



Federal Accounting Standards Advisory Board

February 1, 2018

Memorandum

To: Members of the Board

Ross Simms

From: Ross Simms, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: Education Session: Electronic Reporting Demonstration – A Potential Model for the Long-Term – **TAB F**¹

MEMBER ACTIONS REQUESTED:

- By February 16, review the materials regarding a potential model for the long-term and the Matters to Consider and Questions for the Board beginning on page 5.

OBJECTIVES

The objective is to inform the Board on future reporting possibilities, including a demonstration of data visualizations and an example of digitized financial reporting. As the Board considers a potential reporting model for the future, this session demonstrates innovations in presenting data and provides a preview of what lies ahead for financial reporting.

BRIEFING MATERIALS

The briefing material includes this memorandum and the following attachment:

Attachment I: Challenges and Benefits presents a list of potential challenges and benefits of data visualizations and digital reporting and the task force members participating in the discussion.

Speaker bios will be provided in a subsequent distribution.

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.

BACKGROUND

The Board completed the financial report project and issued Statement of Federal Financial Accounting Concepts (SFFAC) 8, *Federal Financial Reporting*. SFFAC 8 discusses the role of financial statements and required supplementary information (RSI) and provides a platform to address current and evolving reporting needs. The concepts also discuss reporting that permits users to drill-down from highly aggregated data to different levels of detail.

During the time when the Board discussed the development of SFFAC 8, members considered ongoing initiatives such as the Digital Accountability and Transparency Act of 2014 (DATA Act), the GPRA Modernization Act of 2010, and electronic reporting, and considered the benefits of summary level reporting for citizens. However, the Board determined that the concepts should be broad and not prescribe specific features and how the reporting model should look.

Upon completion of the concepts, the Board began discussing how to improve the content of financial reports through standards and decided to use a two-phased approach. During phase I, the Board will focus on areas that can be addressed in the near term and, in phase II, consider a model that could be developed over the long term.

The education session contributes to phase II. Staff engaged a task force to help discuss a future reporting model and the discussions focused on the concept of digitized reporting expressed in SFFAC 8 and some of the data currently available to external users. Data visualizations currently available to citizens and illustrative models were considered to facilitate the discussion.

NEXT STEPS

The next steps for the project will be determined during the meeting.

MEMBER FEEDBACK

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

Summary

The federal financial reporting objectives are broad and discuss the information that various users need. However, addressing these objectives in a single, paper-based document can result in an extensive presentation that may appear overwhelming to potential users. A potential user may find it challenging to readily identify key items of information among the various statements, disclosures, schedules, graphs, and narrative discussions. As an alternative, a digital, web-based model could help connect users to the information they need and much more. Users could start with a presentation that displays key items and click on an item to readily access additional details or explanations.

Existing Model

FASAB roundtable participants have expressed concern that the existing reporting model is static. In essence, users may only access the information specified in the general purpose federal financial report (GPFFR) and may not have the flexibility to drill-down to different levels of aggregation or access data fields for their own analysis. In addition, the model is comprehensive, providing a variety of measures for users' consideration. However, users may need to spend time reading pages of material in search of data rather than analyzing data.

FASAB focuses on developing guidance to meet the common information needs of a wide audience of users rather than trying to develop guidance for specific groups of users.² Also, the Board recognizes that component reporting entities have different characteristics and stakeholder expectations and that a variety of aggregations and classifications of information such as costs should be expected.³ In general, Board members were concerned about the implementation challenges associated with alternatives for disaggregation.⁴ Also, the Board has stated that there is no single measure of success in the federal government;⁵ therefore, there is no single figure to summarize from the volumes of data.

However, some analysts believe that less aggregation can satisfy the needs of a broader range of users. Some users may want to analyze government purchases while others may want to analyze the cost of programs or activities such as the cost of issuing grants. They believe that the technology is available to permit "drill-downs" and linking and accessing data to design reports more suitable for their analyses.

² SFFAC 2, par. 73E.c.

³ FASAB Minutes, October 24, 2012, p. 29.

⁴ FASAB Minutes, February 23, 2011, p. 10.

⁵ SFFAC 1, par. 54.

An Illustrative Model for the Future

Task force members from the Department of the Treasury and Deloitte will present data visualizations to demonstrate the capabilities of a web-based, user-focused reporting model. The visualizations allow users to access different levels of aggregation and readily identify trends and matters of importance. Attachment I: Challenges and Benefits presents a list of potential challenges and benefits of data visualizations and digital reporting and the task force members contributing to the discussion.

The task force noted that development of digitized financial reporting could be considered a journey involving various steps to digitized financial statements. Financial reports currently include relevant data that is not subjected to the same audit procedures as financial statements, such as required supplementary information (RSI) and other information (OI). Interactive RSI and OI visualizations could be developed during the early steps along the journey. Consequently, the steps along the journey toward digitized reporting could include the following:

- Interactive Management's Discussion and Analysis (MD&A). MD&A presents data that is also presented in financial statements. An interactive MD&A could include visualizations and help users 'connect' with the financial statements.
- Interactive OI. Reporting entities are currently using some interactivity in their reports, such as presenting hyperlinks and interactive visualizations in OI.
- Interactive Statement. Reporting entities could present an interactive statement of budgetary resources with drill-down to publically available data.
- Additional Interactive Statements. Component reporting entities could present additional interactive statements with hyperlinks to lower levels of detail.
- Interactive Financial Report. A financial report with drill-down capabilities.

Matters to Consider and Questions for the Board

Matters to Consider

1. Generally accepted accounting principles (GAAP) can play a significant role in the evolution of digitized data. For instance, GAAP could help standardize measures and indicators important to internal and external users and the definition of key terms. Also, GAAP could help users better understand the budgetary policies and events impacting historical data (providing context) and improve the internal controls needed for reliable, comparable, and consistent data.
2. The Board has noted that nonfinancial data is important for reporting on operating performance and financial condition,⁶ and the focus on data has facilitated increased integration of financial and nonfinancial data. For instance, citizens are able to access data visualizations showing the integration of budgetary spending data with data on program performance, such as the award recipient, product or services provided, and location. The advances in technology may allow the Board to consider new measures or indicators to inform users on a reporting entity's performance and financial condition.
3. The Board has discussed different approaches for classifying costs, such as strategic goal, budget function, object class, and program and, at times, discussed different levels of granularity. While different users might need information classified in different ways, or different levels of granularity, a reporting entity's financial statements typically focus on one approach with disaggregation in disclosures. As users such as citizen intermediaries gain access to transaction level data fields and create analyses, GAAP could focus on minimum levels of granularity and guidance to help 'users' determine the classification and granularity they may need.
4. In determining whether information should be basic or required supplementary information, the Board may consider the extent of alternative, reliable sources of information.⁷ As the reliability of data improves, the extent of alternative sources for certain information could increase along with opportunities for streamlining.

⁶ SFFAC 1, pars. 179-180.

⁷ SFFAC 2, Table 1: Factors to Consider in Distinguishing Basic Information from RSI.

Questions for the Board

1. What comments do members have with respect to a digitized reporting model (web-based reporting with data visualizations and drill-down capability)?
2. At this stage in the project, what questions should staff consider addressing?

Attachment I: Challenges and Benefits

The following lists some of the potential challenges and benefits of an electronic reporting model.

- Challenge - Data Quality
 - Different data fields are subject to different levels of internal control. For instance, there are concerns regarding the consistency and comparability of primary place of performance and award description data.⁸ The risk of presenting inconsistent and incomparable performance and award data increases with the level of reliance on external parties, such as contractors or awardees, to enter the data. The Data Lab User Guide (“the Guide”) includes caveats regarding the use of the more granular awards data such as recipient street address, city, and state. The Guide suggests using state and country for data on places of performance.
 - The desired level of data quality may depend on the user’s needs. For instance, a state government user may rely on a rough estimate of the amount of funds going toward a particular area in the state.
- Challenge – Auditing Interactive Financial Statements
 - Auditors may be concerned about the risks associated with interactive financial statements.
- Challenge – Misinterpretation
 - Complex data offers increased opportunity for misinterpretation. For example, if all expenditures are presented in detail, how would negative expenses be interpreted? An accountant could logically assume they are refunds of prior year expenses that had closed to equity but a non-accountant could assume they are errors and discount the entire data set.
- Benefits of Visualizations and Interactivity
 - Data visualizations help inform users and have helped initiate conversations about policies and practices. For example, when

⁸ Government Accountability Office, *DATA Act: OMB, Treasury, and Agencies Need to Improve Completeness and Accuracy of Spending Data and Disclose Limitations* GAO-18-138 (Washington, D.C.: Nov 8, 2017).

showing revenues collected from States versus expenditures in States, constituents in a lower expenditure State may demand action.

- Data visualizations increase the rate and depth of the user's comprehension of information residing within the data. Key amounts and proportions can be emphasized and readily discerned.
- An interactive financial presentation can:
 - a. provide clarity on key terms by using educational tools explaining the Federal budget and outlay process;
 - b. provide increased insights by permitting users to drill down on a line item and determine;
 - What do different balances represent, and why are they important?
 - What are the sources of funding?
 - What are the uses of that funding?
 - c. assist users in understanding how the Federal government is spending money;
 - What goods or services are being purchased?
 - Where is money being spent?
 - Who are the vendors and where are they performing work?
 - d. help users understand financial statements and/or financial performance and risk, such as;
 - the articulation among the statements
 - the growing risk of the increasing debt
 - the data supporting the statements.

Task force members contributing to the discussion on challenges and benefits included:

Ann Ebberts, Association of Government Accountants

Tasha Austin, Deloitte

Daniel Shorstein, Deloitte

Douglas Glenn, Department of Interior

Justin Marsico, Department of the Treasury

Daniel Morgan, Department of Transportation

Debbi Strauss, E&Y

Dorrice Roth, Small Business Administration