



February 12, 2016

Memorandum

To: Members of the Board

From: Grace Wu, Project Manager

Through: Wendy M. Payne, Executive Director

Subject: Reconciling Budget and Accrual Project Plan – **Tab I**¹

OBJECTIVE

The objective of this session is to **approve the attached project plan** for the project on Reconciling Budget and Accrual, **so that staff may take action on the next agreed-upon step.**

BRIEFING MATERIAL

The proposed project plan is attached to this transmittal memorandum. In addition, for your ready reference the project description from the *Annual Report and Three-Year Plan on reconciling budget and accrual Information – Alignment between Agency and Government – wide Requirements* is presented below. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

THREE-YEAR PLAN PROJECT DESCRIPTION

SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires information to explain the differences between budgetary and financial accounting information. Currently, a reconciliation of obligations incurred and net cost and is presented as a note.

The detailed provisions are:

80. Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different, causing differences in the basis of accounting. To better understand these differences, reconciliation should explain the relationship between budgetary resources obligated by the entity during the period and the net cost of operations. It should reference the reported “obligations incurred” and related adjustments as defined by OMB Circular A-34. It also should include other financing sources

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 FASAB or its staff. Official positions of FASAB are determined only after extensive due process and deliberations.

not included in “obligations incurred” such as imputed financing, transfers of assets, and donations of assets not included in budget receipts.[Text deleted by SFFAS No.22] The total of these items comprises obligations and nonbudgetary resources.

81. This total should then be adjusted by:

- (a) Resources that do not fund net cost of operations (e.g., changes in undelivered orders, appropriations received to pay for prior period costs, capitalized assets),
- (b) Costs included in net cost of operations that do not require resources (e.g., depreciation and amortization expenses of assets previously capitalized), and
- (c) Financing sources yet to be provided (those becoming available in future periods which will be used to finance costs recognized in determining net cost for the present reporting period).

82. The adjustments should be presented and explained in appropriate detail and in a manner that best clarifies the relationship between the obligations basis used in the budget and the accrual basis used in financial (proprietary) accounting.

A July 2012 AGA research report (Government-wide Financial Reporting) suggested improvements in processes as well as standards. They stated “Our research indicated interest in the Unified Budget Deficit not only on the budgetary basis but also on the accrual basis and, more important, the reasons for the differences between the two perspectives.” The government-wide financial report includes a basic financial statement reconciling the Unified Budget Deficit (deficit) and Net Cost. The deficit is based on receipts and outlays rather than obligations. So, the board may wish to consider whether revising the SFFAS 7, par.80-82, component reporting entity requirements so that each reconciles net cost to amounts contributing² to the government-wide deficit calculation would be:

1. An improvement in the information provided to users, and
2. Supportive of the government-wide reporting process improvements underway.

In contrast to the AGA report, many have suggested that the required reconciliation be eliminated while others recognize its usefulness (both as a control and as information helpful in understanding differences in perspectives).An effort to revise the reconciliation is likely to be controversial.

The board will address the most immediate concern regarding the reconciliation through this project— the potential need to support the government-wide reconciliation by aligning the component level disclosures with the government-wide requirements. This may be accomplished before the related reporting model effort is complete. The reporting model project will address other matters relating to the reconciliation such as meeting users’ needs for understandable information regarding the relationship between budget and accrual information.

During FY 2015, Treasury’s Fiscal Service developed an alternative presentation for component level disclosures. The presentation would reconcile net operating results with outlays. The alternative presentation is being piloted at one agency. Fiscal Service also provided draft changes to relevant standards.

² Note that changes to the component reporting entity reconciliation may not lead to a note that provides 100% of the information needed to prepare the government-wide financial statement. For example, certain receipts deposited directly to the general fund may not be presented within the revised component reporting entity notes.

Staff next steps include:

- Comparing the information provided under current component reporting entity requirements to information in the alternative presentation and determining how each aligns with reporting objectives
- Evaluating the understandability of the alternative component reporting entity presentation including labels
- Seeking preliminary feedback on the alternative presentation

Input regarding user needs in this area and key questions from preparers and auditors would be helpful in planning this project. Your input would be most welcome.

QUESTIONS FOR THE BOARD

- 1) Should the project scope include any other objectives not considered by staff? Should any of the objectives be eliminated or changed?
- 2) Does the Board agree with staff's proposed project execution and required resources? Are there any specific entities not considered by staff that members would advise either meeting with one-on-one or inviting to join the task force?
- 3) Does the Board wish to discuss any other matters not identified by staff?

The objective of this session is to approve this project plan for the project on reconciling component reporting entity budget and accrual, so that staff may take action on the next agreed-upon step.

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff will be able to respond to your request for information and to prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact Grace Wu by telephone at (202) 512-7377 or by e-mail at wug@fasab.gov with a cc to paynew@fasab.gov.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at (202) 512-7377 or by e-mail at wug@fasab.gov with a cc to paynew@fasab.gov.

Attachments:

Project Plan

RECONCILING BUDGET AND ACCRUAL PROJECT PLAN

Why

Why is the Project on Reconciling Budget and Accrual needed?

- The current Statement of Financing Note – while supporting reporting objectives - has been criticized as too complex and not useful.
- The project would enhance the understandability of the note by considering ways to more directly relate budgetary data and accrual data so that a less complex presentation is available.
- The project could improve the usefulness by ensuring the note supports the government-wide accounting (GWA) reconciliation statement. The project is limited to component reporting entity requirements and will not consider changes to the GWA reconciliation statement.

What

What questions/issues does the Reconciling Budget and Accrual Project plan to address?

- What information would a component reporting entity reconciliation aligned with the GWA statement provide? Would such reconciliation be more understandable while meeting reporting objectives?
 - Are there alternative presentations that better meet component reporting entity reporting objectives?
 - What, if any, changes to current FASAB guidance would be needed to adopt any of these changes?
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RECONCILING BUDGET AND ACCRUAL

PROJECT PLAN

Purpose: This project is being undertaken by the Federal Accounting Standards Advisory Board (FASAB) primarily because the Statement of Financing (SOF) note disclosure has been criticized as too complex and not useful. The budgetary integrity reporting objective includes helping the reader understand how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.³ This objective is met at the government-wide level by a financial statement reconciling the difference between consolidated net operating costs on an accrual basis to the unified budget deficit⁴ provides users with both accrual and budgetary perspectives. At the component reporting entity level, there is no direct reconciliation from the audited accrual data to budgetary data (as presented on the statement of budgetary resources). Instead, component reporting entities reconcile the total of obligations and nonbudgetary resources to net cost. The obligation data used in the reconciliation does not link directly to the statement of budgetary resources. Also, the reconciliation of obligation data at the component reporting entity level but outlay data at the GWA level may add unnecessary complexity for the user to understand budgetary reporting. In addition, there is a need to support the GWA reconciliation by restructuring the component reporting entity disclosures to support the GWA financial statement and focusing reporting on lower levels of aggregation to increase informational value and usefulness.

Applicability: This project applies only to component reporting entities that present general purpose financial reports in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The project will not address government-wide reporting requirements.

Objectives: The primary objectives of this project are to:

- 1) research the component reporting entity accrual and budgetary reconciliation to identify ways to improve the understanding of the relationship between the use of budgetary resources and the costs of program operations, including ways to:
 - a) clarify the distinction between obligations and outlays
 - b) provide a direct reconciliation from the net cost to the budget outlay at a component reporting entity level

³ SFFAC 1, Summary: *The four objectives of Federal Financial Reporting*

⁴ The unified budget surplus is the excess of budget receipts over budget outlays during the fiscal year and a deficit is the excess of budget outlays over budget receipts during a fiscal year.

- c) improve the component-level accrual and budget reconciliation so that it supports the GWA reconciliation
- 2) research and recommend alternative component level reconciliation presentations that may include alternatives for disaggregated information, and
- 3) evaluate current FASAB guidance, especially SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* for potential amendments related to component reporting entity requirements.

Assigned staff:

Grace Wu

Other resources:

A task force will be formed from Treasury and other agencies to address these specific topics.

Timeline:

January 2016 – February 2016

- Identify individual task force participants
- Develop a task force plan
- Hold task force meetings
- Request members of the task force feedback on draft reconciliations developed previously
- Based on feedback, assess the ability of the draft reconciliations to support the project goals and improve upon the reconciliations
- Begin research on identified accrual and budget activities and issues

March 2016 – May 2016

- Continue research and work with task force to develop a comprehensive accrual and budget reconciliation format to satisfy objectives
- Pilot the new agreed-upon reconciliation format(s) with the task force agencies
- Present an overview of accrual and budget reconciliation proposals and task force views to the Board

June 2016 - July 2016

- Draft a new reconciliation format based on feedback and agencies' pilot results
- Identify amendments to the note disclosure requirement and standard content within SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial*

Accounting

- Present analysis of identified issues and new reconciliation format for Board consideration

August 2016 – September 2016

- Draft SFFAS 7 amendments
- Present full analysis of issues and recommendations for Board decisions
- Present first SFFAS 7 amendments for Board review

October 2016 – December 2016

- Develop and issue an exposure draft on SFFAS 7 amendments

January 2017 – April 2017

Finalize Guidance including amendments to existing standards

PROPOSED APPROACH

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

Federal Accounting Standards and Concepts

- Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*
- SFFAC 2: *Entity and Display*
- SFFAC 4: *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*
- SFFAC 5: *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*
- SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- SFFAS 22: *Change in Certain Requirements for Reconciling Obligations and Net Cost of Operations, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*
- SFFAS 24: *Selected Standards for the Consolidated Financial Report of the United States Government (PDF)*

Other Guidance

FASAB's *Implementation Guide to Statement of Financing in Statement of Federal Financial Accounting Standards 7, Accounting for Revenue and Other Financing Sources: Detailed Information on the Statement of Financing*. April 2002.

Treasury's Financial Manual (TFM), chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*

Treasury's Guidance on *Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS)*

Treasury's Financial Manual *U.S. Government Standard General Ledger (USSGL)*

Office of Management and Budget (OMB)'s A-136 *Financial Reporting Requirements*

II. Resources

A reconciling budget and accrual task force will include individuals with relevant budget and accrual reconciliation experience, GWA budget experience, or unified budget deficit reconciliation preparation experience or interest. Several federal entities will be asked to participate on the task force, such as the Department of Energy (DoE), Department of Veterans Affairs (VA), Treasury's Bureau of Fiscal Service (Fiscal Service), Office of Management and Budget, the Small Business Administration, Securities and Exchange Commission, and Treasury's Departmental Office. The goal is to organize a task force of less than 20 participants, who will be broken into subgroups to perform research. Task force members will research the new component level reconciliation format based on their experiences and gather feedback on current budget and accrual reconciliation practices throughout the federal agencies. The task force will also evaluate the advantages and disadvantages of the proposed component level

reconciliation format(s) and the current Statement of Financing note, as well as develop or amend federal accounting guidance in related to the changes.

III. Research Steps

- A. Review results of the reporting model outreach on users' needs.
- B. Gather information from federal entities on their budget and accrual reconciliation practices
 - 1) Meet with officials at Treasury and Fiscal Service to discuss their GWA budget and accrual reconciliation concerns and understand what kind of support they are looking for
 - 2) Meet with officials at the Government Accountability Office to understand the material weakness associated with the GWA budget and accrual reconciliation and what kind of support they are looking for from component point of view
 - 3) Meet with agencies to understand their concerns on current budget and accrual reconciliation especially in related to SOF
 - 4) Research Treasury GTAS requirements and their impact on component level accrual and budget reconciliation
 - 5) Gain an understanding of the budget and accrual reconciliation concerns and recommendations of the Association of Government Accountants' (AGA) July 2012 report *Government –wide Financial Reporting*
 - 6) Report the initial research results to the Board
- C. Organize a task force of both federal and non-federal participants
 - 1) Develop a task force plan
 - 2) Identify between 18-20 participants from the federal and non-federal community to serve on a FASAB task force
 - 3) Meet with the task force to help identify and to research component level reconciling accrual and budget activities and issues
 - 4) Work with the task force to develop a new component level reconciliation format that meets multiple objectives, while taking into consideration Treasury's closing package, GTAS, and USSGL requirements
 - 5) Report task force results to the Board
- D. Evaluate the advantages and disadvantages of the new component level reconciliation format and understand its impact on the user, GWA reconciliation and federal agencies. Finalize the new reconciliation format and make recommendations to the Board as to whether to:
 - 1) maintain the existing federal accounting standards, but provide guidance regarding pervasive issues;

- 2) import the new budget and accrual reconciliation format into the federal accounting standards;
- 3) issues identified that will be considered during the evaluation process include:
 - a) Will the accrual data and budgetary data component level reconciliation meet reporting objectives?
 - b) Will the new component level accrual and budget reconciliation support the GWA reconciliation?
 - c) Will the alternative component level reconciliation presentation provide cash flow information on operation, debt, investment, and fixed asset commitment?

E. Identify and modify SFFAS 7 and other guidance based on the updates

- 1) Based on the research results and staff's recommendation, the task force will evaluate current FASAB guidance, especially SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* for potential amendments to the note disclosure requirement and standard content issues previously identified.
- 2) The task force will identify the modified component level reconciliation format's impact towards Treasury's closing package, GTAS and USSL, and OMB A-136 requirements.

F. The task force, based on staff research and recommendations, member input, and analysis of reconciling budget and cost accounting issues, will present the final result to the Board.

POTENTIAL PROJECT MANAGEMENT CONCERNS

- There is foreseeable resistance from agencies regarding the change to the Statement of Financing note disclosure. A new approach represents new costs and investments to be weighed against potential benefits.
- If a new budget and cost reconciliation format is to be used, it will require coordination between FASAB, Treasury, and OMB. Together, these agencies will have to consider updating the GTAS crosswalk, eliminating certain closing package requirements, and updating the OMB A-136 requirement.