, users, including program managers, can get a level of confidence on the integrity of the data that comes from the discipline applied in preparing financial statements and having the statements audited, e.g. transactions recorded for the right program, in the proper account, correct amount, etc.

Because of the fiscal issues in the U.S. and in Europe, there is a higher level of interest in financial information than in prior years. For example, the public is concerned about the sustainability of social insurance programs.

More cost accounting standards may be helpful and performance measures could provide useful information. However, there are no audits over performance measures to help ensure that the information is reliable. Agencies should discuss their mission,

goals, and performance measures, and they should have a cost accounting system to allow them to present the cost related to those measures. Also, agencies can have the flexibility to decide on their performance measures but the cost accounting system needs to be able to support that decision. Additionally, because agencies may use different cost allocation methodologies, they could be required to explain their methodology in the disclosures.

However, incorporating cost accounting into a structure of audited information could result in issues that impact the auditor's opinion. The potential for a qualified opinion may create some resistance to this notion. Also, cost accounting is a different area from financial reporting and may not help with the goal of streamlining requirements.

What additional improvements could be considered?

There may be items in the GAO/PCIE checklist that could be reconsidered, particularly, the disclosure requirements. However, because entities are receiving unqualified opinions there may not be much room for savings. Also, estimates are areas where a level of management judgment is required and the level of precision required or expected could affect the amount of resources used to develop the estimate. For example, actuarial consultants may be used for certain estimates but their fees can be expensive.

It was noted that FASAB issued Technical Release 12, *Accrual Estimates for Grant Programs*, to help facilitate a cost-effective framework for developing reasonable estimates of accrued grant liabilities and, in response to a question on whether the guidance had any impact on audits, a participant noted that the grant accruals process was a significant success at the Department of Justice attributable to the audit. To estimate balances appropriately, grant managers had to know and monitor their programs and perform risk assessments. They also met requirements to close grants and deobligate funds.

With respect to whether liabilities matter, Fannie Mae and Freddie Mac were not on the federal government's balance sheet but these entities received significant bailout funds. Also, the public wants to know what will be the amount of environmental clean-up costs and a program manager should know these costs. In addition, assets and liabilities matter from a sustainability standpoint.

The Securities and Exchange Commission requires use of eXtensible Business Reporting Language (XBRL). XBRL could be used to permit users to perform drill-downs. Also, people are looking for real-time information like costs and taxpayers could perform searches for data on entities such as the cost of conferences. Ideally, reporting should be improved to provide data more timely and offer greater access and transparency. However, some agencies have automated systems while others may use herculean efforts to provide information. Also, auditing would need to be real-time and have embedded audit controls. This would reduce the year-end audit effort.

Transactional data exists, but the issue is how it should be arrayed to meet the needs of different users. The Recovery Board noted this when designing a website where individuals could access spending data. The data was available but it was not arrayed in the manner needed. Also, data may not be arrayed to provide information on say, program cost or whether the program is working as intended, but the data exists. Systems and data help portray information to users and the data should be reconciled to some balance.

Roundtable Participants

The FASAB staff wishes to thank each of the following participants for their willingness to assist on this project and express their views regarding the federal financial reporting model:

Dr. Brett M. Baker, National Science Foundation (NSF) Assistant Inspector General for Audits and Federal Audit Executive Council Chair

Joel Grover, Deputy Assistant Inspector General for Financial Management and Information and Technology Audits, Department of the Treasury

Thomas A. Moschetto, Director, Financial and Information Technology Audits, NSF

Greg Spencer, Director, Financial Statement Audits, Department of Education

Mark Hayes, Director, Financial Statement Audit Office, Department of Justice

Louis King, Assistant Inspector General, Office of Financial and Information Technology Audits, Department of Transportation

Sue Schwendiman, Director, Financial Audits, Department of Veterans Affairs

Catherine Hayes Walters, Audit Manager, NSF

FASAB Staff

Wendy Payne, Executive Director, FASAB

Ross Simms, Assistant Director, FASAB

Methodology for Obtaining User Views

Objective

The objective for the user views discussions was to complement the roundtable discussions and assess user (internal and external) expectations for federal financial reports, primarily focusing on what information they expected to review.

Scope and Methodology

To conduct our work, staff interviewed program managers, agency information and knowledge professionals (information technology professionals, analysts, and others engaged in the sharing of information and knowledge for managing organizations), and external analysts. To identify perspectives on the information needs of program managers, staff used two approaches.

First, the Performance Improvement Council assisted staff in arranging interviews with managers and/or information and knowledge professionals (user intermediaries) from different agencies. Staff included information and knowledge professionals in the discussion pool because they are responsible for determining management and executive information needs and designing systems and end reports. Consequently, staff interviewed users and user intermediaries from the Department of the Treasury and the United States Geological Survey.

Second, staff interviewed program managers and information and knowledge professionals at the United States Department of Agriculture (USDA) and the Department of Housing and Urban Development (HUD). Staff selected a program within these agencies because of their work in using current information technology practices to gather and deliver valuable data for managers and executives. For example, the USDA program used an agile software development process to develop a reporting system for managers and executives. The agile approach involves practices such as engaging end users in the development of the system requirements and the testing of its functionality.²² Similarly, the HUD program engaged individuals with subject matter expertise to help develop reports or tools for monitoring the program.

Also, an additional manager learned about the FASAB project and volunteered views. The manager noted challenges in obtaining financial data and believed that FASAB standards could help ensure that the data would be readily available to program managers and those at the corporate level. Accordingly, staff considered the views in determining the data that internal users expect.

²² For a discussion on critical success factors underlying successful information technology acquisitions, see Government Accountability Office, *Information Technology: Critical Factors Underlying Successful Major Acquisitions*, October 2011.

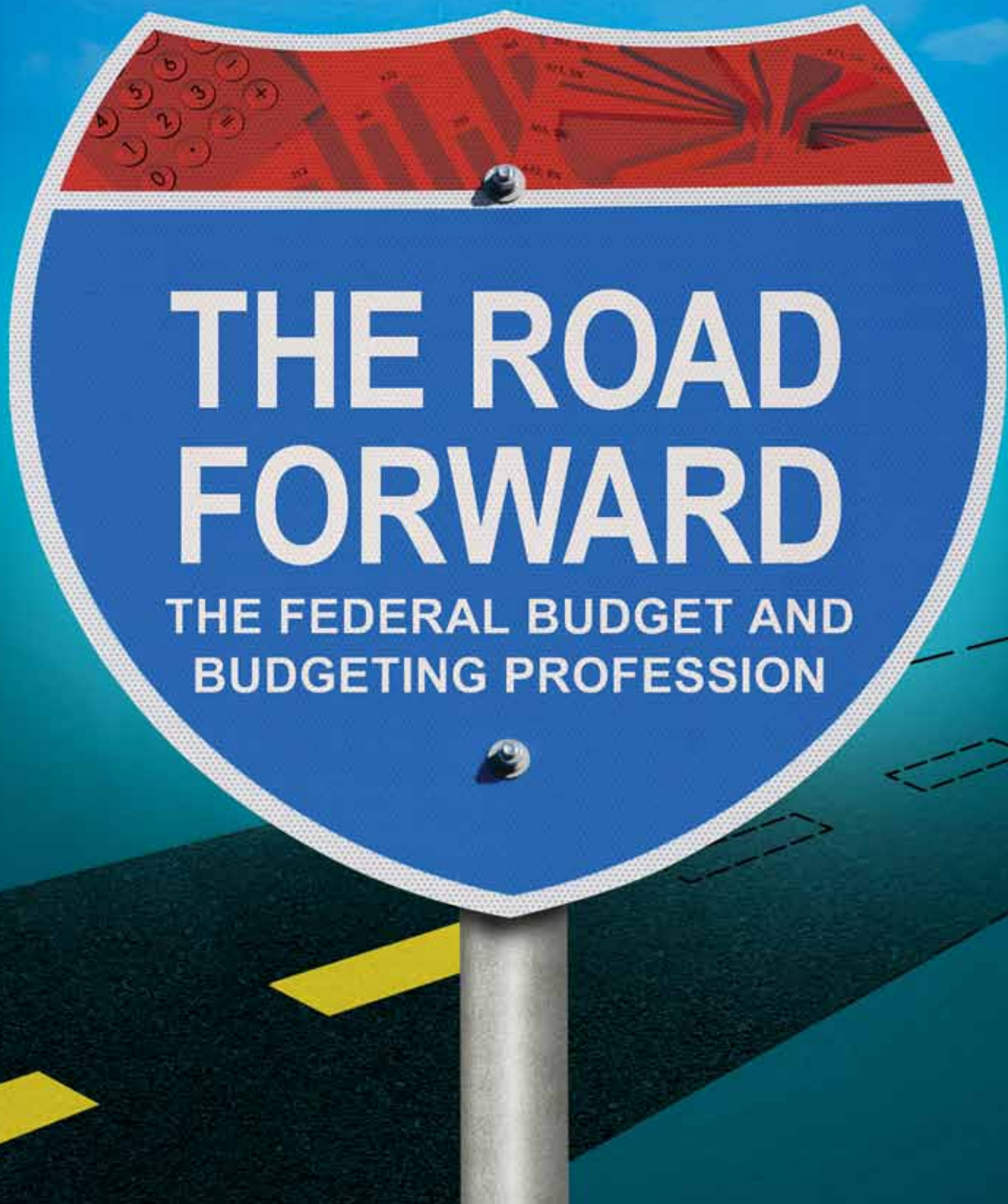
In addition, staff is in the process of meeting with external analysts to determine what information they expected from government financial reports. Because of their involvement with governments around the world and their perspectives on government fiscal issues, staff met with individuals from the World Bank and International Monetary Fund. Also, staff is meeting with an analysts specializing in defense management. Staff plans to provide feedback on the discussions in TAB E-1.

Attachment IV: The Road Forward: The Federal Budget and Budgeting Profession

American Association for Budget and Program Analysis

The First Survey of Federal Budget Professionals on the Process,
their Careers and the Opportunities

NOVEMBER 2011





About the American Association for Budget and Program Analysis (AABPA)

Founded in 1975, AABPA represents members who are government budget and program managers and analysts, academic specialists and analysts in the private sector. AABPA is committed to helping analysts grow in their careers, improve their skills and expand their network of budget and program professionals. To meet these goals, AABPA organizes symposia, free monthly programs, a quarterly newsletter and journal, and annual receptions to help members keep up with the latest developments in their field, establish and maintain valuable contacts and sharpen the skills and knowledge they need to enhance their careers. For more information, visit www.aabpa.org.



Grant Thornton

About Grant Thornton LLP

The people in the independent firms of Grant Thornton International Ltd provide personalized attention and the highest-quality service to public and private clients in more than 100 countries. Grant Thornton LLP is the U.S. member firm of Grant Thornton International Ltd, one of the six global audit, tax and advisory organizations. Grant Thornton International Ltd and its member firms are not a worldwide partnership, as each member firm is a separate and distinct legal entity. Grant Thornton LLP's Global Public Sector, based in Alexandria, Va., is a global management consulting business with the mission of providing responsive and innovative financial, performance management and systems solutions to state, local and federal governments and international organizations. Visit Grant Thornton's Global Public Sector at www.GrantThornton.com/publicsector.

Executive summary

During the spring and summer of 2011, more than 200 federal budget professionals participated in an online survey of federal budget topics. At a high level, the survey results reveal that, although budgeting may be changing from justifying increases to determining cuts, the same competencies and skills that served budgeteers well in the past are still needed today. The road forward may not be clear, but federal budget professionals are traveling ahead. Here are some highlights of what those budgeteers have to say.

Budget formulation and justification is still Job One

Budgeteers are engaged in many activities, but budget formulation and justification continues to rank as the most important element of the budget process. It involves the most contentious policy issues and engages the most senior budget professionals. It takes more time than all the time needed to execute the budget. It continues to rank as the top competency for budget professionals. Well over half of the federal budget process is concerned with budget formulation and justification.

Integrating budget and performance is difficult

While performance budgeting has been around since the 1950s, the federal government began seriously to use performance information in the budget beginning with implementation of the Government Performance and Results Act (GPRA) in 1993. Since then, there have been many separate initiatives to improve the use of performance information, but the basic incompatibility of budget and performance data makes it very difficult for agencies to integrate and generate useful information for decision-makers.

Budget cutting is tough

Survey respondents clearly identify low-priority activities as the first option for budget cutting, but they also prefer to reduce many activities a little rather than eliminate a few activities. They find compliance with OMB's guidance to cut 5% from their budget requests to be difficult. It may be that the budget professionals know how to get the job done, but their agencies are institutionally incapable of realigning their funding levels to new, lower levels.

Technology search continues

Technology to support the budget process is woefully lacking, even while accounting systems are regularly improving. As a result, spreadsheets remain a budgeteer's best friend, and many analysts use them as their primary budget technology tool. Commercial vendors have not yet produced software with the right combination of effectiveness and price. Perhaps this is because each agency's processes are different. Or perhaps it is because of the incompatibility between budget justifications and quantitative determinations. Whatever the reason, budgeteers lack the tools they need.

Job satisfaction is high

In spite of all the problems with the budget process, the inability of Congress to pass appropriations on time and the ongoing economic crisis, federal budget professionals are surprisingly satisfied with their jobs. They want to see how their work contributes to the whole, and they want work-life balance. Apparently, they are getting enough of each to support their continued motivation, dedication and hard work.

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About the survey

The federal budget often dominates national headlines, but most citizens know little of its details. However, the army of federal budget professionals who daily develop, justify, review and execute it know the federal budget quite well. In the current economic environment, the federal budget will continue to play a significant role. This inaugural survey of federal budget professionals seeks to explore some of the issues associated with the federal budget. Sponsored by the American Association for Budget and Program Analysis (AABPA) and Grant Thornton LLP, this survey is an opportunity for those intimately involved with the federal budget to voice their thoughts and opinions about the road forward. Government executives — career and political — as well as other government employees, business leaders and citizens can benefit from these knowledgeable insights about the phenomenon that is the federal budget.

Methodology

In early 2011, Grant Thornton approached AABPA about the possibility of jointly conducting a survey of budget personnel. AABPA is the signature organization for budget professionals in the Washington, DC, area, and Grant Thornton has considerable experience with surveys as well as with providing advisory support to federal budget offices. For some time, Grant Thornton had been considering a survey of budget personnel, but concerns about access to these busy professionals led to deferral. But now, AABPA and Grant Thornton decided that they could access a sufficient number of them entirely through an online survey with a widely advertised survey link available to anyone who chose to take the survey.

Many different people are involved in the budget process, and it is difficult to come up with a name that covers them all. We considered a variety of names for them — budget officers, budget analysts and budgeteers — before settling on “federal budget professionals.”

Throughout the late winter and early spring of 2011, a joint team developed survey questions and marketing plans. While two-thirds of the federal budget is related to mandatory spending that is not appropriated, like Social Security and Medicare, most federal budget professionals deal with agency discretionary spending that is obtained through appropriations. So, we settled on these topic areas:

- Budget formulation
- Budget and performance integration
- Budget execution
- Resource constraints
- Congressional issues
- Budget systems and technology
- Human capital.

We opened the survey during AABPA’s Spring Symposium in May 2011 and kept it open through the beginning of August. With aggressive marketing by AABPA, the survey attracted 261 respondents who completed the survey and many others who sampled some of the questions.

Confirming the timeliness of this survey, 2011 saw the near shutdown of the government over concerns about the budget deficit and increased attention from the media and citizens about the various components of government spending and budget. Federal budget professionals were directly affected by the budget crisis when the President froze their salaries for two years beginning in 2011.



The survey generated more data than is reflected in this report, but we have selected those components with the most relevance to the budget process and the budgeting profession.

Profile of survey respondents

When AABPA and Grant Thornton designed the survey, they knew there were potentially thousands of people who were qualified to take the survey. Also, because the survey was entirely online, with access through a website available to anyone, the sponsors did not know how many people would choose to take the survey or who they would be. Based on information provided by the respondents, we have a good profile of their characteristics as shown below. Detailed information on these characteristics is available at www.grantthornton.com/publicsector.

The survey allowed respondents to self-identify as federal budget professionals, and 89% of the respondents did. While those respondents who are not federal budget professionals could offer useful information, we designed this survey to obtain information from those who actually are or have been “in the trenches.” As a result, we base all subsequent information in this report only on responses from the 231 respondents who completed the survey and self-identified as federal budget professionals.

Both because the survey respondents self-identify and because the size of the universe of potential respondents is very large, but unknown, we do not imply that respondents are representative of that universe. However, we believe we have sufficient input to draw valid conclusions about federal budget professionals in general.

Here are some other key points about the respondents:

- Seventy-eight percent are in the Executive Branch, covering every department and many independent agencies.
- The Departments of the Interior, Justice and Homeland Security together account for 50% of all executive branch respondents who identify their agencies.
- Budget formulation and budget execution are the primary types of work that respondents do, but they are involved in a wide range of activities.
- Sixty-four percent are in senior-level jobs and 32% in mid-level jobs; 56% have 10 or more years of experience and 19% have five to 10 years of experience.
- Fifty-seven percent have earned a master’s degree and another 30% hold a bachelor’s degree. Public administration, public policy, and business administration account for 82% of master’s degree fields; liberal arts and business administration account for 62% of bachelor’s degree majors.

Anonymity

This report reflects the responses and opinions of survey respondents to the maximum extent possible. However, to preserve anonymity we do not attribute responses to specific individuals.

To obtain a copy of the survey report and questionnaire, please see the inside back cover of this report for directions to the sponsor organizations’ websites.

Budget formulation

The budget formulation process starts when agencies have developed or updated their strategic and operational plans and ends when Congress passes the appropriation based on the budget. It includes:

- Analyzing requirements and developing initial budget requests at the program level
- Analyzing and consolidating requirements at the bureau, departmental and Office of Management and Budget (OMB) levels as well as providing justifications necessary to support those requirements as the budget moves through the process
- Preparing the various budget formats required by each level
- Providing testimony and later answers to question from higher levels
- Tracking congressional action on appropriation bills.

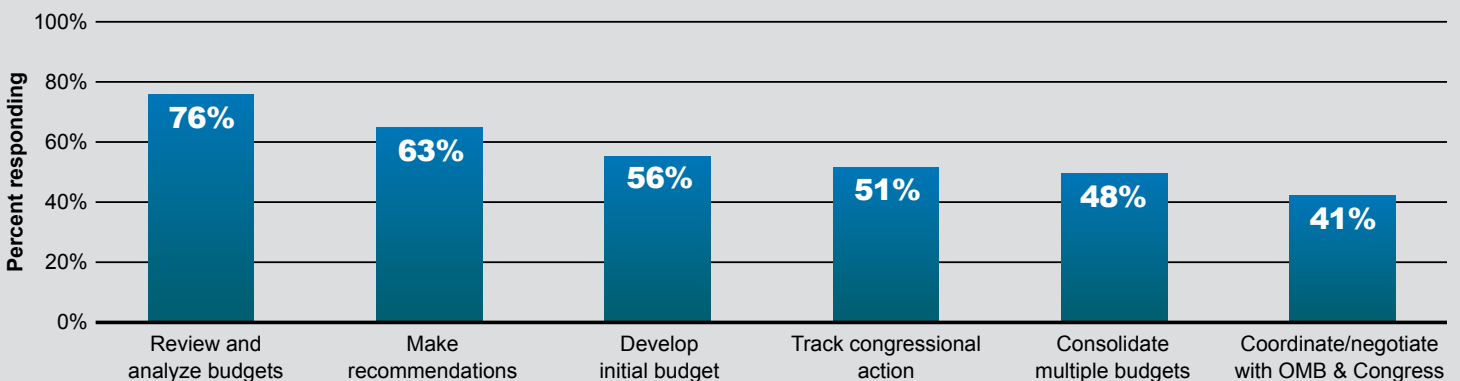
Figure 1 shows respondents' top roles in the budget formulation process based on selecting all that apply. The average respondent selected 3.4 roles, and each role was selected by at least 41% of respondents, showing the breadth of the budgeting profession.

Three out of four respondents checked “review and analyze budgets” because this can be done at many different levels: program, bureau, department, OMB. The initial budget is developed once, but it is reviewed and revised numerous times. We will see later in this report (Figure 19) that the ability to analyze is a key attribute for new hires.

“Make recommendations” is a solid second choice, illustrating how budgeteers must translate their analyses into useful choices. The typical outcome of analysis is an options paper with pros and cons for each option, accompanied by a recommendation with rationale.

Not as many people have the opportunity to “develop initial budgets,” the third most mentioned role, but 56% of the survey respondents identify with that role, indicating that many of them are involved in the beginning steps of the budget. In addition, 48% of respondents “consolidate multiple budgets,” either at the bureau or departmental level. Survey respondents are clearly involved in full-contact budgeting.

Figure 1:
Budget professional roles in the budget formulation process



It is surprising that more than 50% of survey respondents identify “track congressional action” as one of their roles. Tracking action, especially as agencies approach the start of a fiscal year with a high potential for continuing resolutions, is a best practice, but before this survey, it was not clear that so many budgeteers are involved in it.

Forty-one percent of respondents “coordinate/negotiate with OMB & Congress,” an impressive amount, but perhaps expected when more than 60% of respondents identify themselves at a senior job level.

Elements of an effective process

Respondents selected their top three choices from a list of seven options to define an effective budget formulation process. When they made their selection, the survey then presented them with a followup question about how effective that element was at their organizational level. The top choices are in Table 1.

We expect “explains needs and impacts” to be the top-rated element because this might be considered the ultimate goal of the budget

formulation process. We can view the other two elements selected by more than 50% of respondents, “input by program managers” and “leadership provides early direction,” as enablers of the first element. Program managers understand the needs of their programs, and agency leadership understands the priorities. Agencies require both to have an effective budget product.

It is unexpected that “links budget to strategic plan” ranks only fourth, with 44% of respondents choosing it. Many argue that a primary value of the budget is that it transforms the agency strategic plan into a resource request. The next element, “communicates policy through the budget,” could also be related to the strategic plan, where the foundation for policy objectives is found.

The results on effectiveness appear to be relatively consistent regardless of the element selected, with those selecting “effective” generally representing many more than those who select “ineffective.” It appears that the budget formulation process elements in the budgeteers’ own organizations are producing good results.

Table 1:
Elements of an effective budget formulation process and effectiveness

Elements	Respondents mentioning	Respondents’ opinions	
		Percent saying ineffective	Percent saying effective
Explains needs and impacts	67%	25%	75%
Input by program managers	59%	15%	85%
Leadership provides early direction	57%	29%	71%
Links budget to strategic plan	44%	40%	60%
Communicates policy through the budget	37%	18%	82%



Reprogramming funds

We asked respondents if, when they receive requests for additional funding, their organizations first consider reducing other funded activities to finance these new requests before considering other ways to obtain the resources. Sixty percent of respondents say they do.

This high percentage is unexpected, because it means that organizations have to prioritize their requirements, something that bureaucracies in general do not like to do. However, it may also be a more recent phenomenon, wherein continual budget reductions make it unlikely that any organization is going to get additional funds, let alone keep what it already has. Therefore, budgeteers recognize that, if a requirement absolutely has to be funded, their agency must fund it from available resources. One respondent noted, “We used to always go for increases; now we cut many programs.”

We asked those who replied “no” why this was the case. Most of the answers are along the lines of not having anything to reduce or always trying to increase the base. One of the more interesting perspectives is “Whatever one office already has, belongs to them.”

Requesting additional funds

We asked respondents whether their organizations, regardless of instructions from higher levels, usually request additional funds, and 43% say yes while 36% say no. Thus, it is common to request additional funding, even when OMB instructions require agencies to submit budgets 5% and 10% less than previous levels. It would be interesting to know how the reviewers treat these unsolicited requests.

We offered respondents an opportunity to explain why they answered as they did. Most of

the responses came from those who answered “yes,” and many said they need to maintain current levels or requirements are always increasing. Others want to go “on the record” about their requirements, and some say there is just no downside to doing it.

Other thoughts

The final question in this section offered respondents the opportunity to add other comments. More than 50 respondents shared their thoughts on a wide range of topics, though there are a few common concerns. These include timely guidance at all levels, involvement by senior leadership and working relationships between program managers and budgeteers. In a budget process that never ends, the biggest frustrations are waiting for guidance that never comes on time and needlessly reworking budgets because of last-minute changes in direction or lack of understanding. One respondent noted, “Budget formulation is often completed by the time guidance comes out.”

Budgeteers recognize that, if a requirement absolutely has to be funded, their agency must fund it from available resources. One respondent noted, “We used to always go for increases; now we cut many programs.”

Another concern is the lack of a relationship between agencies’ strategic goals and the budget requests that should be based on those goals. As one respondent says, “Budget formulation should translate the strategic plan into a resource request, but too often it simply expands last year’s budget.”

Budget and performance integration

Since the 1950s, when the term “performance budgeting” was first introduced, budgeteers have been working to integrate performance information into the budgeting process. The President’s Management Agenda of the early 2000s made budget and performance integration (BPI) one of the five major areas for which agencies received progress and status traffic-light scores. This section of the survey explores how agencies are using performance information in the budgeting process.

Types and uses of information

We asked respondents what was their organization’s primary process or system for collecting and maintaining performance information. Respondents indicate that 45% use an automated system while 35% use a manual system. It is good that many organizations now have some type of automated system because few agencies had automated systems for performance information in the early days of GPRA. With so

much performance information being used today in the budget process, agencies need automated tools to manage the information.

Figure 2:
Types of performance information collected

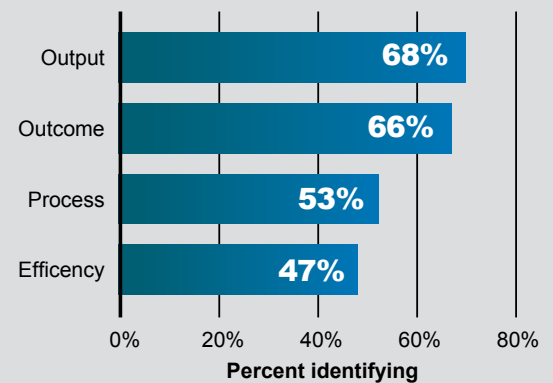


Figure 2 shows respondents’ top choices for the types of performance information that they collect based on selecting all that apply. The average respondent checked 2.7 types.

Outcome measures are the most desired measures for governmental programs, but various problems often make them difficult to define and/or collect. Output measures have many uses at the activity level and are also often used as surrogates when outcomes cannot be measured. Because many government programs produce services rather than products, process measures are very popular when it is difficult to enumerate the output. That almost 50% of respondents collect efficiency measures is interesting. The Program Assessment Rating Tool (PART) program of the early 2000s required each program to have at least one efficiency measure and, at that time, many did not. This may indicate that the PART results live on today.





Table 2:
How respondents use different types of performance information

How do you use this information?	Types of performance information			
	Outcome	Output	Process	Efficiency
To address external reporting requirements	71%	63%	60%	63%
To help in justifying budget requests	72%	63%	61%	63%
To analyze program efficiency and effectiveness	62%	54%	61%	62%
To support resource allocation and staffing decisions	54%	47%	57%	56%
To assess progress toward meeting goals in our strategic plan	63%	50%	52%	50%
To compare over time, across regions or against standards	37%	40%	38%	33%
We do not use it	3%	5%	7%	8%
Other	3%	3%	8%	5%

When respondents selected one of these types of information, they were then presented with a followup list of standard choices about how they used that particular element. A summary of their selections is in Table 2.

There is a lot of data here, which seems to boil down to this:

- Respondents primarily use performance information to address external reporting requirements and to justify budgets, especially with outcome information.
- There is slightly less use of the information to analyze program efficiency and effectiveness.
- The next uses, supporting resource allocation and assessing progress toward meeting goals, are still used by more than 50% of respondents.
- Not surprisingly, respondents use outcome information more for assessing progress against goals (which should have outcome measures) than for supporting resource allocations.
- Respondents use performance information least for comparisons.
- On average, 6% of respondents collect data that they do not use.

Figure 3:
Ease or difficulty for your organization to prepare and use integrated budget and performance information

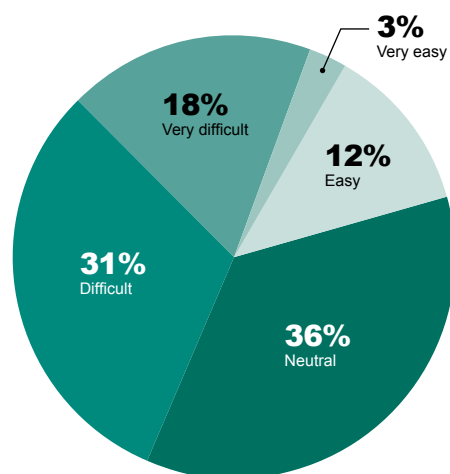


Figure 3 shows how difficult or easy it is for organizations to prepare and use integrated budget and performance information. The first clear message here is that few think it is easy. While 49% think it is difficult or very difficult, another 36% choose “neutral,” which could be interpreted as “neither difficult nor easy.” So while many of respondents’ organizations have automated systems for performance information, there is still much difficulty in preparing and using information that integrates budget and performance.

We followed up this question by asking why it was difficult or easy and gave the respondents some standard answers from which to select the top three. The most common responses (with about 50% of respondents) for why it is difficult to use are that “performance information is not readily available” and “budget information related to performance is not readily available.” About 40% of respondents selected “linking data

is not a priority” and another 40% selected “we do not have enough staff for the workload.”

Those who indicated that it is easy to use selected “performance data is readily available” and “budget information related to performance is readily available.” So, the availability of data in these agencies is the key element driving ease of use.

Figure 4:
How often is integrated information prepared and used?

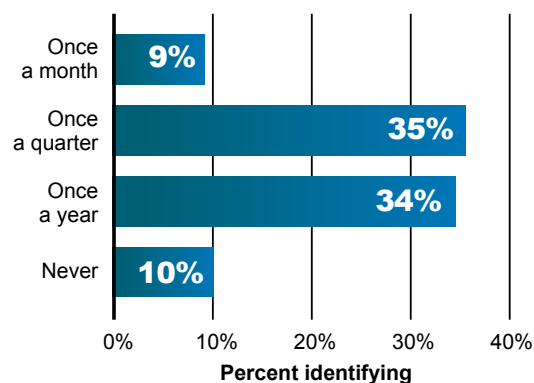


Figure 4 shows the top choices for how often organizations prepare and used integrated budget and performance information. The important story here is that, while budget information is probably reported on a monthly basis by all organizations, less than 10% of respondents are preparing and using integrated budget and performance information on that basis. Another 35% are preparing and using the integrated data once a quarter, 34% are only doing it once a year and 10% are never doing it. It is difficult to see how performance information could be making an impact on the daily operations of agencies when 79% of them are preparing and using this data only once a quarter or less.

Table 3:
Frequency with which groups use integrated budget and performance information

Group	Frequency of use			
	Often	Occasionally	Never	N/A
Budget and financial managers and analysts	34%	49%	11%	6%
Program managers and analysts	30%	47%	13%	9%
Executive leadership	26%	52%	14%	8%
External stakeholders	24%	45%	14%	17%

Table 3 shows the frequency with which various groups within respondents' organizations use the integrated budget and performance information. The answers here must be tempered with the information above that indicated that most respondents prepared and used this information only once a quarter or less.

The most obvious information in this data is that there is no significant difference in use among the various groups. Information is used "often" by 24% to 34% of groups, "occasionally" by 45% to 52% and "never" by 11% to 14%. Overall, budget and financial managers and analysts use the data most and external stakeholders least. We followed up this question by asking respondents to explain why each group did or did not use the information at the frequency it did, but there is no pattern to the answers, and many respondents provided the same answers for every category.

Other thoughts

The last question in this section offered respondents the opportunity to add other comments. There are a wide range of comments with few common themes except the difficulty of

"[Integrated budget and performance information] is probably the most important, little-used information in government."

implementing the active use of performance information and the need for a culture change in agencies. One respondent noted, "This is probably the most important, little-used information in government."



Budget execution

Budget execution is the effective and efficient use of congressional appropriations, ensuring compliance with the time, purpose and amount of the appropriation. It begins when agencies develop operating plans for their internal organizations before the start of the fiscal year and ends when those appropriations close. It includes:

- Developing, revising and using operating plans
- Allocating resources to operating entities and maintaining fund control processes
- Committing, obligating and disbursing appropriations
- Monitoring fund use and preparing regular reports for management
- Managing operations under continuing resolutions, when necessary
- Identifying the need for reprogramming and preparing justification
- Closing out each fiscal year with maximum effective use of available funds
- Managing expired appropriations until they close.

As we did in the budget formulation section, we began this section by asking respondents about their roles in the budget execution process and gave them six standard choices, allowing them to select all that apply. The average respondent selected 3.5 roles, almost identical to the rate of budget formulation selections. The results are in Figure 5. Most respondents describe budget execution as a focus on analyzing and reporting budget information. Only 30% of respondents describe budget execution as a transactional activity (“commit and obligate funds”). With 49% of respondents selecting “track congressional limitations,” it seems clear that there are numerous limitations, especially when agencies begin each fiscal year with multiple continuing resolutions. Many consider monthly comparisons of actual obligations to earlier prepared estimates to be a best practice, so it is encouraging to see 48% of respondents identify this role. Similarly, having annual operating plans is a critical element of an effective budget execution process, and 48% are also engaged in this role. Many of those who select “N/A and other” and provide additional information are involved in funds distribution and various aspects of analysis and reporting.

Figure 5:
Roles in budget execution process

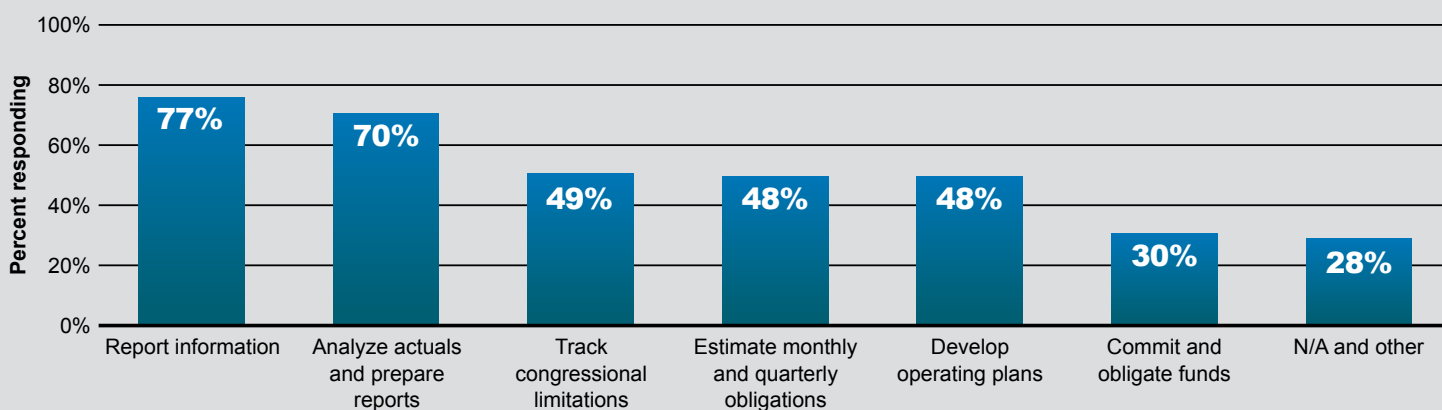


Table 4:
Elements of an effective budget execution process and effectiveness

Element	Respondents mentioning	Respondents' opinions	
		Percent saying ineffective	Percent saying effective
Control funds and enforce congressional limitations	68%	5%	95%
Program managers develop and use operating plans	48%	31%	69%
Agency capable of dealing with changing requirements	44%	13%	87%
Use integrated actual obligations and performance reports	34%	40%	61%
Allocate funds to decentralized levels	32%	9%	91%
Identify reprogramming needs timely	26%	26%	74%
Actual obligations compared with estimates monthly	17%	18%	82%

Table 4 shows how respondents would define an effective budget execution process by selecting their top three choices from a list of seven options. When respondents made their selections, we then presented them with a followup question about how effective that element was at their organizational level.

Because funds control is the most basic requirement of budget execution, it is no surprise that 68% of respondents identify this element. However, no other element is identified by more than 50% of respondents. The development and use of operating plans, identified by 48% of respondents, could be described as one of the methods to achieve funds control. The same could be said for allocating funds to decentralized levels, identified by 32% of respondents. Using integrated reports of actual obligations

and actual performance (34%) and comparing actual monthly obligations with estimates (17%) could be seen as tools to achieve essential capabilities such as dealing with changing requirements (44%) and identifying reprogramming needs (26%). The respondents lay out a very integrated set of elements to create an effective budget execution process.

In terms of effectiveness, use of integrated reports is the lowest-rated element. This is not surprising after seeing the information from respondents in the budget and performance integration section above. Developing and using operating plans is the second most selected element, but one out of three respondents does not describe it as working effectively. One out of four respondents does not see “identify reprogramming needs timely” working effectively, but



it is the second-lowest selected element. All of the other elements receive very high ratings for effectiveness, indicating that most of the budget execution process elements are working well in respondents' agencies.

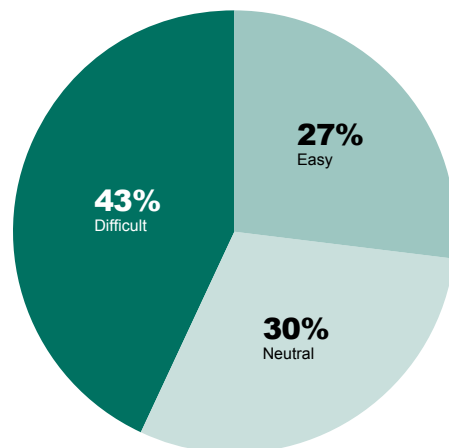
Continuing resolutions (CRs)

CRs have become a normal part of the budget execution process, and this reality does not appear likely to change anytime soon. For FYs 2000 through 2011, at least some agencies

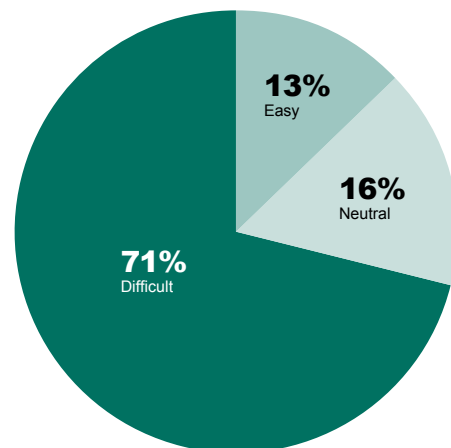
operated under CRs every year. In six of those years, all CRs lasted three months or less, and in six of those years, at least some CRs lasted longer than three months. Figure 6 shows respondents' organizations' ability to continue operations under CRs that lasted three months or less and those that lasted longer than three months.

This data indicates that 57% of respondents do not think it is difficult to continue operations under CRs lasting three months or less, although many of those respondents are "neutral." When the CR length stretches beyond three months, we see significant changes toward "difficult," but still 29% of respondents do not think it is difficult to continue operations. Depending on the type of costs their agencies incur, many respondents can adjust their planning and continue near-normal operations under a continuing resolution.

Figure 6:
How easy or difficult is it to continue operations under a CR?



CRs of 3 months or less



CRs longer than 3 months

Figure 7:
Why is it easy or difficult to operate with a CR?

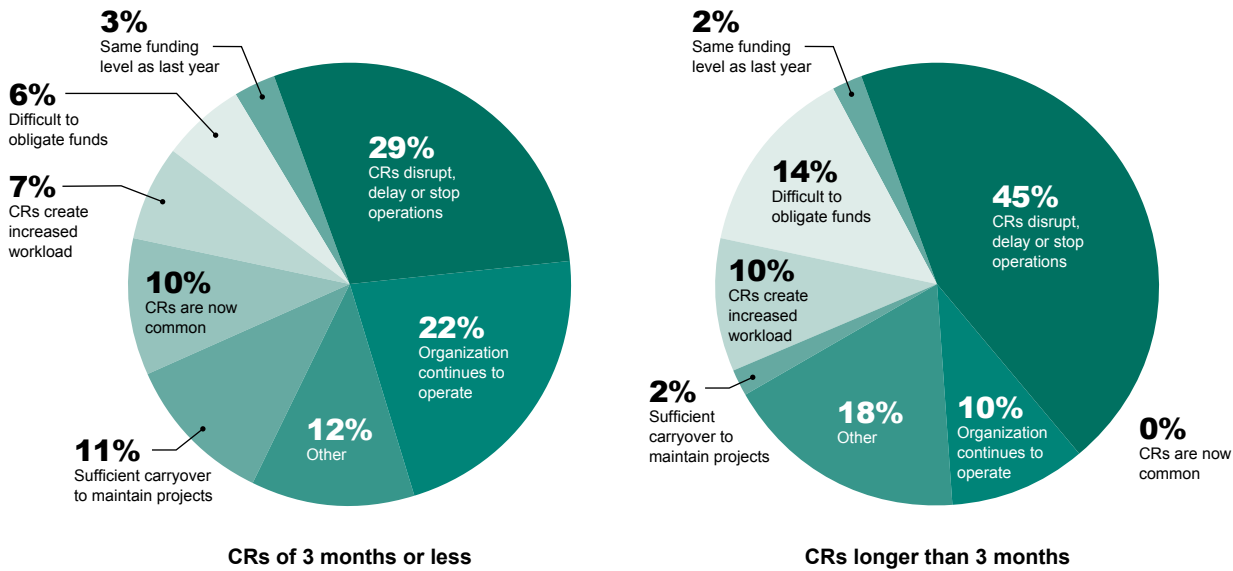


Figure 7 shows why respondents thought it was easy or difficult for each scenario. Most of these answers do not shed new light on how agencies are adapting, for example, how do “CRs disrupt, delay or stop operations” or how do “CRs create increased workload”? However, the responses “CRs are now common” and “sufficient carryover to maintain projects” do provide specific information about why it is easy for some agencies to continue operations.

Other thoughts

As in the other sections of the survey, the final question in this section offered respondents the opportunity to add other comments. Thirty-nine respondents shared their thoughts on a wide range of topics. The most mentioned issue was the need for modern financial systems.

Other comments addressed the shortage of good performance measures and problems created by not having appropriations passed on time.

It is refreshing to see so many federal budget professionals involved in and actively interested in issues affecting budget execution. One respondent summed it up, “Budget execution is not accounting. It is continuously adjusting the budget for changes to ensure that the agency accomplishes whatever it originally promised in its budget request.”

Resource constraints

This section of the survey explores how respondents are dealing with budget cuts. Until recently, the budgeteer's typical question was "How much additional funding can I get for my agency?" Now the economic crisis is forcing them to consider how much less budget they can afford. Cutting the budget involves skills that may not have been necessary in the past.

Figure 8:
Most important methods for determining reductions and offsets

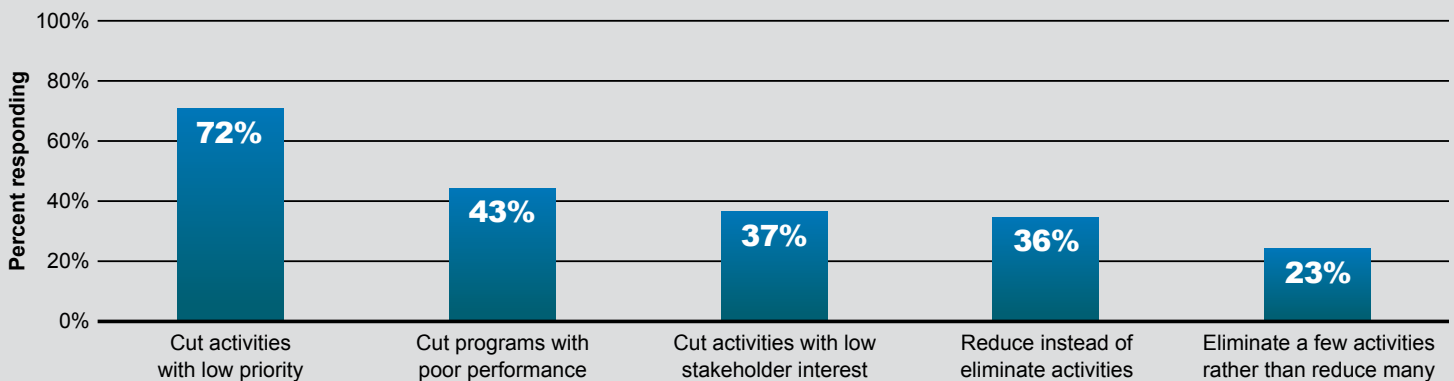


Figure 8 shows methods that respondents use to determine potential reductions and offsets, based on the top three choices. After so much discussion in the popular media about programs that do not perform well, it is very gratifying to see that, by a wide margin, budgeteers recognize that priority for mission accomplishment is more important than performance. Excellent performance by low-priority programs is no reason to keep funding them when budget wolves are at the door. However, the next most popular choice is programs with poor performance histories. Poorly performing programs should be getting attention from the agency's performance managers with or without budget cuts. However, it is probably safe to say that, regardless of a program's priority, if it is not

performing, it is also going to draw the attention of budget cutters.

It is difficult to imagine why activities with low stakeholder or congressional interest, selected for reductions by 37% of respondents, ever got funded in the first place, but interests change over time, usually much more quickly than corresponding funding levels. Perhaps these activities are important priorities for achieving some strategic goals and objectives even though stakeholders and Congress have little interest in them.

The next two choices examine eliminating a few activities or reducing many activities. Typically, reducing many activities is an approach to use when there is an expectation that the funding reduction is short term, while

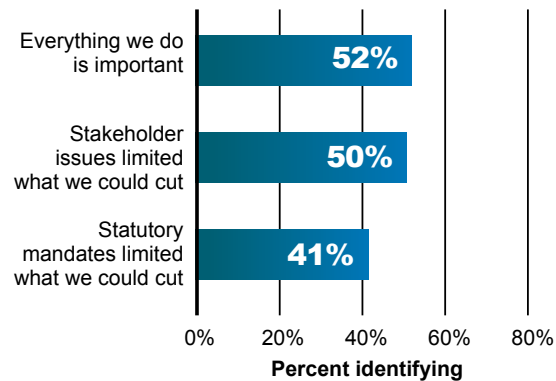


elimination makes more sense if the reduction is permanent. It appears that 36% of the respondents prefer to reduce rather than eliminate, while 23% prefer elimination over reduction. We did not have a followup question to determine whether they believe the current budget situation is a short-term aberration instead of a total rebalancing that will lead to a new, lower-funded normal for the agencies.

Because agencies already have some experience with budget cutting in their FY 2012 budgets, we asked respondents about their difficulty in complying with OMB's guidance to reduce those submissions by 5%. It is alarming that 56% found it difficult to comply with this guidance, and only 14% found it easy. With agency budgets of billions or hundreds of millions of dollars, it seems reasonable to expect that program managers and budgeteers could find a few percentage points of funding that are not essential for mission accomplishment. It may be that agency leadership believes that agency requirements are growing more quickly, and that even current funding levels are inadequate. This seems to ignore the reality that agency discretionary spending levels are likely to continue to decrease. The survey questions were developed before OMB's guidance for the FY 2013 budget was issued, which required a 10% reduction in that budget, so we do not know the impact of compliance with that guidance.

Exploring this issue more deeply, we asked respondents why compliance was easy or difficult and gave them a short list of standard answers from which to select their top three. The results for why compliance was difficult are in Figure 9 and the results for why compliance was easy are in Figure 10.

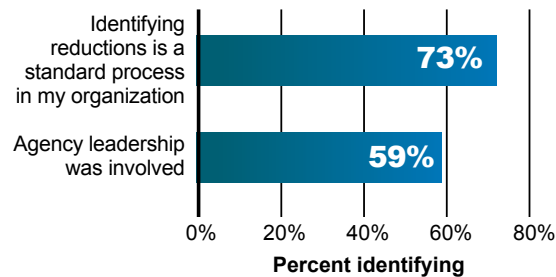
Figure 9:
Why was it difficult to comply with OMB guidance?



For difficult compliance, while stakeholder issues and statutory mandates are legitimate arguments for not cutting selected activities, one has to wonder if all of their activities are so covered. We also wonder whether “everything we do is important” is what the respondents believe or what they were told.

With agency budgets of billions or hundreds of millions of dollars, it seems reasonable to expect that program managers and budgeteers could find a few percentage points of funding that are not essential for mission accomplishment.

Figure 10:
Why was it easy to comply with OMB guidance?



For easy compliance, both answers are gratifying. Even in days of flush funding, agencies should require decrements to analyze the base. In days of budget cuts, these skills can be very useful. And the involvement of agency leadership can always make a difficult task easier.

Other thoughts

As in the other sections of the survey, the final question in this section offered respondents the opportunity to add other comments about resource constraints. Twenty-two respondents gave us their thoughts on a wide range of topics with few common themes.

One of the key issues we are not able to nail down definitively in this survey is whether the input here means that budgeteers are not able to make budget reductions because they lack the knowledge, skills, etc., or whether they know how to do it but their agencies, as an institution, are fighting the reductions. It makes sense for the government to staff its various programs with people who believe in those programs and their ability to achieve useful results for citizens. But it can be a problem when program and agency leadership does not help dedicated program managers see the bigger picture.

Congressional issues

Preparing and justifying the agency budget to Congress is one of the critical functions of a budget office, so we asked some questions about that process. We had planned to ask Executive Branch personnel one set of questions and Legislative Branch personnel another set of questions, but we did not have sufficient Legislative Branch participation to allow us to determine valid information for them. The information here is primarily from Executive Branch personnel.

Figure 11:
Problems with preparing congressional budget submissions

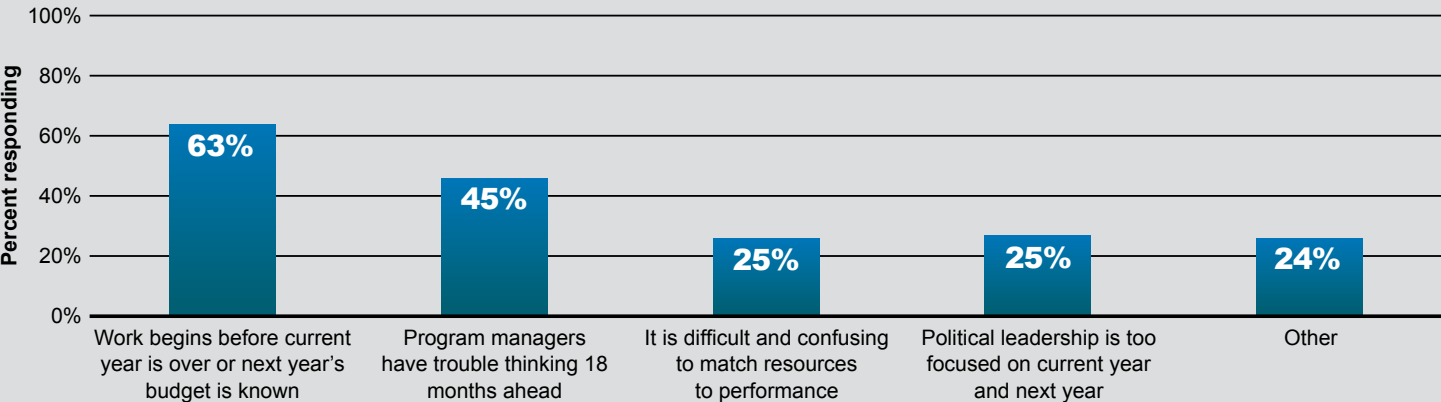


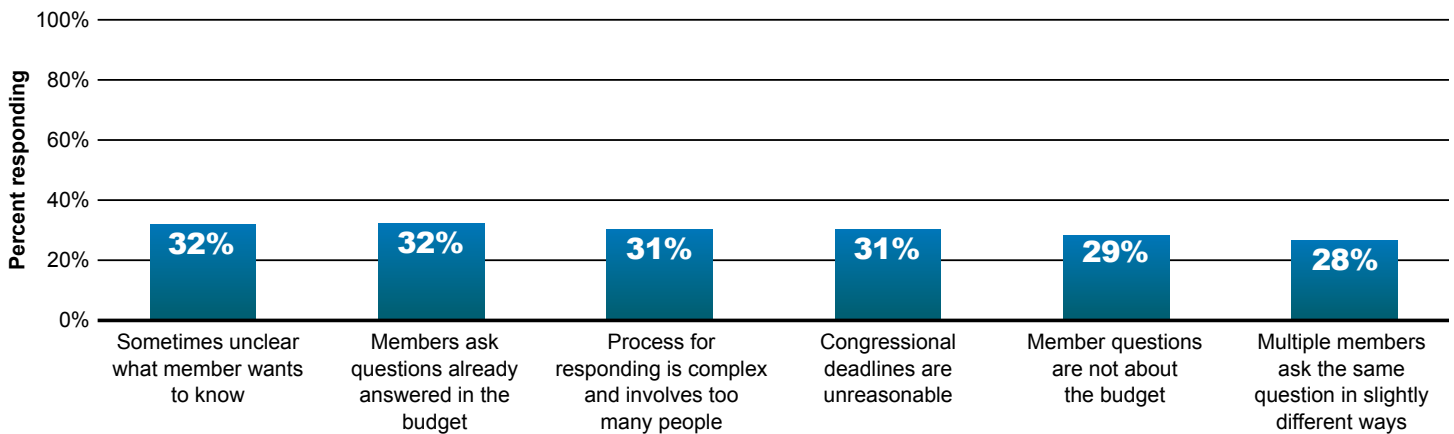
Figure 11 shows the most significant problems with preparing the congressional budget submissions based on the top three choices of respondents. In March 2011, four months before this survey went live, program offices were beginning development of their FY 2013 budgets without knowing their actual appropriations for FY 2011. Under the best of circumstances, they would still start the FY 2013 budget process before they knew their actual FY 2011 obligations or their actual FY 2012 appropriations. Until a genius figures out a way to shorten the marathon federal budget review process, budgeteers will continue to have the problem identified by 63% of respondents.

Very much related to this is that program managers have obvious problems thinking 18 months ahead. They need to be focused on what is going to happen to their programs in the next few months. Political leadership, too, is understandably focused on shorter timeframes; history suggests that their tenure is usually less than 24 months.

We have already discussed problems with matching resources and performance, identified by 25% of respondents, in the budget and performance integration section above.

Twenty-four percent of respondents selected “other,” suggesting that our list of options is deficient. Many of their comments are broad,

Figure 12:
Problems with answering congressional questions

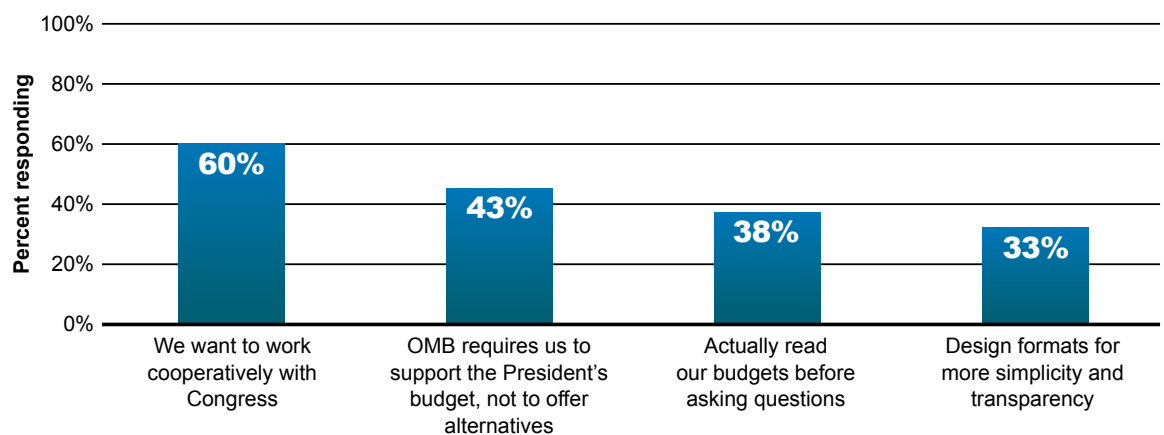


but a number mention late and changing guidance, and some wonder why they work so hard to produce a submission that is often declared dead on arrival.

Figure 12 shows problems respondents have when dealing with congressional questions during the justification process, based on the

top three choices of respondents. The most interesting thing about this data is that there is very little difference in the number of people who select each of the choices. No one choice is selected by even one-third of all respondents. This would appear to indicate that there is no one big problem, but possibly lots of little ones, which might not really be a bad situation.

Figure 13:
Executive Branch budgeteers' comments to congressional staffers



Executive branch budgeteers and congressional staffers are all working for the same ultimate goal, but they may not always be able to see the situation from the other person's point of view. Figure 13 shows what Executive Branch budgeteers would like to tell congressional staffers about the congressional budget submission and justification process, based on the top three choices.

It is very encouraging to see that 60% of respondents want to work cooperatively with Congress. People get into the budgeting profession because they want to make a difference, and they understand this means working with Congress. Members and staffers often ask agency budget personnel for alternative information, which budgeteers might want to provide but cannot, if that information does not support the President's budget.

Because the answer to congressional questions may be buried somewhere in the agency budget submission, it is not uncommon for budgeteers to answer, "As we indicate on page 58 of our submission,..." This is apparently frustrating for 38% of respondents, which then leads to problems with the document design, raised by 33% of respondents. Better document design might make it easier for congressional staffers to find the information they need.

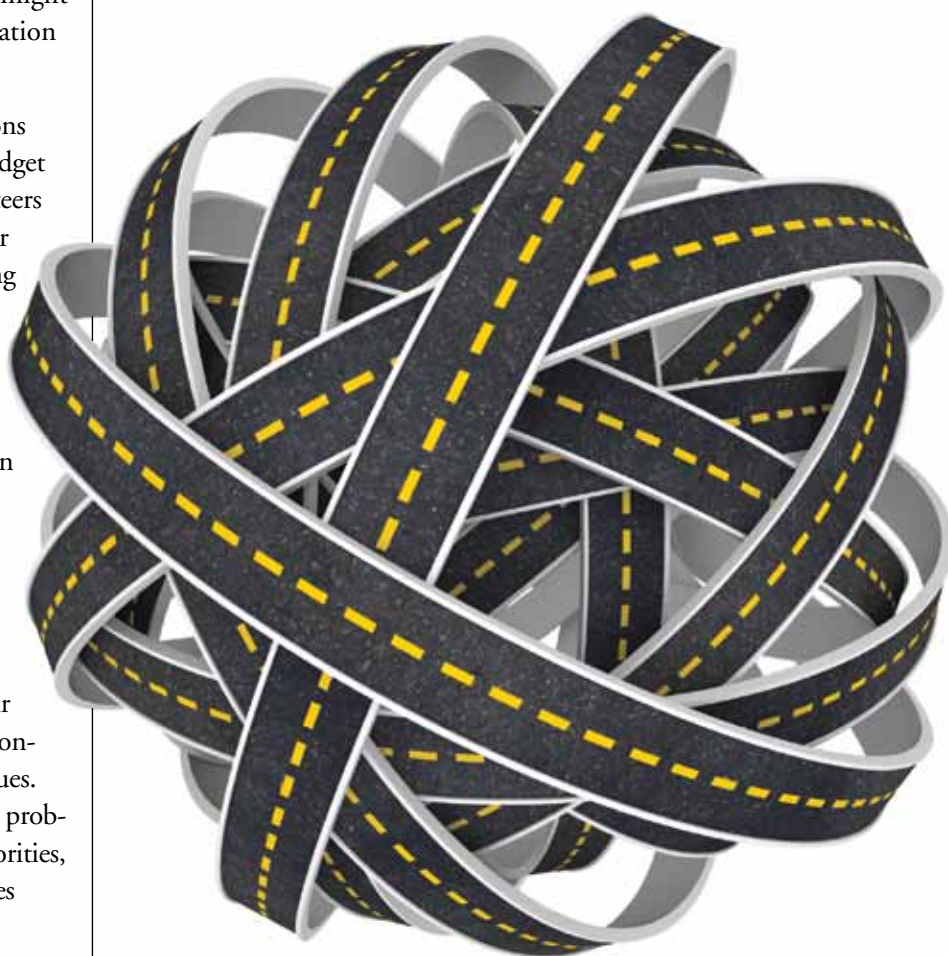
Earmarks

Various politicians and others occasionally suggest that congressional earmarks are an issue, so we asked respondents whether earmarks create significant problems for their organizations. By a slight margin, more respondents believe that earmarks do not create issues. The most common reason cited for creating problems was that earmarks distorted agency priorities, requiring them to put resources into activities

other than what agency priorities would dictate. A few respondents also mention the additional tracking that earmarks require.

Other thoughts

We asked if respondents wanted to add other comments about congressional budget submissions and justification issues, and 21 of them did. Most responses were very individual, but five respondents discussed getting appropriations passed on time or better planning for CRs. Another four respondents pleaded for congressional staffers to actually read the budget submissions and have more interactions with agency budgeteers throughout the year.



Budget systems and technology issues

The long, complex and complicated documents that make up today's federal budget — the Department of Homeland Security's FY 2012 Congressional Budget Justification is 3,311 pages — require more than accounting tablets and individual spreadsheets. While accountants have gotten ever-better accounting systems, budgeting systems are still in their infancy. Then, too, some would argue that the heart of a budget is the justification, which is not easily supported by automated tools; the numbers, be they dollars or performance measures, play a secondary role. This section explores the technologies that budgeteers use to develop their budget submissions.

Table 5:
Budget process tools and effectiveness

Tools	Percent responding	Respondents' opinions of effectiveness		
		Percent saying poorly	Percent saying neutral	Percent saying well
Microsoft Excel® only	26%	28%	26%	45%
Core financial system	23%	32%	32%	37%
Custom-built solution	14%	22%	22%	52%
COTS budgeting solution	10%	20%	10%	65%
GOTS budgeting solution	10%	28%	28%	39%

Table 5 shows the tools budgeteers are currently using, based on respondents selecting the primary one they use. When respondents made their selection, the survey asked them to identify how well their tool was working. The most striking data is that only two tools are used by even about a quarter of the respondents, and one of these is the "core financial system." It is not surprising that automated spreadsheets are the budgeteers favorite tool, but it is surprising that 26% of respondents use it as their *primary* budgeting tool. "Custom-built solution" accounts

for 14%; it would be interesting to know how long those have been around. Commercial off-the-shelf (COTS) and government off-the-shelf (GOTS) software are each the choice of 10% of respondents. A number of commercial vendors have tried to adapt their private sector budgeting software to the federal market, but to date no vendor has found that combination of effectiveness and price that would make budget offices line up for their product. GOTS solutions typically have the price but not necessarily the effectiveness to make them the preferred choice.



UNDER CONSTRUCTION

Excel only is the top choice for a primary budget tool, but less than half of the respondents who select it believe it works well. Those who select the core financial system are almost evenly split between working poorly or well or they are neutral. We see a major difference between those who chose COTS and those who chose GOTS. The COTS customers are much more satisfied than the GOTS customers. We offered respondents an opportunity to tell us why the tool they use is or is not meeting their needs, and almost three-quarters of them indicated that their current tool does not provide a comprehensive solution or is difficult to use.

Table 6:
Essential elements of an effective budget tool

Element	Percent responding
Data rollup and consolidation	51%
Simple to use	40%
Reporting, dashboards, analytics	37%
Scenario and “what-if” analysis	29%
Web-based	24%
Produces finished budget document	23%
Configurable calculations and business rules	19%
Workflow management	16%
Back office integration and data exchange	15%
Based on Excel	14%

Table 6 shows the essential elements of an effective budget tool, based on the top three choices of respondents. Many COTS vendors begin their product demonstration by assuring their budgeteer audiences that their COTS product is “based on Excel.” They believe an Excel base is important. Apparently, respondents are not of the same mind, making “based on Excel” the lowest-ranked element at 14%. More than 50% of respondents want data rollups and consolidations. Simplicity of use is important to 40%, and 37% want reporting and analytics capabilities with dashboards. Other popular options include what-if analyses, web-based applications, and the production of a finished budget product. These are areas where COTS products typically shine. Fewer than 20% of respondents selected the remaining elements.

Other thoughts

We asked if respondents wanted to add other comments about budget systems and technology issues, and 17 of them did. Their responses cover a range of issues, but two were very similar. “Budget technology seems far behind financial management technology; commercial solutions are way too expensive.” Another respondent notes, “We have tried several times to automate but failed every time. I am convinced that the budgeting process is too complicated and technology firms do not understand it well enough to write a program that meets our needs.”

It appears that budget systems technology is still not mature. Perhaps the market is not large enough to justify private sector investment in the necessary systems development to produce a reasonably priced solution. Or perhaps the answer lies with GOTS products if enough agencies join together and invest in them.

Human capital issues

This survey focused on areas that are unique to federal budget professionals. However, like other personnel in any large bureaucratic organization, federal budget professionals are also affected by issues that affect all other personnel: management issues, facilities issues, pay issues, etc. Because of its importance to the continuation of the budgeting profession, we included some questions on human capital issues. These issues affect all of an organization's personnel, but we have tried to put a budgeting emphasis on them.

Figure 14:
Most important budgeting competencies

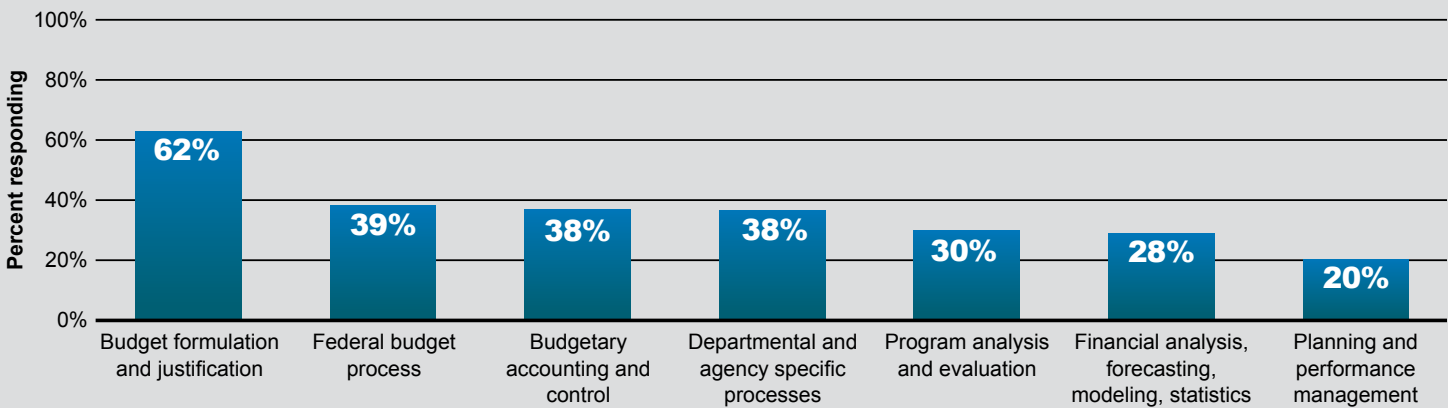


Figure 14 shows the most important budgeting competencies for the respondents' organizations, based on the top three choices of respondents. By a wide margin, respondents choose budget formulation and justification as the most important budgeting competency. If the agency fails to formulate and justify its budget, most of the other competencies would be irrelevant.

The next three highly ranked competencies are very close, including the federal budget process, budgetary accounting and control (which could be viewed as budget execution) and departmental and agency-specific processes. If an agency successfully formulates its budget, it must then know how to manage budget execution to realize the potential of the resources received in appropriations. For the

budget process, in theory, one could learn the federal budget process in a university classroom, but you only learn the specifics of how various departments and agencies deal with the federal budget process when you are engaged in those various departments and agencies. And every one of them is going to be different, some in major ways. To be an effective budget professional in a specific agency, you have to know that agency's processes and how they fit into the larger federal process.

Effective budget professionals must know the programs they are supporting and the financial implications of those programs, and we see 30% of respondents identify "program analysis and evaluation" and 28% identify "financial analysis, forecasting, modeling and statistics."



Since the implementation of GPRA, “planning and performance management” has become an important competency for budget professionals. This may be the choice for only 20% of respondents because the other nine options present other important competencies for budget professionals.

Figure 15:
Challenges to training and professional development

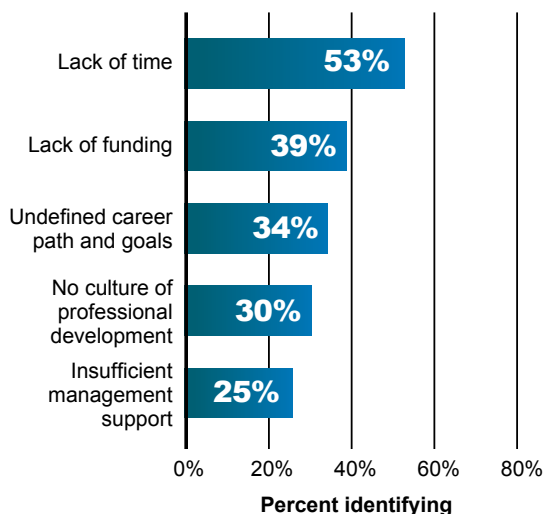


Figure 15 shows the challenges that budgeteers face with training and professional development, based on their top three choices. Budgeting is a year-round activity, so lack of time is always going to be a challenge. When there finally is time, 39% of respondents identify lack of funding as the challenge. This problem is going to continue and get even worse. About one-third of respondents identify undefined career path and goals as the challenge. The recent work by the Budget Formulation and Execution Line of Business (BFELoB) to define a budget career roadmap should address this challenge. Thirty percent of respondents identify a corresponding challenge, the lack of a culture of professional development. Budgeting is a career profession, and without an organizational culture

to support and nurture professional development, budget professionals face a major career challenge. A quarter of respondents find the lack of management support to be another challenge. When there is no culture of professional development in an organization, management can lack the motivation to support professional development.

Figure 16:
Most effective training methods

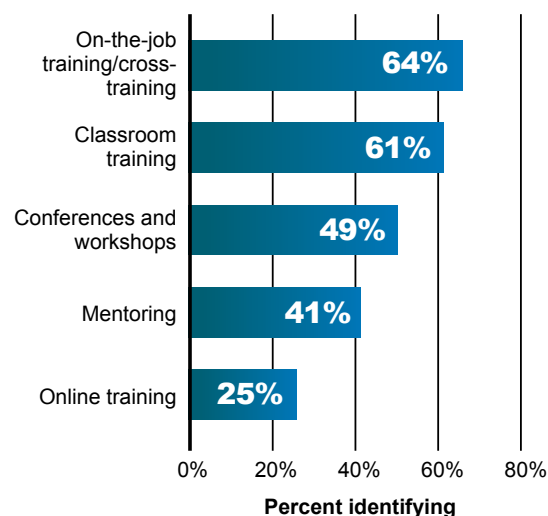


Figure 16 shows the most effective methods for training and professional development, based on the top three choices of respondents. “On-the-job training /cross-training” is the choice of 64% of respondents. This is often the only way for budget professionals to obtain training about agency-specific processes. Classroom training refers to offerings by the Office of Personnel Management and private groups like Graduate School USA, and 61% select this method. These offerings are usually very focused on federal issues and processes. Perhaps because such a large portion of the survey respondents are at a senior level, they often find effective training on detailed budget topics offered by conferences and workshops. Mentoring is usually related more to professional

development than training per se, and 41% identify this method as effective. Online training is the choice of 26%, perhaps because so little budget training is available online.

We asked about satisfaction with professional development and reasons why. About 44% of respondents say they are satisfied and 29% are dissatisfied. Although fewer of the respondents are dissatisfied, we received twice as many comments about dissatisfaction. Those focus on the lack of a defined career path and time or funds for development. Those who were satisfied say that their agency management is interested in professional development.

Job satisfaction

We asked respondents if their positions made good use of their skills and abilities, and 80% say they do. We also asked them why this was, and most of the answers come from the 20% who answered “no.” About half say that management does not care or just does not use them as they could be used. Most of the rest say that they simply do data entry or routine reporting, with no analysis.

Figure 17:
Factors affecting job satisfaction

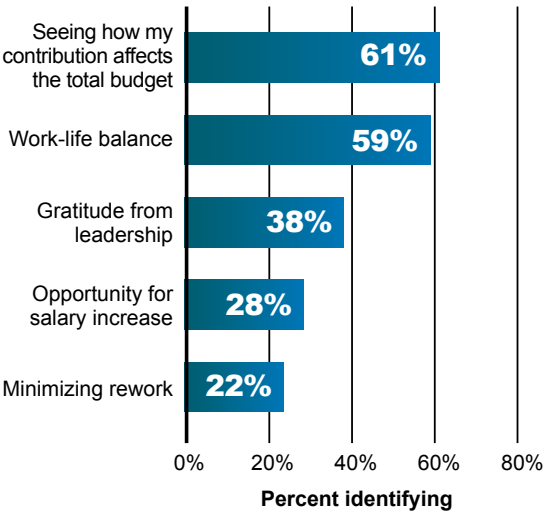
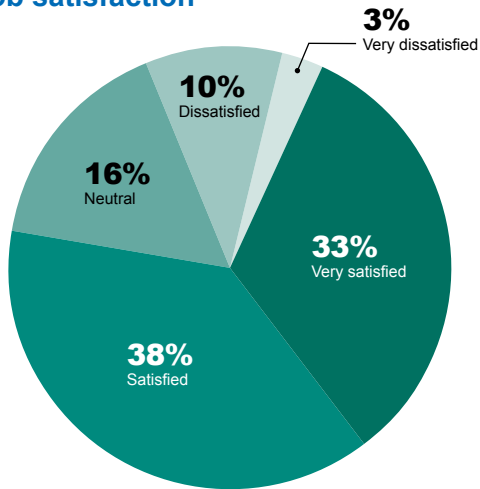


Figure 17 shows the factors affecting job satisfaction, based on the top three choices of the respondents. The only two options that more than 50% of respondents selected are seeing how their contribution affects the total budget and work-life balance. Regardless of the level at which budget professionals work, they want to know that their work contributes to the whole; they want to make a difference. At the same time, they have lives and responsibilities beyond work, and they need a job that recognizes that reality.

Respondents believe that gratitude from agency leadership, both career and professional, is important for job satisfaction. Like everyone else, budget professionals want to advance in salary along with the responsibility, and re-work can be a major problem in budget work that many want to avoid.

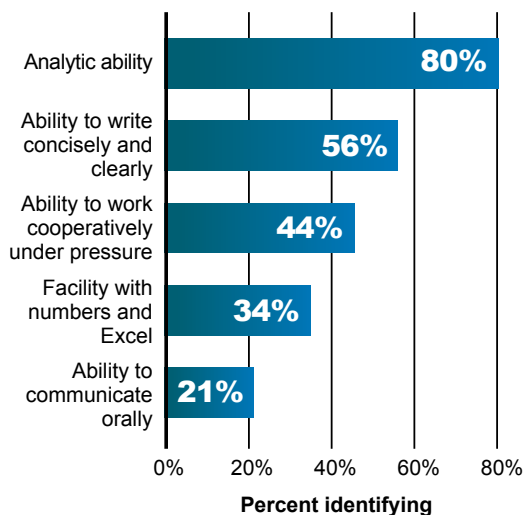
Figure 18:
Job satisfaction



So, wrapping up the questions on job satisfaction, we asked if, all things considered, respondents were satisfied with their jobs as budget professionals. The results are in Figure 18, and they are really interesting. One-third of

respondents are *very satisfied* with their jobs, and only 13% are dissatisfied or very dissatisfied. The job of a budget professional can be very demanding, and throughout this survey we have identified a panoply of problems they face on a regular basis, but survey respondents clearly perceive that the benefits are worth the cost.

Figure 19:
Ideal attributes of new hires



To close the human capital section, Figure 19 shows the ideal attributes of new budget professional hires, the next generation of budgeteers, based on the top three choices of respondents. By a wide margin the number one attribute is analytic ability. Most budget professional positions are analyst positions: budget analysts, program analysts, policy analysts, management analysts. If new hires cannot think critically, budgeting is not their profession. Like analytic ability, the next two choices, ability to write concisely and clearly and the ability to work cooperatively under pressure, are attributes that would be true of many professional jobs, not just budgeting. Next, as identified by

The job of a budget professional can be very demanding, and throughout this survey we have identified a panoply of problems they face on a regular basis, but survey respondents clearly perceive that the benefits are worth the cost.

34% of respondents, is a facility with numbers and Excel. This probably ranks after the first three because many budget jobs are not heavily involved with quantitative data. Most of budget justification, except that tied to cost-benefit analysis, is better supported with critical thinking. With 21% of respondents identifying ability to communicate orally, we are back to those attributes useful for any professional job.

Other thoughts

The last question in this section offered respondents the opportunity to add other comments about human capital issues. As in the other sections, there is a wide range of comments with few common themes. A few respondents discuss the need to refresh budget offices with young people who can bring new ideas and positive attitudes. Other issues mentioned by more than one respondent are that knowing accounting is useful for budgeteers, the federal hiring process does not work well to identify people with the attributes needed in budgeting, and the GS-560 budget analyst job series needs a major revision to reflect what budget professionals actually do today.

Conclusion

You travel down a new road with any first-time survey. We discovered much, but three recurring themes emerge from our survey of federal budget professionals:

- Budget formulation and justification is still Job One. Respondents identify it as their top role and the top competency. Any budget process improvements should focus in this area.
- Effective budgets connect with an agency's strategic plan, but many survey respondents say this does not always happen. Strategic plans need to be recognized as the basis of the agency budget.
- Though the budgeting process can be frustrating, to a great extent federal budget professionals are satisfied with their jobs.

We approached the survey with certain expectations, and the respondents gave us a number of surprises like these:

- Fifty percent have a role in tracking congressional action. We did not think nearly so many were involved.

- Twenty-six percent use Excel alone as their primary budget tool. Perhaps those who say the age of spreadsheets is over are missing something.
- Fifty-seven percent have a master's degree. The budget profession apparently attracts the well-educated.
- When they receive new requirements, 60% consider internal reprogramming before asking for new funding. Conventional wisdom says agencies do not examine their budget base.
- More budgeteers would prefer to reduce many activities rather than to eliminate a few. This seems to ignore the fact that continuing budget cuts are going to require a lower funding base.
- Fifty-six percent found it difficult to comply with OMB guidance to reduce 5% in their FY 2012 budget requests. We thought budgeteers would know where to find a few percentage points to cut.
- Thirty-three percent are very satisfied with their jobs and another 38% are satisfied. The common perception of budget work is that it is long, hard, frustrating and unappreciated.
- Many ideal attributes for new budget hires are very similar to those for any other professional. Typical professional training can prepare people for careers as federal budget professionals.

The survey helps us envision the future for budgeteers: The nation's community of federal budget professionals travels the road forward. They grab some training when and where they can, and they are always on the lookout for new tools. The current round of budget battles will be prolonged and demanding, but budgeteers are educated, experienced and skillful. They have what it takes to help agency leaders with the many difficult budget decisions ahead.



Acknowledgments

We thank everyone who participated in this inaugural survey — the number of respondents was beyond our expectation. We also acknowledge the support and contributions of the sponsoring organizations and the time and expertise of the individuals listed below.

To obtain copies of this report and the survey questionnaires, go to either of the websites listed below.

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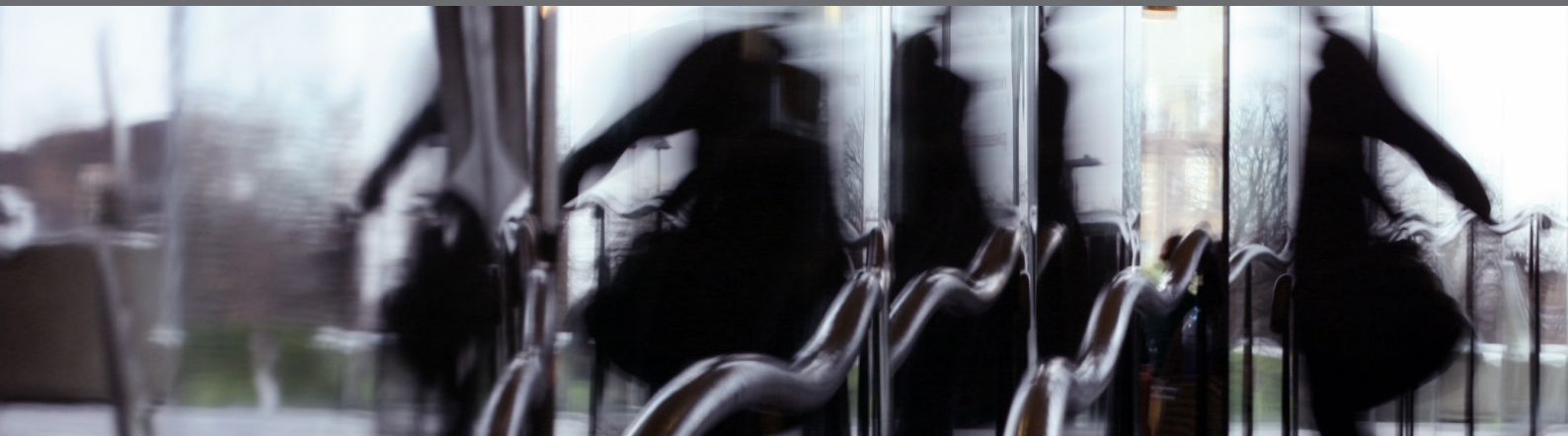
Attachment V: Towards Tranparency

Toward transparency

A comparative study on the challenges
of reporting for governments and public
bodies around the world



Objectives, methodology and scope of the study



Whoever attempts to get an overview of public sector accounting worldwide will find out that there is a lack of reliable data. With little information previously available, Ernst & Young has undertaken a study that has measured the current state of public sector accounting from a global perspective. This new research will enable a better understanding of what governments are doing well, and where there is scope for improvement on the road of harmonization.

The main objectives of the study:

- ▶ Identify trends and developments in public sector accounting
- ▶ Gain an understanding of the awareness and acceptance of the International Public Sector Accounting Standards (IPSAS)
- ▶ Measure the impact of the current financial crisis on government accounting reforms
- ▶ Get deeper insights in the relationships between governmental financial reporting and budgeting, as well as statistical accounting
- ▶ And more generally contribute to the further development of public sector accounting

Our study, mainly focused on central government, covered 33 countries, with a balanced representation both by geography and level of individual country development. The survey was based on a seven-page questionnaire designed by the Ernst & Young Competence Center for Public Sector Accounting led by Thomas Müller-Marqués Berger, in cooperation with the Institute of Public Management, Zurich University of Applied Sciences led by Professor Dr. Andreas Bergmann. The questionnaires were completed during the first half of 2011, based on research by Ernst & Young offices in the respective countries which included meetings with high level financial officials in charge of public accounting for their respective states (either within the Ministry of Finance or the specific agency dealing with this issue).

The following 33 countries took part in the study:

Australia , Austria, Brazil, Canada, Croatia, Egypt, France, Germany, India, Indonesia, Israel, Italy, Japan, Kenya, Lithuania, Mozambique, Nepal, Netherlands, New Zealand, People's Republic of China, Poland, Senegal, South Africa, South Korea, Spain, Sweden, Switzerland, Uganda, Ukraine, United Arab Emirates (Abu Dhabi), United Kingdom, United States of America, Zimbabwe.



Introduction

All over the world, concerns about accountability, transparency and sustainability have moved to the top of the political agenda. Public finance thinkers and policy-makers alike, increasingly believe that the complex financial challenges their countries face have been made more difficult to resolve because of their continued reliance on antiquated, cash-basis accounting systems.

Against this background, the International Federation of Accountants (IFAC) recently recommended that the governments and public sector institutions of the G20 nations* should adopt accrual accounting, arguing that it is more capable of monitoring government debt and liabilities in a way that exposes their true economic implications. Furthermore, the IFAC noted that many sovereign countries provide minimal disclosures relative to what the public, banks, investors, and credit providers expect of the private sector.

The 2010 Ernst & Young study, *Toward transparency – A comparative study of governmental accounting in Europe*, revealed that many European countries have already started the transition from cash to accrual accounting systems. Some countries have even completed their conversion process. Nevertheless, a number of countries still stick to cash accounting.

This survey, conducted in 33 countries, confirms that a similar shift is under way worldwide.

The past few years have shown that the global financial system is more fragile than anyone had ever believed, underlining the need for a variety of reforms. Solutions are not available yet for all problem areas – the issues are too complex and globally interweaved. However, the results of this survey are somehow reassuring, at least in respect of future accounting systems and financial reporting, as there seems to be a collective consensus on accrual as the right way forward. IPSAS could work at least as a reference system – if not as the accounting standards of the future. Moreover, nowadays a formal audit is a norm in the governmental accounting environment. These results should be encouraging not only to governments, but also to non-governmental organizations and to all the organizations and citizens that heavily rely on sovereign fiscal stability.

National financial reporting standards are mostly unique,

Thomas Müller-Marqués Berger
Global Public Accounting Leader

Professor Dr. Andreas Bergmann
Zurich University of Applied Sciences
School of Management & Law

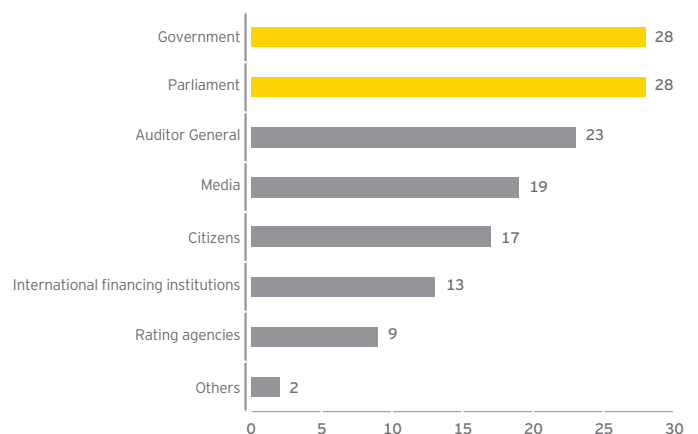
* Fourteen of them took part in our survey



Governments and parliaments are seen as the main users of governmental financial statements

Despite the current debt crisis and international public alarm over the ongoing sovereign financial instability, the government and the parliament are seen as the main users of governmental financial statements. Surprisingly, the media, international financing institutions and especially rating agencies are not seen as key users. This could potentially be viewed as positive news in that it could suggest that the motivation for reform – and consequently the momentum – is being driven by internal needs rather than an attempt to earn rating agency approval. The downside of that message is that the taxpayers and private users are obviously not seen as being recipients of governmental financial reporting. We can assume that further engaging communication could help in changing this trend.

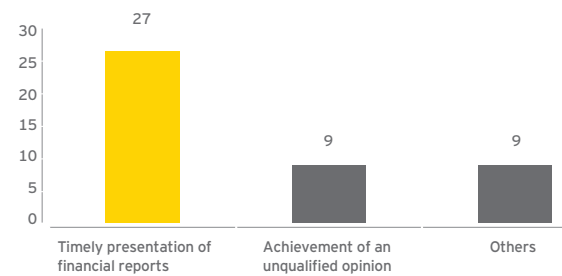
Main users of governmental financial statements



This question was multiple choice; more than one answer was possible.
All participants answered.

The principle focus regarding user needs was also evaluated. A large majority stated that a timely presentation of financial reports is the main focus, whereas the achievement of an unqualified opinion as a main priority is backed less than a third of respondents.

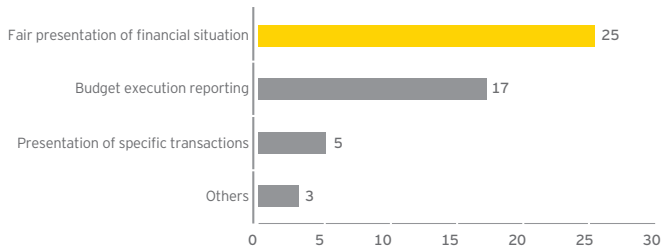
Main focus (principles) regarding the user needs



This question was multiple choice; more than one answer was possible. All participants answered.

A majority of the countries identified fair presentation as the main focus of information presented in financial reports. The fact that countries using cash-basis accounting also gave the answer that they may be seen as contradictory because cash-based accounting is not in line with a fair presentation of a country’s financial situation. Therefore, from a global point of view there is no common understanding of fair presentation. As expected, the survey underlined that the presentation of budget execution in financial reports is also of major importance. However, the fact that not all respondents rated budget execution reporting as a main focus of financial reporting might lead to the assumption that there may be other reports where this kind of information is better presented.

Main focus of the information presented in the financial reports



This question was multiple choice; more than one answer was possible. All participants answered.

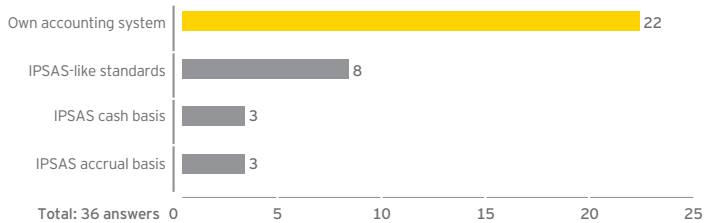


making true financial comparisons between governments all but impossible

Our analysis has revealed that there is generally a country-specific accounting law or act which is relevant for the central government. In addition, in 81.8% of these cases the law requires a specific basis of accounting (either cash or accrual).

The large majority of the countries surveyed each use their own accounting system. This means that most are unable to compare their level of efficiency with other governments.

The standards in use

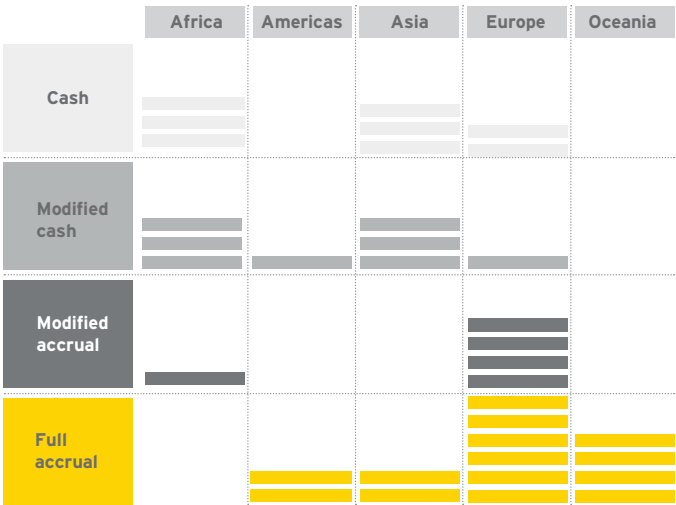


Only one answer was required. However, a few countries answered that they have their own accounting system based on IPSAS-like standards. All participants answered.

Cash basis is still widespread

Cash-basis accounting is still very common, especially in Asia and Africa. However, these regions share the most dynamic development and reform plans as indicated by respondents from that region. Other countries in Europe, Oceania and the Americas have already moved toward accrual accounting.

Region and the current accounting system



All participants answered.

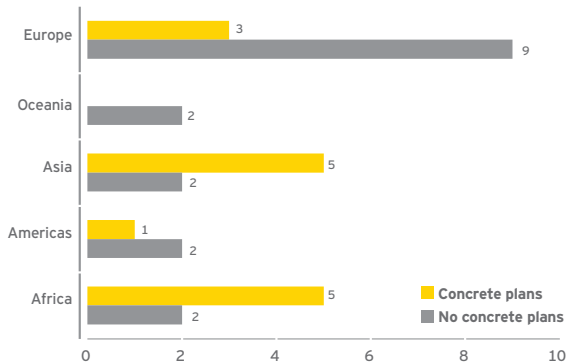


Reforms are on the agenda

Even though the majority of participants state that they use the accrual basis of accounting, most of them have plans to reform their current accounting system. Asian and African countries have particularly firm plans in this respect.

Respondents from countries with a cash or a modified cash accounting system intend to implement a new system within the coming years.

Plans to implement a new accounting system by region

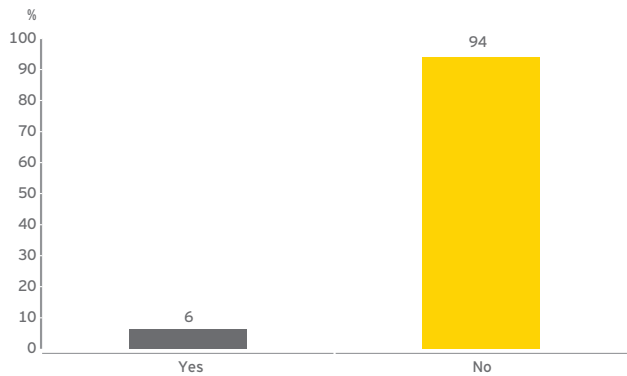


31 participants answered.

Financial reform plans continue despite the financial crisis, not because of it

The global financial and debt crisis has had surprisingly little impact on reform plans, a reflection perhaps that many finance ministries have long understood the advantages of accrual accounting and had conversion on their list of priorities.

Did the global financial crisis alter your reform plans?



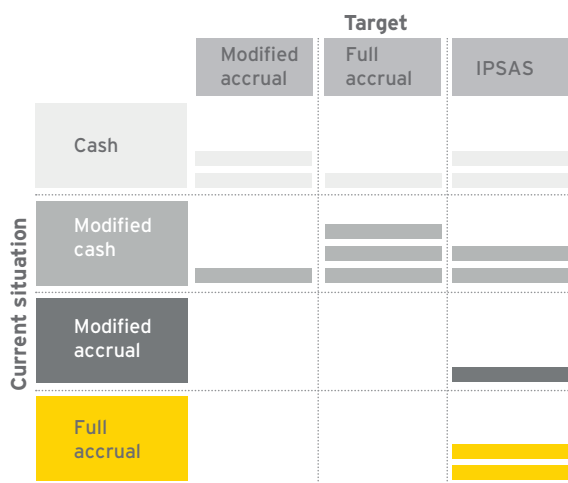
16 participants answered.



Based on the results of the study, countries that use cash-basis accounting generally prefer to move to modified accrual accounting first, with the implementation of accrual-basis IPSAS seen as the final stage of reform.

As a result of the study, a clear trend toward IPSAS or standards that use IPSAS as a reference is observable. Currently, 6 of the 14 countries that intend to reform their public accounting system in the near future are planning to move to IPSAS or at least IPSAS-like standards.

Current accounting system and intended accounting reform



Only shows the 14 participants with firm plans to implement a new accounting system in the near future.

The incentives to adopt accrual accounting were also identified. Generally, the participants recognized the main advantages of accrual accounting as:

- ▶ Facilitates decision-making (28 of 33)
- ▶ Improves asset and cash management (27 of 33)
- ▶ Improves cost awareness and efficiency (26 of 33)
- ▶ Improves external accountability and oversight control (24 of 33)
- ▶ Supports performance management (22 of 33)

The study showed that while all participants agreed that there are no reasons to not adopt accrual accounting, only 26 countries explained what they see as the main obstacles of an adoption:

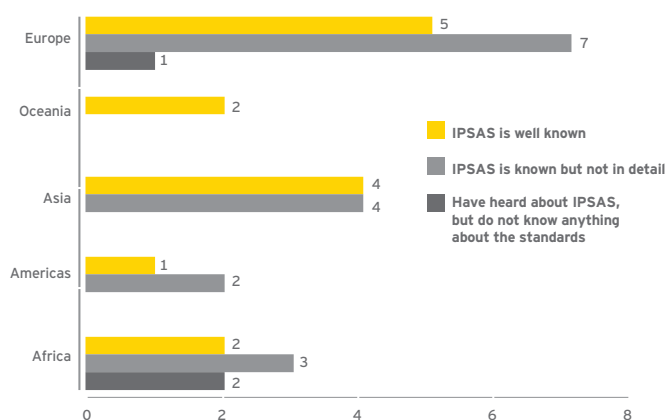
- ▶ Costs of accounting reforms (17 of 26)
- ▶ Cash accounting complements budgetary accounting (13 of 26)



Most government financial administrations know about IPSAS, but only a few have actually implemented the standards

With many countries having set out their intention to modernize public sector accounting, the target reference system for the new accounting rules is of special interest. Most countries have heard of IPSAS, but only three of the participating countries have implemented accrual IPSAS already. As indicated by the respondents, the slow adoption is due to either a lack of funds, a lack of accounting specialists, or a lack of experience with accrual accounting.

Region and awareness of IPSAS



All participants answered.

There is a gap between the awareness and the actual use of the IPSAS. The fact that IPSAS implementations are costly and require detailed knowledge of international accounting techniques seems to be a reason why more countries have so far not made the step toward this reform.

However, despite the challenges of conversion, our respondents nevertheless recognize the strong benefits of the IPSAS system. The top five of which are seen as:

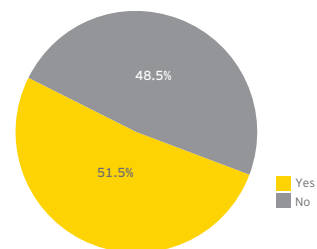
- ▶ National/International comparability of financial information (27 of 33)
- ▶ Enhance accountability (17 of 33)
- ▶ Insufficient information delivered by the current accounting system (14 of 33)
- ▶ To be in accordance with international organizations/other countries (13 of 33)
- ▶ IPSAS address public-specific issues (11 of 33)



Government Financial Statistics (GFS) and budgeting as key elements of the Financial Governance System

The interconnectivity between GFS and the national accounting system is seen by just over half of the respondents, while 48.5% stating that GFS has no influence on their methods of accounting. To enhance comparability between countries, it is necessary that GFS needs to have a bigger impact on the national accounting system. It is also evident that, in the majority of cases (70% of respondents), there is no reconciliation between GFS and the general purpose of financial statements.

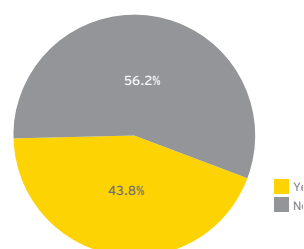
Do the GFS have an influence on the national accounting system?



All participants answered.

Interestingly, 43.8% of respondents answered that the same institutions compile both the GFS and the national accounts. A separation of duties between national statistical offices and Ministries of Finance does not seem to be the common model globally.

Do the same institutions compile the GFS and the national accounting system?

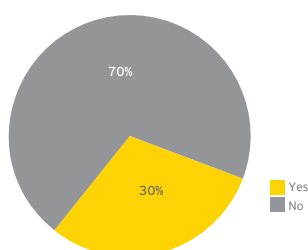


32 participants answered.

The study shows that almost every national government prepares the GFS according to the relevant international guidelines. Depending on the geographical region, either GFSM 2001, ESA 95 or SNA 1993 are used.

Given the importance of the budgeting cycle in the public sector, the government budget is published in nearly all countries. The requirement to compare budgets and actual amounts is also a common standard in all countries surveyed. Regarding the basis of accounting, in about 70% of cases, the budget follows the same accounting basis as financial reporting. On the other hand, in many countries with accounting reforms the budget system is still on a cash basis while financial reporting is based on accruals.

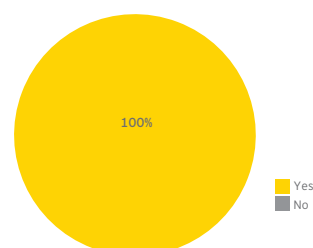
Is there a reconciliation between the GFS and the general purpose financial statements?



30 participants answered.

Against that background, it is more than surprising that all surveyed countries – even those using the accrual basis – claimed that budget and actual amounts are presented on a comparable basis.

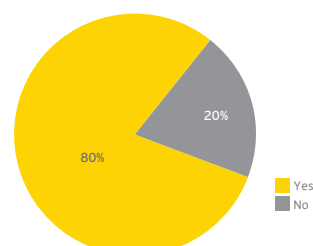
Are budget and actual amounts presented on a comparable basis?



30 participants answered.

This might explain why, only in 30% of the cases, reconciliations between the budget figures and the figures of the financial reports are done which help to overcome the differences between the two accounting regimes.

Are budget execution reports and financial reports comparable?



32 participants answered.

Nevertheless, 80% of the respondents – even those without reconciliation from budget to actual – state that reporting to the public in budget execution reports and financial reports is comparable.



► **IPSAS is present**

- Focused work on specific standards for the public sector and intensive communication is starting to pay off

► **The main principles are known worldwide – but not understood in detail**

- Further dialogue between standard setters and accounting bodies seems to be required

► **Additional momentum could result from Government Financial Statistics (GFS)**

- Reliable and coherent information in GFS and financial reports is more efficient and beneficial for the users of the information



Conclusion

Some concepts – steam, electricity, digitalization – are so clearly superior to what preceded them that the debate on their adoption is less whether to do it than how. Accrual accounting for the public sector appears to be one of those ideas. Our survey suggests that in most countries government financial leaders have either already made the transition to accrual accounting or plan to make it in the near future. Even fiscal executives in countries that have no current plans to make the transition concede that the accrual method is a better way of accounting and financial reporting.

Why have more countries not made the switch? The relevant factors seem to be practicality and cost. In tough times, keeping doing what they've been doing is easier than trying something new. Additionally, half of the respondents stated that the link between cash accounting and budgetary accounting is one of the main hurdles to switching systems, with other reasons being the lack of resources to finance the shift and the limited access to sufficient expertise in managing the transition.

However, the financial crisis does not appear to have shaken anyone's resolve. Almost all the government finance leaders we questioned agreed that the downturn has had no impact on their conversion plans. They remain convinced that accrual accounting will have the same advantages for government stakeholders that it has had for investors in private companies over the past few centuries – namely increased clarity about the government's overall financial condition as well as increased accountability and transparency of government leaders toward the public.

While an accounting method alone cannot guarantee that governments will always make the right decisions, transparent financial conditions and sound information should be key priorities for policy-makers around the world. Together with continued education about government accounting and reporting, they significantly reduce the risk of making uninformed decisions which can add to the burden for future generations.





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This study is based on a joint research project between Ernst & Young and the Institute of Public Management at the Zurich University of Applied Sciences.

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