



Federal Accounting Standards Advisory Board

March 10, 2006

Memorandum

To: Members of the Board

From: Melissa L. Loughan, Assistant Director

Ross Simms, Assistant Director

Through: Wendy M. Comes, Executive Director

Subj: Conceptual Project--Objectives Phase TAB **A**¹

Staff has completed the roundtable meetings pertaining to the four objectives of federal financial reporting in existing FASAB literature. As part of the first phase of the conceptual framework project, the Board planned to evaluate these objectives to (1) clarify their broad characteristics (by determining if they are still valid and appropriate and whether additional ones are necessary) and (2) define the Board's role in achieving the objectives as the nature of the Board's involvement may vary.

For each roundtable meeting, staff arranged for transcripts and prepared meeting summaries that include the main topics discussed, an analysis of those topics, and recommendations for the Board. As you recall, staff provided the summaries for the Budgetary Integrity and Operating Performance objectives at the January 2006 meeting. Staff has completed the summaries for the Stewardship (**Tab 1**) and Systems and Control (**Tab 2**) objectives and those are included in the March binder materials. Staff has also included a discussion paper on determining the overall approach for moving forward on this project as an attachment to this transmittal. For your reference we included the January 2006 binder materials which included the summaries for the Budgetary Integrity and Operating Performance roundtables as **Tab 3**.

The objective for the March Board meeting is to discuss the staff summaries for the Stewardship and Systems and Control Roundtables and to discuss the overall approach for moving forward on the project, including staff questions in this transmittal. Please feel free to contact us (Melissa at 202-512-5976 or by email at loughanm@fasab.gov and Ross at 202-512-2512 or by email at simmsr@fasab.gov) to discuss any questions you may have.

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.

Discussion Paper

Determining the Overall Approach for Moving Forward on the Objectives Project

As staff has completed the four Roundtables on objectives, staff has encountered some difficulty in determining the best recommendations for some of the specific issues raised at the roundtables because there is still some uncertainty as to the overall approach the Board will take. Specifically, staff recalls that the Board discussed several options that could result from the project—strategic plan, amendment to SFFAC 1, a concepts statement on the objectives of FASAB, and perhaps others. Staff does realize that the Board believed input from the community would be helpful in determining the best course of action. However, staff believes a decision on the overall approach will assist staff in further developing recommendations.

From the Roundtable meetings, staff has learned that participants at all roundtables believe that the objectives, although broad, are still valid today. The participants viewed the SFFAC 1 objectives as a broad statement of federal financial reporting objectives and not limited to objectives to be met by the development of accounting standards. The participant's views are consistent with language in SFFAC 1 that details this fact. Specifically, par. 36 reads as follows:

The FASAB expects that some of these objectives may best be accomplished through means of reporting outside general purpose financial reports. Indeed the FASAB recognizes that information sources other than financial reporting, sources over which the FASAB may have little or no influence, also are important to achieving the goals implied by these objectives.

The participants also expressed that FASAB should not limit itself by eliminating certain objectives in SFFAC 1. Although the participants did offer areas for improvement, there was no indication that any objective should be removed. The participants believed that the federal financial reporting objectives should remain broad and that if FASAB wishes to document its focus, it should be done in a manner that would not limit itself in the future.

Staff views this as one of the most important points that needs to be answered—whether or not the Board is committed to maintaining the broad objectives as presented in SFFAC 1. Staff believes the Board's position on this issue is essential in determining the best approach as well as developing staff recommendations on other issues.

Question: Does the Board believe that the federal financial reporting objectives should remain broad?

Staff believes SFFAC 1 continues to be a valuable statement of federal financial reporting objectives and is appropriate in the context of federal reporting requirements—Performance and Accountability Reports—now required of federal entities. However, staff believes there have been several issues identified in the white paper, roundtable discussions, and Board discussions that do need to be preserved in a formal Board document, such as an amendment to SFFAC 1. If the Board agrees that an Amendment to SFFAC 1 is necessary as well, staff believes that continuing to refine the Draft White

Paper on Objectives² would in essence delay the inevitable and that it would be more efficient for staff to begin drafting specific amendments to SFFAC 1.

Staff does believe that the broad objectives in SFFAC 1 may result in a lack of focus for FASAB and there would be benefit to articulating FASAB's objectives or role in relation to the overall broad objectives. Staff believes that this could be accomplished through several means that are described below--the staff recommended approach, followed by other alternatives.

Staff Recommended Approach

Staff believes FASAB's objectives or priorities could be communicated through a strategic plan that could be updated periodically (versus in a concepts statement.) Staff believes the best approach would be as follows:

1. Amend SFFAC 1 to address the following:
 - a. evolutionary changes that have occurred in the environment;
 - b. explicit language regarding FASAB's evolution and comparative advantages as a GAAP standard-setter, including discussion on topics such as accrual based accounting, Board independence, and audit; (in addition, staff believes FASAB's mission and any references to it should be removed from SFFAC 1 and addressed further in the strategic plan)³
 - c. certain revisions to the objectives based on comments by the roundtable participants and Board members;
 - d. Explicit and additional language describing that FASAB does not accomplish the broad objectives alone and discussion of other requirements and avenues that meet the objectives;
 - e. additional language and elaboration of certain areas in SFFAC 1 to address issues identified by participants; and
 - f. other updates for language within SFFAC 1 deemed necessary by staff.

Note: If the Board approves this approach, staff will develop a more complete listing of the areas to be updated.

2. Develop and publish "strategic objectives" or a "strategic plan" for FASAB that would be publicly available and updated periodically. It would identify the objectives from the amended SFFAC 1 that most influence FASAB's choice of projects for a specific period with a goal of updating the strategic objectives periodically (perhaps every 5 years.) The strategic plan would also provide a discussion of FASAB's mission. The strategic plan would explain reasoning for the priorities selected among the broad objectives, which may include factors such as: the Board believes it is outside of its mission, or that it is not a high priority in the near-term because others are addressing or making progress in the objective or sub-objective, or that

² The Draft White Paper on Objectives was viewed as an "in-process" internal document that would be used to justify whether or not SFFAC 1 would need to be amended. If the Board determined that no major changes to SFFAC 1 were warranted, the white paper would document that fact and be revisited in the future.

³ Much of the information presented in a. and b. have been detailed in the Draft White Paper on Objectives.

certain objectives or sub-objectives are deemed more important in the current environment.

With this approach, staff believes the federal financial reporting objectives would remain broad (NOTE: objectives may be revised based on input from the roundtables). Staff believes this approach is the best alternative for the Board as the amendments to SFFAC 1 would enhance the objectives based on the input from constituents, while also updating SFFAC 1 to discuss changes in the environment, FASAB's comparative advantage and status as a GAAP standard setting body.

Specific discussion of FASAB's priorities would be documented in a strategic plan for FASAB that would be refreshed periodically to reflect the views of the Board regarding the objectives in the context of the current environment and challenges. With this approach, FASAB would not limit itself by eliminating objectives and future Boards would be able to adjust priorities without amending statements.

Other possible approaches for the Board's consideration:

Alternatives 1 and 2 maintain broad federal financial reporting objectives, but define FASAB's priorities by: developing a Concepts Statement on the Objectives of FASAB (Alternative 1) or amending SFFAC 1 by clarifying the Board's role relative to the broad objectives (Alternative 2). Although these alternatives are similar to the staff proposal because the broad objectives are maintained, they differ greatly because the Board would officially, permanently limit itself by defining the Board's role or FASAB's contribution towards meeting the objectives in a Concepts document (versus a strategic plan.)

Alternative 1

Develop a Concepts Statement on the Objectives of FASAB. This alternative would explain the nature of SFFAC 1 and propose a subset of the SFFAC 1 objectives that are FASAB's. This would also allow the Board to permanently limit itself from certain areas (either objectives or sub-objectives) while maintaining the broad objectives overall.

Although this alternative would preserve the Board's views regarding FASAB's objectives, staff believes it would limit future Boards as federal financial reporting continues to evolve which may lead to other priority shifts and a future Board would need to amend the statement. In addition, staff believes this approach would be difficult as there are areas of SFFAC 1 that need to be updated. In addition to the development of the Concepts Statement on the Objectives of FASAB, the Board would have to determine what items need to be amended in SFFAC 1 and then decide which items should go in the new Concepts Statement versus an Amendment to SFFAC 1.

Alternative 2

Amend SFFAC 1 by clarifying the Board's role relative to the broad objectives. This would also allow the Board to permanently limit itself from certain areas (either objectives or sub-objectives) while maintaining the broad objectives overall. This

alternative is similar to the staff proposal, except the Board's role or FASAB's contribution towards meeting the objectives would be included in the amendment to SFFAC 1 versus through strategic planning.

Although this alternative would preserve the Board's views regarding FASAB's objectives, staff believes it would limit future Boards as federal financial reporting continues to evolve which may lead to other priority shifts and a future Board would need to amend the statement.

Alternative 3 (does not maintain broad federal financial reporting objectives)

Amend SFFAC 1 by moving away from "broad" objectives of federal financial reporting (which would possibly eliminate certain objectives or sub-objectives that the Board believes is outside its scope) and instead focus on objectives that are what the Board perceives as the role of federal accounting standards.

Although this alternative would preserve the Board's views regarding FASAB's objectives, staff believes it would limit future Boards as federal financial reporting continues to evolve which may lead to other priority shifts and a future Board would need to amend the statement.

Staff notes one area of concern with the approaches (including the staff recommended approach) that should be considered—What sections of SFFAC 1 would be amended? To ensure consistency, the entire document should be reviewed, but at what level? Meaning, to narrowly focus on chapter 4 (objectives chapter) may introduce confusion about the other areas of SFFAC 1. There are certain areas identified by staff above (in staff recommended approach) that should be updated, but at the same time the Board would not want to present an entire amendment to SFFAC 1 if certain areas are not deliberated, such as qualitative characteristics. A reason for this approach is that some respondents may comment on sections not revised. Once the Board determines the best option on how to proceed, staff will develop possible approaches and scope to address this issue for the Board to consider at the next meeting.

Questions:

Does the Board agree with the staff recommended approach?

Does the Board prefer one of the other alternative options presented?

Does the Board have other alternatives that they would like staff to explore further?

To illustrate that a decision on the overall approach and the Board's position regarding maintaining "broad" federal financial reporting objectives would assist in developing specific staff recommendations, consider the following:

Based on the discussions at the Systems and Control Roundtable, the participants believed that the systems and control objective remains valid in today's environment and agreed with the indirect role of standards in achieving the objective. The participants did not convey a need for changes to the systems and control objective. Instead, they discussed the importance of the objective in federal financial reporting, and they discussed methods that could enhance achievement of the objective. Most of the participants expressed support for FASAB to continue the indirect approach as it related to systems and control. Further, the participants did not identify a need for FASAB to engage in setting standards concerning internal control as some saw this as GAO's role. The participants discussed that Office of Management and Budget (OMB) issued a revised Circular A-123, *Management's Responsibility for Internal Control*. Circular A-123 requires a management assurance statement on the effectiveness of internal control over financial reporting. Rather than issuing a standard, it was expressed that perhaps FASAB could refer to Circular A-123 and state that the Board endorses the notion of management's reporting on controls over financial reporting.

One of the first questions in the staff paper is "Does the Board believe that the federal financial reporting objectives should remain broad?" Staff notes this is essential for developing further recommendations because the answer to that would lead to the following options:

- 1. If no, then staff would propose that this objective be eliminated or revised because of various reasons, such as the Board believes the objectives should be limited to objectives that are perceived as the role of federal accounting standards or those for general-purpose financial reports.*
- 2. If yes, then staff would need to know which option the Board preferred to communicate its role relative to the broad objective:*
 - a. Through a Strategic Plan*
 - b. Through a Concepts Statement on the Objectives of FASAB*
 - c. Through defining the Board's role in an Amendment to SFFAC 1*

As noted above, staff believes the best approach to communicate FASAB's role relative to the broad objectives would be through a strategic plan. For example, when looking at the systems and control objective, the staff summary paper discusses the fact that there has been much focus in this area recently. As discussed in the summary, A-123 is effective this year. Considering that the requirements have yet to be fully implemented and the actual impact is not certain at this time, staff believes that the Board should monitor agencies progress in this area over the next several years and hence would be an area that would rank low in priorities because of this fact. However, the objective should be maintained as there may be reason in the future for the Board to act in this area. Communicating the Board's role through a Concepts Statement on the Objectives of FASAB or through defining the Board's role in an Amendment to SFFAC 1 would result in a permanent limit. Staff does not believe this would be appropriate in the evolving state of things related to systems and controls.

It should be noted that staff does believe there are areas within SFFAC 1 related to the systems and controls objective that could be enhanced (such as revising par. 150 that refers to a management assertion about the effectiveness of controls as an example)

through the Amendment to SFFAC 1 that would occur (see staff recommended approach above that discusses the approach of Amending SFFAC and issuing a strategic plan). However, staff believes the Board's role or priority in the next 3-5 years should be communicated in the strategic plan.

1 **SUMMARY OF THE STEWARDSHIP ROUNDTABLE MEETING¹**
2 **NOVEMBER 29, 2005**
3 **9:00 a.m. – 12 p.m.**

4
5
6 **PARTICIPANTS**

7
8
9 Alison Fraser The Heritage Foundation
10 Woody Jackson Former FASAB Member
11 Robin Landauer U. S. Senate Homeland Security and Government
12 Affairs Subcommittee on Federal Financial
13 Management, Government Information, and
14 International Security
15 Noah Meyerson Congressional Budget Office
16 Sam McCall Association of Government Accountants
17 Pat McNamee PricewaterhouseCoopers LLP
18 Jay McTigue Government Accountability Office
19 Terry Patton Governmental Accounting Standards Board
20 Bill Pugh Department of Treasury, OIG
21 Justine Rodriguez Office of Management and Budget

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23
24 **FASAB**

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26 Wendy Comes Executive Director
27 Melissa Loughan Assistant Director
28 Ross Simms Assistant Director

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32 **PURPOSE OF ROUNDTABLE AND DISCUSSION TOPICS**

33
34 FASAB’s conceptual framework ensures that federal financial accounting standards are
35 based on a sound framework of objectives and concepts. During its initial years of
36 operation, FASAB developed a core set of accounting standards and concepts
37 statements. Now, after 12 years of substantial progress, the Board believes that it is
38 time to revisit the concepts given the changes in the federal financial reporting
39 environment since the first concepts statement was issued.

40
41 The Board relies on Statement of Federal Financial Accounting Concepts 1 (SFFAC 1)
42 – *Objectives of Federal Financial Reporting*, issued September 2, 1993, to support its
43 deliberations on financial reporting issues. The first phase of the conceptual framework
44 project involves reviewing the four objectives of financial reporting as described in

¹ Complete transcripts for the Roundtable Meeting are available upon request.

1 SFFAC 1. The four objectives of financial reporting are Budgetary Integrity, Operating
2 Performance, Stewardship, and Systems and Control. The Board is evaluating these
3 objectives with a focus on (1) clarifying their broad characteristics (by determining if they
4 are still valid and appropriate and whether additional ones are necessary) and (2)
5 defining the Board's role in achieving the objectives as the nature of the Board's
6 involvement may vary.

7
8 This was the third of four roundtable meetings and it focused on the Stewardship
9 objective. The primary purpose of the meeting was to discuss how the objective might
10 be improved to facilitate its use as a means for guiding the Board in developing
11 standards of financial accounting and reporting and in developing solutions to financial
12 accounting and reporting issues. The meeting discussions involved issues such as:

- 13
- 14 • Participants' experience with the Stewardship objective.
- 15 • How changes in the federal environment since 1993 may affect the Board's
- 16 reconsideration of the Stewardship objective.
- 17 • What the scope of FASAB's role should be in meeting the Stewardship
- 18 objective.
- 19 • General matters regarding the objectives of federal financial reporting and
- 20 SFFAC 1.
- 21

22 **Stewardship Objective of Federal Financial Reporting in Existing** 23 **FASAB Literature**

24
25 Federal financial reporting should assist report users in assessing the impact on the
26 country of the government's operations and investments for the period and how, as a
27 result, the government's and the nation's financial condition has changed and may
28 change in the future. Federal financial reporting should provide information that helps
29 the reader to determine whether

- 30
- 31 • the government's financial position improved or deteriorated over the period,
- 32
- 33 • future budgetary resources will likely be sufficient to sustain public services
- 34 and to meet obligations as they come due, and
- 35
- 36 • government operations have contributed to the nation's current and future
- 37 well-being.
- 38

39 **Summary of Issues, Including Staff Analysis and Recommendations**

40
41
42 The participants discussed the importance of the Stewardship objective in federal
43 financial reporting as well as their perceptions about the Stewardship objective and
44 FASAB's role in meeting the objective. The participants remarked that the stewardship
45 objective was intended to be broad and it is currently the focus of discussions in the
46 federal environment. The participants expressed that the stewardship objective is very

1 different as it speaks to the government as a whole and the nation, and therefore is a
2 much broader objective compared to other traditional accounting standards body
3 objectives. Although most participants did believe that FASAB has an advantage in
4 developing a reporting framework that fairly presents the financial condition of the
5 Federal government, the participants noted that much of the information needed to fulfill
6 the stewardship objective is developed outside of FASAB's domain. The participants
7 also discussed methods that could enhance achievement of the stewardship objective
8 through better use of the Management's Discussion and Analysis (MD&A) and
9 explaining that there are actually two tiers of stewardship reporting at the government-
10 wide and agency levels. The participants also provided specific comments on the
11 wording of the sub-objectives. The issues discussed and FASAB's staff analyses are
12 presented as follows.

13 14 **Comments/Perceptions about the Stewardship Objective**

15 16 Comments on the Overall Objective

17
18 The participants remarked that the stewardship objective was intended to be broad and
19 it is currently the focus of discussions in the federal environment. The participants
20 noted that the stewardship objective, which is not so filled out by new laws,
21 nevertheless, is at the center of discussions today about the financial condition of the
22 Federal Government and the sustainability of its services. The participants discussed
23 that the stewardship objective fundamentally demonstrates what differentiates federal
24 financial reporting from corporate or even state and local government. The federal
25 government can affect the economy and can make commitments that do not have to be
26 balanced, but that must take account of their sustainability in the context of the health of
27 the economy.

28
29 The participants expressed that stewardship should be the focus of the consolidated
30 report of the Federal Government, rather than the traditional financial information. The
31 participants discussed that stewardship is perceived to relate to the financial condition
32 of the government as a whole and the sustainability issues. Specifically, participants
33 expressed the objective is about the government as a whole, which is big and does so
34 many things that it affects the sustainability of the nation. The participants discussed
35 that the notion of the government as a whole and the nation is what is so much broader
36 about the stewardship objective than traditional accounting objectives.

37
38 Several participants expressed that stewardship should focus on the long term. Some
39 participants expressed that they believed that the whole notion of stewardship reporting
40 is about promises—"Can the promises be sustained by the government?" or "Can
41 current programs and policies be continued by the government?" A participant noted
42 that people care about whether government programs and investments have
43 meaningful results. The participants expressed that in the context of stewardship
44 reporting, the government is at a point where there needs to be a more focused look
45 with regard to what information should be published to report on these promises.
46 Specifically, the participants believed that stewardship should be trying to measure

1 whether the government maintained its promises and how well the government
2 managed the assets to support making the promises. Certain participants believed this
3 notion could be broadened to report on the effectiveness of the programs in achieving
4 goals.

5
6 The roundtable participants noted that a great deal of progress has been made in the
7 past 15 years and the objective has encouraged people to develop information that did
8 not previously exist. The participants discussed that the community has struggled with
9 this objective, but it is very important.

10 11 12 Comments Regarding the Role of FASAB in meeting the Stewardship Objective

13
14 Although most participants did believe that FASAB has an advantage in developing a
15 reporting framework that fairly presents the financial condition of the Federal
16 government, the participants noted that much of the information needed to fulfill the
17 stewardship objective is developed outside of FASAB's domain. The participants
18 discussed that FASAB could say that this information is important and fits the
19 framework that should be filled out, but the specifics of the information may be left up to
20 others. For this and other objectives, the participants commented that a combination of
21 accounting and other data are essential for a full assessment of whether the objective is
22 met.

23
24 The participants also discussed that the stewardship objective relates to the nation as a
25 whole. The participants explained that when looking at the nation as a whole, wealth
26 includes all sectors, and draws on the National Income and Product Accounts, Flow of
27 Funds Balance Sheets, and data on total investment in education and R&D. The
28 participants discussed that the wealth of the nation is more than the Federal
29 government and the participants believed that developing standards for these measures
30 is not the role of FASAB.

31
32 A participant stated, "I think some of this discussion is interesting, but I think for
33 purposes of what is FASAB's mission and where its standard-setting resources should
34 be targeted, it is kind of out in somebody else's domain." For example, the participants
35 acknowledged that there are consequences associated with raising taxes. However, it
36 was indicated that analyzing this issue, along with issues related to sustainability could
37 get the board into a new role of potentially evaluating certain visions, policy decisions,
38 and directions. The participants noted that many of the issues relative to the
39 stewardship objective are subject to political debate and that is where they should be.
40 The participants noted that this is an important area, but may not be a role for an
41 accounting standards board. However, FASAB may make a contribution by providing
42 reporting concepts that fairly present financial condition and sustainability, accounting
43 standards that have a complementary role in analyzing financial condition, and support
44 for the transparency and validity of data.

1 Staff Analysis and Recommendations:

2
3 SFFAC 1 acknowledges that many information sources other than financial statements
4 help to attain the financial reporting objectives and that FASAB will consider where
5 accounting standards can contribute to attaining them. The roundtable participants
6 generally reiterated that this premise applied to the stewardship objective.
7

8 SFFAC 1, Appendix C: Selected Federal Reports Prepared on a Recurring Basis, lists
9 the Budget of the U.S. Government as one of several reports that contributes to meeting
10 the financial reporting objectives. The Analytical Perspectives section of the Budget of
11 the U. S. Government provides a chapter on Stewardship, which focuses on reviewing
12 the condition of the Federal government. The chapter is intended to meet the interests
13 of economists and others in evaluating past and future trends. It notes that no single
14 statistic encompasses all the factors that affect the financial condition of the Federal
15 government. Instead, the Federal government's fiscal status should be evaluated using
16 a broad range of data and complementary perspectives. Accordingly, the Stewardship
17 chapter consists of the following parts:
18

- 19 • Part I provides a discussion of how to evaluate federal finances and how
20 separate analysis of information link together to facilitate the evaluation.
- 21 • Part II shows the government's physical and financial assets and legal liabilities..
- 22 • Part III provides projections of the Federal budget and how the projections vary
23 depending on key economic and demographic assumptions.
- 24 • Part IV shows information on how the government affects national economic and
25 social conditions. It also presents some economic and social indicators such as
26 median income, civilian unemployment, poverty rate, air quality, violent crime
27 rate, and life expectancy.
28

29 Also, SFFAC 2 discusses that a suitable way to fulfill the stewardship objective would
30 be to display information as required supplemental information.² The MD&A is
31 considered required supplemental information and SFFAC 1 notes that the MD&A is
32 one of the most important sources for conveying information on financial condition.³
33

34 Recommendation: Stewardship remains a significant objective of federal financial
35 reporting. Its significance is evident as it is currently the focus of discussions in the
36 federal environment. The objective's broad nature permits accounting standards setters
37 and others to act and provide guidance.
38

39 Staff has posed the question to the Board in the discussion paper on determining the
40 approach for moving forward on the project--Does the Board believe that the federal
41 financial reporting objectives should remain broad? In conjunction with this question,
42 the Board may also want to consider if the stewardship objective should maintain its
43 even broader focus—including the notion of financial condition of the nation and
44 whether economic information should be included in financial reports to assist users in

² SFFAC 2, paragraph 71.

³ SFFAC 1, paragraph 181.

1 *assessing the government's stewardship. This issue is discussed further below, in the*
2 *issue Understanding and Reporting Financial Condition of the Nation. Considering that*
3 *avenues and ways to meet this objective are continuing to evolve, staff believes that the*
4 *Board should maintain the stated objective while exploring whether economic*
5 *information should be included in the government-wide financial report or other reports.*
6
7
8

9 **Comments about Better Achieving the Stewardship Objective**

10 Address Two Tiers of Stewardship Reporting

11
12
13 The participants raised the notion that there may be two tiers of stewardship reporting.
14 It was noted that when some of the reporting requirements were developed, a
15 government-wide set of statements did not exist. The GMRA of 1994 eventually
16 required audited government-wide financial statements. However, the participants
17 believed that the stewardship objective relates to the financial condition of the
18 government as a whole. For example, most participants believed that the second sub-
19 objective (about future budgetary resources being sufficient) relates to the government
20 broadly versus a specific program being sustainable.
21

22 The participants noted that when discussing stewardship, there appears to be a
23 dichotomy between two broad categories -- operating stewardship versus government-
24 wide or forward-looking long-term projections. In addition, some participants believed
25 that some of the information called stewardship is really part of the Operating
26 Performance objective, such as whether you are maintaining assets. As noted by one
27 participant, if one actually evaluates the objective, it concerns the government as a
28 whole, which is so large and does so many things that it affects the sustainability of the
29 nation. The participants discussed that a macro view is needed for the forward-looking
30 long-term projections because such information could be misleading and may not make
31 sense piecemeal. Another view was that the entity level could show the promises entity
32 programs and policies and the CFR level discuss the budget as a whole and how do
33 you pay for continuing those promises or can you pay for those promises. Accordingly,
34 one set of criteria may be needed for reporting at the government-wide level, which
35 would involve forward looking projections, and perhaps the operating stewardship
36 information at the component level.
37

38 Staff Analysis and Recommendation:

39
40 *As noted by the participants, the stewardship objective focus is the government as a*
41 *whole. This is evident when one reviews the wording of the objective (note words*
42 *underlined by staff):*
43

44 *Federal financial reporting should assist report users in assessing the impact on the*
45 *country of the government's operations and investments for the period and how, as a*
46 *result, the government's and the nation's financial condition has changed and may*

1 *change in the future. Federal financial reporting should provide information that helps the*
2 *reader to determine whether:*

- 3 • *the government's financial position improved or deteriorated over the period,*
- 4 • *future budgetary resources will likely be sufficient to sustain public services and to*
5 *meet obligations as they come due, and*
- 6 • *government operations have contributed to the nation's current and future well-being.*

7
8 *It is interesting to compare this to the wording of one of the other objectives, such as the*
9 *Operating Performance:*

10
11 *Federal financial reporting should assist report users in evaluating the service efforts,*
12 *costs, and accomplishments of the reporting entity; the manner in which these efforts*
13 *and accomplishments have been financed; and the management of the entity's assets*
14 *and liabilities. Federal financial reporting should provide information that helps the*
15 *reader to determine:*

- 16
17 • *the costs of providing specific programs and activities and the composition of, and*
18 *changes in, these costs;*
- 19 • *the efforts and accomplishments associated with federal programs and the changes*
20 *over time and in relation to costs; and*
- 21 • *the efficiency and effectiveness of the government's management of its assets and*
22 *liabilities.*

23
24 *The Board recognized that the focus of the stewardship objective was broader than the*
25 *other objectives as par. 135 of SFFAC 1 states: "This objective is based on the federal*
26 *government's responsibility for the general welfare of the nation in perpetuity. It focuses*
27 *not on the provision of specific services but on the requirement that the government*
28 *report the broad outcomes of its actions..."*

29
30 *In addition, the Basis for Conclusion provided additional reasoning for the broad focus*
31 *and recognition of two levels of stewardship:*

32
33 *234. A few respondents said that the stewardship objective described in the exposure*
34 *draft was too broad. They felt that information on the effects on the nation of policy*
35 *decisions was outside the scope of federal financial reporting. The Board concluded that*
36 *this concern like the preceding one regarding reporting on performance stemmed in part*
37 *from the wording and structure of the first three objectives in the exposure draft.*

38
39 *235. Accordingly, the Board substituted the phrase "provide information that helps . . ."*
40 *for "enable . . ." As noted earlier, federal financial reporting cannot by itself accomplish*
41 *the objectives of evaluating or assuring stewardship; it can only contribute to those*
42 *goals.*

43
44 *236. The Board notes that the federal government has two levels of stewardship. One is*
45 *for its own assets and liabilities and its ongoing ability to operate. The other is its*
46 *constitutional responsibility for the nation's wealth and well-being. It is unique in this*
47 *respect. If the nation's wealth and well-being are deteriorating, the government's*
48 *financial condition is, or soon will be, deteriorating also and vice versa. The financial*
49 *condition of a sovereign national government and that of the nation itself are inextricably*

1 intertwined. Some information about the overall context must be provided, therefore,
2 when reporting on the government as a whole, and perhaps when reporting on selected
3 programs. As explained in chapter 1 the FASAB does not recommend standards for
4 economic reporting, but it may consider whether such information should be included in
5 certain financial reports.
6

7 The BfC above addressed the idea of two levels of stewardship—government and
8 nation. The participants discussed the notion that perhaps there is also a difference
9 between that at the component level versus the government-wide. The participants
10 perceived the component level to be more of an operating level of stewardship.
11

12 Staff noted that the Board did address the issue of objectives for the government-wide
13 and component reports in par. 248 of the BfC as follows:
14

15 Some respondents suggested there should be separate sets of objectives for
16 government-wide and component entity reports. Similarly, it might also be possible to
17 distinguish objectives for reporting by organizational unit components from those for
18 functional or program components. Alternatively, one might imagine separate sets of
19 objectives for reports to different audiences. **The Board concluded that different
20 reports are likely to emphasize different objectives but that there is no need to
21 prepare separate statements of objectives.** The Board will give due consideration to
22 variations in emphasis among the objectives for different types of reports in subsequent
23 statements and projects.
24

25 Staff also notes that SFFAC 2, Entity and Display also touched on this area in par. 56
26 with the following:
27

28 In the Federal Government, there are several types of reporting entities (organizations,
29 sub-organizations, programs, and the government as a whole) and several financial
30 reporting objectives (budgetary integrity, operating performance, stewardship, and
31 systems and control). Each of the reporting objectives can be met to a certain degree by
32 the statements prepared by or for one type of reporting entity and to a greater or lesser
33 degree by the statements prepared by or for the other types of reporting entities. For
34 example, the objective of budgetary integrity can be best met with the program and
35 financing schedules prepared for individual budget accounts. The objective of operating
36 performance can be best met with financial statements from organizations / sub-
37 organizations and programs (although financial statements at this level can also help
38 readers evaluate the reporting entity's budgetary integrity). **The objective of
39 stewardship can be best met with a financial statement for the entire government.
40 Meeting the financial reporting objectives in their totality requires financial
41 statements from all of the types of reporting entities.**
42

43 Recommendation: As noted by the participants, the stewardship objective is very broad
44 and much broader when compared to the other objectives as it speaks to the
45 government as a whole and the nation. Staff has posed the question to the Board in the
46 discussion paper on determining the approach for moving forward on the project--Does
47 the Board believe that the federal financial reporting objectives should remain broad?
48 In conjunction with this question, the Board may also want to consider if the stewardship
49 objective should maintain its even broader focus—including the notion of financial

1 *condition of the nation and whether economic information should be included in financial*
2 *reports to assist users in assessing the government's stewardship. This issue is*
3 *discussed further below, in the issue Understanding and Reporting Financial Condition*
4 *of the Nation. Staff believes that as part of strategic planning, the Board could explore*
5 *the matter of whether economic information should be included in the government-wide*
6 *financial report or other reports.*

9 Understanding and Reporting Financial Condition of the Nation

11 The participants discussed that the stewardship objective is very different as it speaks
12 to the government as a whole and the nation, and therefore is a much broader objective
13 compared to other traditional accounting standards body objectives. However, the
14 participants discussed it is the information about the government and nation as a whole
15 that citizens care about. The participants discussed that citizens are most interested in
16 issues such as national debt and forecasts. A participant noted that the national debate
17 is on macro issues, with regard to the overall condition or health long term with regard
18 to the country. The participants discussed that one could be misled by simply reviewing
19 the government and not the nation. For example, the government could appear better
20 off while oil prices for the nation are going through the ceiling.

22 The participants discussed that the stewardship objective relates to the nation as a
23 whole. The participants discussed that it would actually involve everything under
24 FASAB, FASB, and GASB. The participants explained that when looking at the nation
25 as a whole, wealth includes all sectors, and draws on the National Income and Product
26 Accounts, Flow of Funds Balance Sheets, and data on total investment in education and
27 R&D. To describe the wealth of the nation requires economic statistics for which the
28 System of National Accounts sets evolving standards. The participants discussed that
29 the wealth of the nation is more than the Federal government and the participants
30 believed that developing standards for national wealth is not a role of FASAB.

32 The participants discussed that financial statements historically are of a going concern
33 nature, but citizens are concerned with whether the government will be able to fulfill
34 promises or maintain services and how effective they have been up to this point.
35 Stewardship could be the focus of the report of the Federal Government, rather than the
36 traditional financial information. The participants discussed the importance of
37 information on social insurance and other programs and commitments over the long
38 term. The participants discussed that long-term simulations help present the federal
39 government's budget including social insurance programs, social security, Medicare,
40 and others, and the nation's financial condition.

- 42 • Projections

44 The participants discussed that given that the objective concerns how the government's
45 and the nation's financial condition could change in the future, the participants
46 acknowledged that this would involve projections. The participants discussed that there

1 are uncertainties associated with forecasts. However, the participants noted that there
2 are techniques for forecasting and, as long as the technique and the assumptions are
3 explained, a variety of information can be analyzed such as what is the effect of
4 demographic changes, an increase in immigration, greater longevity, or greater inflation
5 or productivity. The fact that there may be many different assumptions is not
6 necessarily harmful, especially if there is explanation. The participants discussed that
7 different assumptions can lead to the same result and provide needed information to
8 citizens. Also, the participants discussed that although simulations can be very
9 technical, presentation aids such as charts can help make complex information user
10 friendly.

11
12

13 • Key National Indicators

14

15 The participants discussed the need for economic indicators and it was noted that there
16 appears to be a tremendous amount of interest in indicators. The participants
17 discussed that the government has continued working on developing appropriate
18 indicators and the information will get better with time. However, some participants
19 were concerned because inputs are important but there may not be a cause and effect
20 relationship. The participants discussed that indicators are not necessarily driven by
21 increased spending, and an outlay is not necessarily an investment. The participants
22 suggested that SFFAC 1 could explain what is meant by “investment.”

23

24 Also, some participants believed that if FASAB started to enter the area of indicators,
25 the Board would risk jeopardizing its mission by taking on or weighing in on things that
26 are diverse, strongly held political views as opposed to measuring economic events or
27 future economic events, disclosing assumptions for them, and reporting the information.
28 However, participants recognized that many indicators are being developed by the
29 National Academy of Sciences Key National Indicators project and by statistical
30 agencies. Moreover, performance indicators for agency strategic goals are developed
31 under the Government Performance and Results Act (GPRA) and for the specific
32 programs that advance these goals under the Performance Assessment Rating Tool
33 (PART). These GPRA and PART performance measures provide an increasingly
34 systematic framework of performance goals for government activities with which cost
35 may be matched.

36

37 • Discussing Intergenerational Responsibility

38

39 Participants discussed the term “equity.” They noted that although equity is a good
40 term, users tend to think in terms of comparing the current period with the previous
41 period. However, the government has a responsibility to future generations, an
42 intergenerational responsibility. The participants discussed that stewardship is a term
43 with long-term implications and this should include addressing intergenerational
44 responsibilities.

45

46 • Other Reporting Vehicles

1
2 A participant noted that perhaps there is a way of combining what is reported in the
3 financial statements with what is reported in the stewardship report. The participants
4 believed this would satisfy a need for a more comprehensive view of the financial
5 condition of the nation. Some participants believed that an approach other than
6 traditional financial statements should be considered. Some participants expressed that
7 perhaps there should be some measures outside of financial reporting, traditional
8 financial reporting, or measures that are typically presented in a balance sheet or an
9 income statement. Others noted that the financial statements document the current
10 financial position which is useful in itself, and which is complemented by a broad
11 assessment of the sustainability of services under different conditions.

12
13 Some participants discussed the possibility that some of the information such as
14 projections, and national indicators may be best placed in a special report or popular
15 report because there is much interest in this type of information although it may not be
16 considered traditional financial information because it relies on projections on what the
17 government may do in the future. The participants discussed that a special report could
18 also address federal investments and whether or not the promise to the taxpayer (or
19 program) and investments had meaningful results.

20
21 The participants discussed whether FASAB should set some standards for this type of
22 report for the Federal Government. The participants believed that if FASAB pursued
23 this, it would include requirements that tell preparers this is the type of report you should
24 do and these are the types of projections you should make and that you should explain
25 the projections and how you made those projections. Also, a participant noted that
26 there may be a need for guidelines with regard to what should be measured and what
27 that measurement is intended to represent. In that way, management could begin the
28 process of trying to accumulate information necessary to be able to provide reasonably
29 reliable measures.

30
31 In addition, some participants thought that the FASAB could evaluate the reporting
32 framework, particularly for the government-wide statement. The FASAB could specify
33 that they do not require certain information because it is management's responsibility to
34 choose goals and performance measures or because they do not prefer to get into the
35 business of forecasting. However, the Board could express that there should be a
36 forecast, for example, of the entire budget under a wide variety of assumptions.

37
38 It was noted that the GASB is also reviewing economic condition reporting. As
39 discussed in its statement number 44, the GASB believed that the government's
40 economic condition is a composite of its financial health and its ability and willingness to
41 meet its financial obligation and its commitments to provide services. The government's
42 economic condition comprises financial position, fiscal capacity, and service capacity.
43 The GASB is reassessing this view and determining whether they want to go beyond
44 what is currently being reported in the statistical section of reports or is an additional
45 report warranted. In its concept statement number 3, the GASB noted that they have
46 potentially different types of general purpose external financial reports. One, the

1 traditional report that has the basic financial statements and a MD&A and the statistical
2 section, but there could be other reports, such as a service efforts and accomplishments
3 report or an economic condition report.
4

5
6 Staff Analysis and Recommendation
7

8 *The participants noted that the stewardship objective concerns not only the financial*
9 *condition of the government, but that of the nation. The objective states that financial*
10 *reporting should assist users in assessing how the government’s operations and*
11 *investments have impacted the country and how the nation’s financial condition has*
12 *changed and may change in the future. Also, financial reporting should assist users in*
13 *determining whether government operations have contributed to the nation’s well-being.*
14 *The basis for the overall objective is that the federal government is responsible for the*
15 *welfare of the nation and the government must report the broad outcomes of its*
16 *actions.*⁴
17

18 *Regarding the approach for achieving the stewardship objective, SFFAC 1 clarifies the*
19 *role of FASAB and financial statements. The concept statement discusses that different*
20 *individuals will probably talk about different things when asked to describe federal*
21 *financial reporting. An economist, for example, is likely to refer to reports about the*
22 *national society*⁵ *as a whole,*⁶ *and important sources of information would be the*
23 *national income and product accounts (NIPA) that measure the nation’s aggregate*
24 *expenditures on currently produced output.*⁷
25

26 *To address the needs of various individuals, such as an economist, SFFAC 1 notes that*
27 *it is necessary to combine financial and nonfinancial information. Combining*
28 *information about the government with information about the nation is necessary to*
29 *assess past or planned government actions. However, SFFAC 1 explicitly states that*
30 *the concepts statement does not directly concern accounts of the economic activity of*
31 *the national society. Instead, SFFAC 1 focuses on,*
32

33 *the accounting systems and financial reports that deal with the budgetary*
34 *integrity, operating performance, and stewardship of the government as such;*
35 *that is, of the government as a legal and organizational entity within the national*
36 *society. However, to report on some aspects of the government’s performance*

⁴ SFFAC 1, paragraph 135, states, “This objective is based on the federal government’s responsibility for the general welfare of the nation in perpetuity. It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions.”

⁵ SFFAC 1 appears to use the terms nation and national society interchangeably.

⁶ SFFAC 1, paragraph 39.

⁷ The NIPAs present the economic transactions that occur in an accounting period using a set of accounts that aggregate the accounts belonging to the individual transactors in the economy—workers, businesses, and consumers, among others—whether or not formal accounting statements explicitly exist.

1 *and stewardship, economic and other information about the national society is*
2 *essential.*⁸

3
4 *Consequently, the “FASAB may consider whether such economic information should be*
5 *included in certain financial reports, such as general purpose financial reports for the*
6 *U.S. government as a whole,”⁹ and “federal financial reporting cannot by itself*
7 *accomplish the objectives of evaluating or assuring stewardship; it can only contribute*
8 *to those goals.”¹⁰*

9
10 *When reporting on the government as a whole, the financial condition of the nation*
11 *provides some context. For example, economic reports concerning the nation as a*
12 *whole can provide information to help assess the government’s stewardship.¹¹ SFFAC 1*
13 *discusses the types of information in reports that could help achieve the stewardship*
14 *objective. Reports could include information on:*

- 15
- 16 • *The contribution that the government is making to national wealth by*
17 *financing assets that are not federally owned, such as research and*
18 *development, education and training, and state-owned infrastructure.*
- 19
- 20 • *Trends in total national wealth and income.*
- 21

22 *Also, SFFAC 1 noted that reports such as the Budget of the United States Government,*
23 *Economic and Budget Outlook Report (CBO) and Economic, and Budget Outlook*
24 *Report Update (CBO) provide information to assess the government’s operating*
25 *performance and stewardship. For instance, the Stewardship chapter of Analytical*
26 *Perspectives, Budget of the United States Government, provides information on how*
27 *the government affects national economic and social conditions. It provides data to*
28 *indicate the scope of the government’s future responsibilities and the resources it will*
29 *have available to discharge them under current law and policy, and it presents some*
30 *economic and social indicators such as median income, civilian unemployment, poverty*
31 *rate, air quality, violent crime rate, and life expectancy.*

32
33 *In addition, the participants noted that there is substantial interest in information on the*
34 *wealth of the nation. It should be noted that there is a long history of considering the*
35 *need for a national comprehensive key indicator system in the United States. Although*
36 *a comprehensive key indicator system does not presently exist for the United States as*
37 *a whole, the federal government has invested billions of dollars in topical information*
38 *that could support a national system.¹² Also, the subject of national indicators has been*
39 *a topic of a recent major forum.¹³ However, consistent with the role expressed in*

⁸ SFFAC 1, paragraph 42.

⁹ SFFAC 1, paragraph 42.

¹⁰ SFFAC 1, paragraph 235.

¹¹ SFFAC 1, paragraph 266.

¹² See Informing Our Nation - Improving How to Understand and Assess the USA's Position and Progress, p. 6, GAO-05-01.

¹³ Key National Indicators: Assessing the Nation's Position and Progress, May 2003, GAO-03-672SP.

1 SFFAC 1, the participants did not note a strong need for FASAB to enter this particular
2 area.

3
4 Recommendation: Although the stewardship objective includes the broad notion of the
5 financial condition of the government as a whole, it also includes the broader notion of
6 the financial condition of the nation. SFFAC 1 acknowledges that the financial condition
7 of the nation is a broader area than the financial condition of the government. However,
8 the statement explains the role of FASAB and financial reporting in relation to this
9 broader notion. In particular, the Board could consider whether economic information
10 should be included in financial reports to assist users in assessing the government's
11 stewardship. Staff believes that as part of strategic planning, the Board could explore
12 the matter of whether economic information should be included in the government-wide
13 financial report or other reports.

14 15 16 Specific Comments on the Sub-objectives

17
18 Generally, the participants noted that the sub-objectives appear to be worded in a
19 manner that would require a "yes" or "no" response. It was noted that although the
20 government is never expected to default on its obligations and not be able to borrow
21 funds in the future, the government could borrow too much and impact the nation's
22 economy. Consequently, the participants believed that the objective could be worded to
23 require more of a measure of a level rather than in the form of a yes/no question. Also,
24 the participants believed that the Concepts Statement should include more narrative
25 about why the information is needed and why it is important as this would be much
26 more helpful than having specific examples listed in the concepts. For instance, the
27 discussion could explain why users would want to know about the government's
28 sustainability and what might be presented regarding sustainability.

29 30 • Second Sub-Objective

31
32 The participants noted some concern with the second sub-objective (Federal financial
33 reporting should provide information that helps the reader to determine whether future
34 budgetary resources will likely be sufficient to sustain public services and to meet
35 obligations as they come due.) Certain participants expressed that the wording needs
36 to be clarified to explain whether "sustain public services" means at a current level or
37 future level.

38
39 The participants also explained that par. 140 of SFFAC 1 further details the sub-
40 objective by explaining "Users of financial reports also want help in assessing the
41 likelihood that the government will continue to provide the current level of benefits and
42 services to..." The participants acknowledged that there is an interest in this type of
43 information, but it is very difficult to determine as many policy implications are involved.

44
45 The participants also explained that some of the examples (such as deferred
46 maintenance) in par. 141 of SFFAC 1 that relates to sub-objective 2 don't fit that well.

1 The participants suggested the Concepts Statement should include more language
2 about the purpose of the information and why sustainability is important (versus listing
3 examples).

4
5 • Third Sub-Objective
6

7 Regarding the third sub-objective (Federal financial reporting should provide information
8 that helps the reader to determine whether government operations have contributed to
9 the nation's current and future well-being), the participants discussed the type of
10 information such as key national indicators and economic indicators that would relate to
11 this sub-objective. The participants expressed concern that there may not be a direct
12 cause and effect relationship between the government operations and the nation's well-
13 being or, if there is, it would be difficult to measure how the government is contributing.
14 The participants explained that it is extremely difficult to determine how government
15 operations contribute to the nation's current and future well-being because there are
16 causal implications and causation is not easy to establish. Several participants
17 suggested that the sub-objective should be re-worded to remove the cause and effect
18 notion and instead better explain the environment in which the government is operating
19 and how that affects how the government should operate in the present and in the
20 future. However, others noted that the effect of government on well-being is of great
21 interest to citizens; efforts to analyze causation would be appreciated, provided they
22 were clear and did not exceed the evidence.
23

24 The participants noted an example--SFFAC 1, paragraph 144, discusses that reports
25 intended to help meet the stewardship objective might address users' needs for
26 information about investments in military readiness. The participants discussed that this
27 statement raises the question of how should military readiness be measured. They
28 explained that simply possessing state-of- the-art assets and the absence of condition
29 problems or deferred maintenance issues may not be sufficient to address the next
30 threat. The participants discussed a possible solution would be to explain economic
31 condition or reword the sub-objective to state the economic condition of the government
32 or the financial condition of the government.
33

34 Additionally, the participants discussed that the five bullets listed in SFFAC 1, paragraph
35 144 may not capture all the information that should be considered. The participants
36 explained that users may want to know, for example, what percentage or what amount
37 does the government receive from different revenue sources, such as income taxes or
38 corporate taxes? Also, financial trends information, revenue capacity information, debt
39 capacity information, demographic and economic information and operating information
40 would be helpful. In addition, the participants believed that the last two bullets
41 concerning opportunities for growth stimulating activities and likely future inflation are
42 too far "outfield" to address and beyond the scope of FASAB. The participants
43 reiterated that rather than having examples, a statement of why the information is
44 needed may be helpful and better suited for the Concepts Statement.
45

1 In addition, the participants noted that the third sub-objective uses the term “government
2 operations.” The participants believed that “government operations” may be too narrow
3 and perhaps should state “government policy and operations” because the operations
4 are the current period and the policy is the long term implications of what Congress has
5 enacted and the President has signed. As an alternative, the participants suggested
6 that operations could be broadly defined and foot-noted to refer to policy actions,
7 budgetary actions and actual physical operations.
8

9 *Staff Analysis and Recommendation: Staff notes that the participants offered several
10 suggestions on improving the wording of the Stewardship objective. Staff believes that
11 the specific recommendation for these suggestions, are contingent upon the Board’s
12 decision to maintain the broad objectives. If the Board agrees with the staff
13 recommended approach (to maintain the broad objectives and amend SFFAC 1 for
14 certain items), staff believes the comments should be considered when developing the
15 amendments to SFFAC 1. Staff believes if this is the selected approach, a complete
16 “scrub” of the wording for each objective and sub-objective would be appropriate with
17 the amendment to SFFAC 1 to consider (and incorporate when appropriate) comments
18 received, while maintaining the broad objectives.
19
20*

21 Enhancing Explanations throughout SFFAC 1 and Other Areas 22

23 The participants expressed that SFFAC 1 could also be enhanced by discussing some
24 of the knowledge that has been gained in the past 12 years. This could be done for all
25 the sections of Concepts 1. The participants also discussed that Concepts 1 could be
26 updated to emphasize that it is not just the financial statements that enable the
27 objectives to be met. The participants agreed that it may not be clear that the objectives
28 can be met by means other than audited financial statements and, particularly, audited
29 financial statements for which the board has written standards. The participants also
30 discussed the following enhancements:
31

- 32 • Better Use of Management’s Discussion and Analysis
33

34 A participant expressed that currently, it appears that financial reporting has been
35 successful at accumulating gross data in different areas, but has not been very
36 successful in tying it together, analyzing it, and getting a user some sense of what all
37 this information is telling us and what is its impact on the future. Accordingly, certain
38 participants believed the thrust of better achieving the stewardship objective could be to
39 better analyze existing information rather than prescribing more information.
40

41 Some participants believed that perhaps the MD&A could be better utilized for
42 communicating such information. Participants noted that in the performance and
43 accountability report, information is reported in various sections - performance
44 information in one section, financial statement in another section, systems and controls
45 in another place, and stewardship information in yet another place. Also, a participant
46 remarked that most of the accounting pronouncements have prescribed what

1 information needs to be reported or accumulated in those different categories.
2 However, a description of how the information interrelates appears to be missing. The
3 MD&A offers a place in the performance and accountability report to describe the
4 interrelationship of all the information presented.

5
6 A participant believed that FASAB introduced the MD&A concept and, appropriately,
7 was not too prescriptive. Although this approach permitted flexibility, information has
8 developed and matured in other areas such as stewardship information. The MD&A
9 could “pull together” financial, performance, stewardship, and cost information, and
10 should require answering questions such as:

- 11
- 12 • What is all this information telling us?
- 13 • What are the implications?
- 14 • What are the implications not only for what we have done for the last year, but
- 15 also what are the implications on some longer term basis?
- 16

17 Most of the participants agreed that analyzing information can provide more clarity and
18 usefulness to the performance and accountability report. The participants discussed
19 that most people have a limited amount of time and want a means to figure out as best
20 as they can what has been going on. The MD&A would be an ideal place to provide
21 that type of information. However, most participants agreed that the MD&As in most
22 PARs are lacking clarity and usefulness. Most participants believed that the MD&A has
23 become more of a compliance exercise and not a communication tool. The participants
24 believed that FASAB could take a proactive role to do some things by assertively
25 requiring that this information be tied together, which would ultimately provide more
26 usefulness and clarity to the PARs. The participants believed that this has been an
27 evolutionary process and the community is now at a crossroads to make the information
28 come alive to be more meaningful and useful.

29
30 The participants discussed that the MD&A is the voice of management and that it
31 provides an opportunity to talk about things in a broad context. One participant noted
32 one concern was that the MD&A typically includes the information that management can
33 control or be held accountable. The participant believed that perhaps the MD&A should
34 flow to the financial statements because those are management responsibilities and
35 there is a reasonable expectation that management could influence a given program.
36 However, the participants discussed when considering the MD&A for the government-
37 wide financial report, there are other considerations. For example, there are complex
38 issues of how the nation’s condition is today and is perceived to be heading.
39 Additionally, the participants discussed that when considering the wealth of the nation
40 as a whole, is there the relationship between management control and the financial
41 statements as that in a typical MD&A presentation?

42
43 The participants explained that in the case of stewardship information, there is a need
44 for clear guidance on the expectations at the component level and government-wide
45 level as there does appear to be two tiers of stewardship reporting. The participants
46 agreed that perhaps FASAB could provide more guidance on the content of the MD&A

1 specifically for the government-wide financial statement. The participants agreed that
2 FASAB guidance should not be overly prescriptive, but present general standards with
3 regard to the information that should be addressed. The participants acknowledged that
4 FASAB may not be in a position to say exactly how much or what specific information to
5 be included as this is a statement for management, but there is a need for FASAB to
6 more strongly suggest the content of information that should be included in the MD&A at
7 the government-wide level versus the component level.

8
9 • Determining User Needs and Decision Usefulness

10
11 The participants noted that a differentiator between FASAB objectives and other board's
12 objectives is meeting internal and external needs. The participants believed the notion
13 of internal needs versus external needs could be further developed in the concepts by
14 expanding more fully and explaining how one differentiates the two. One participant
15 noted that “it is kind of two sides of a coin—differentiate but ultimately integrate the
16 internal and external reporting.”

17
18 One participant noted that a ‘gold nugget’ in Concepts 1 that had yet to be fully
19 developed is the notion of decision usefulness. The participant discussed that no one
20 has actually catalogued what type of decisions one might make with the financial
21 statements. The participant further explained that it is an external accountability to go
22 back and catalog what the decision makers need and how standards help support that
23 and then circle back on the internal needs requirements.

24
25 The participants noted that a common question in the financial reporting community is,
26 “Why do I care about audited financial statements?” Answering this question requires
27 consideration of who are the decision-makers. The participants discussed that perhaps
28 the user should be more clearly defined and what would the user do with the
29 information. FASAB could take a more focused look with regard to what information
30 should be published to report on stewardship. The participants discussed that there
31 may be some key pieces of information that should be prescribed for reporting so that
32 users can see how well government promises were met or programs performed, how
33 they worked together to achieve priority goals, and whether they could be sustained.

34
35 The participants discussed that it is a big challenge to get agencies to see the financial
36 statement preparation as not just a CFO exercise. Demonstrating that financial
37 reporting helps improve the quality of information and inform internal decision-making
38 would result in more support and benefits from the significant investments in financial
39 reporting and auditing. The participants noted that having the accelerated reporting
40 deadlines have improved certain aspects by requiring work on a real time basis.

41
42 One participant explained that the creation of FASAB and the laws that led up to
43 strengthening financial management were not about audited financial statements.
44 Instead the purpose was to strive for information that is useful to management for
45 decision making as well as reporting to the citizens. The participant explained that the
46 laws didn't mention clean audit opinions, the laws were for reliable information for

1 decision making. Therefore, the participant explained that the focus should be on
2 determining “who are the decision-makers?”

3
4 The participants discussed the fact that many question how the financial statement
5 information is useful. Specifically, the participants explained that the information in
6 PARs might be unintelligible to other than those who write it. Further, the participants
7 asked if this is the information that citizens are most interested in and want. Certain
8 participants believed that the average citizen find the financial statements quite
9 irrelevant. Instead, citizens are interested in things on a more macro basis. However,
10 the participants noted that although the financial statements may not be that useful to
11 citizens, the idea of being able to present statements that meet audit criteria provides a
12 foundation of trust and grants credibility to whatever else is included in the report. The
13 participants discussed that the challenge or question is to consider what information
14 should be presented in the balance sheet that is meaningful to users and then how do
15 you integrate it with other information to assess sustainability.

16
17 • Audit Issues and Concerns

18
19 Certain participants believed that FASAB should focus on what information needs to be
20 presented because the issue of auditing may cloud and sometimes confuse decisions.
21 It was noted that there was a tendency to believe that the financial statements were the
22 only presentations audited. As a result, information was “pushed” into the financial
23 statements so that the information could be audited. Given that there are various levels
24 of audit work, such as a review or agreed-upon-procedures, FASAB could first
25 determine what information needs to be reported and next consider where it should be
26 presented which would in turn dictate the level of audit involvement necessary. Certain
27 participants believed the auditing more or less would take care of itself over time. The
28 participants explained that auditors may not be comfortable initially, but over time, as
29 trends and more support develops the auditors may use a different approach.

30
31 The participants discussed that it is important to decouple or at least distinguish the
32 difference between validation and auditing. Certain participants believed that auditing
33 can be a great inhibitor if one applies the degree of conventional auditing to everything
34 included in PARs. The participants discussed that validation could be a reasonable and
35 systematic way of evaluating non-financial information as well as fully disclosed
36 assumptions about projections of financial information. Certain participants believed
37 validation of stewardship information to be more appropriate as it involves the type of
38 information that one does not look at in a vacuum or at a point in time. Instead, one
39 looks at trend data, which in itself becomes validation as one considers if things have
40 been consistently applied or whether conditions or circumstances have changed.

41
42 A participant pointed out that information that cannot be validated should not be
43 prescribed. The information would need to meet the qualitative characteristics noted in
44 SFFAC 1 and auditors are not comfortable looking into areas where a principle had not
45 been established. However, some participants believed that auditors may need to be
46 pushed further than they are currently because the community may not be able to wait

1 until everything can be audited. The participants noted that there could be information
2 that auditors do not need to audit but the information is important to taxpayers.

3
4 When working on its management's discussion and analysis, the GASB found that
5 auditors were very concerned about the idea of placing information in an audit report
6 regarding events that may happen and that may not be based on currently known facts.
7 As a result, in Statement 34, *Basic Financial Statements and Management's Discussion*
8 *and Analysis for State and Local Governments*, the GASB stated that the MD&A should
9 conclude with a description of currently known facts, decisions, or conditions that are
10 expected to have a significant effect on financial position or results of operations. In
11 addition, it was noted that when combining the basic financial statements with other
12 information, there is always going to be issues with the audit community, but they are
13 issues that can be resolved.

14
15
16 *Staff Analysis and Recommendation:* *Staff notes that there have been several common*
17 *themes discussed in most of the Roundtable meetings that relate to enhancements of*
18 *SFFAC 1 or other areas, rather than an enhancement to a particular objective. The*
19 *issue areas include the following (along with the above, additional detail can be found in*
20 *the summaries of the other Roundtable meetings):*

- 21
- 22 • *Discussion of the inter-relationship of information to explain the*
23 *relationship between the financial reporting objectives and the totality*
24 *of reporting*
- 25 • *Proactively encourage better use of the Management's Discussion and*
26 *Analysis*
- 27 • *Need for education and reiteration of decision usefulness as most*
28 *requirements have become a compliance exercise*
- 29 • *Expansion of the discussion of Accountability*
- 30 • *Better understanding of user needs--as well as internal users versus*
31 *external users*
- 32

33 *Staff believes the above items do not warrant enhancing the reporting objectives, but*
34 *instead relate to possible enhancements to SFFAC 1 or other areas. However, staff*
35 *notes that these are prevalent issues that came up in all or most of the roundtable*
36 *meetings. If the Board does agree with the staff recommendation to amend SFFAC 1,*
37 *staff will recommend the scope of the amendments. Additionally, staff will explore each*
38 *of the above areas by considering the comments from the participants at all roundtable*
39 *meetings along with the current discussion in SFFAC 1 and other concepts statements*
40 *and standards to determine if an update or expansion is necessary.*

1 are still valid and appropriate and whether additional ones are necessary) and (2)
2 defining the Board's role in achieving the objectives as the nature of the Board's
3 involvement may vary.

4
5 This was the last of four roundtable meetings and it focused on the Systems and
6 Control objective. The primary purpose of the meeting was to discuss how the objective
7 might be improved to facilitate its use as a means for guiding the Board in developing
8 standards of financial accounting and reporting and in developing solutions to financial
9 accounting and reporting issues. The meeting discussions involved issues such as:

- 10
- 11 • Participants' experience with the Systems and Control objective.
- 12 • How changes in the federal environment since 1993 may affect the Board's
- 13 reconsideration of the Systems and Control objective.
- 14 • What the scope of FASAB's role should be in meeting the Systems and
- 15 Control objective.
- 16 • General matters regarding the objectives of federal financial reporting and
- 17 SFFAC 1.
- 18

19 **Systems and Control Objective of Federal Financial Reporting in** 20 **Existing FASAB Literature**

21
22 Federal financial reporting should assist report users in understanding whether financial
23 management systems and internal accounting and administrative controls are adequate
24 to ensure that:

- 25
- 26 • transactions are executed in accordance with budgetary and financial laws and
- 27 other requirements, consistent with the purposes authorized, and are recorded in
- 28 accordance with federal accounting standards;
- 29
- 30 • assets are properly safeguarded to deter fraud, waste, and abuse; and
- 31
- 32 • performance measurement information is adequately supported.
- 33
- 34

35 **Summary of Issues, Including Staff Analysis and Recommendations**

36
37 The participants believed that the systems and control objective remains valid in today's
38 environment and agreed with the indirect role of standards in achieving the objective.
39 The participants did not convey a need for changes to the systems and control
40 objective. Instead, they discussed the importance of the objective in federal financial
41 reporting, and they discussed methods that could enhance achievement of the
42 objective. Most of the participants expressed support for FASAB to continue the indirect
43 approach as it related to systems and control. However there was a consensus among
44 participants in the need for a clear, visionary conceptual framework that explains the
45 integration and the importance of all the efforts that relate to systems and control and

1 accountability. In particular, they noted that SFFAC 1 could be enhanced by discussing
2 the interrelationship of the financial reporting objectives and various federal financial
3 reporting initiatives and by adding explanations and examples to emphasize and help
4 non-accountants understand the importance of the objectives. The issues discussed
5 and FASAB's staff analyses are presented as follows.
6
7

8 **Comments/Perceptions about the Systems and Control Objective**

9 Comments on the Overall Objective

10
11
12 The participants discussed the nature of the financial reporting objectives and some of
13 the thoughts that were used in their formulation. It was noted that the systems and
14 control objective as well as the other objectives continue to be relevant today and
15 changes in the environment appear to have made users more cognizant of the
16 importance of the objectives. The participants believed that the financial reporting
17 objectives remain valid. The participants expressed that the objectives should remain
18 broad and FASAB should not move to narrow the objectives.
19

20 A participant pointed out that SFFAC 1 does state that the financial reporting objectives
21 will be met by more than audited financial statements. Also, SFFAC 1 does not say this
22 is what FASAB will do to meet those reporting objectives versus this is what everybody
23 will do to meet the reporting objectives. It was noted that SFFAC 1 was structured to
24 have an accountability mechanism and, if anything, the information in the concept
25 statement is even more important today than it was when originally crafted, given the
26 financial challenges the nation faces. In addition, the participants did not believe that
27 the objectives should be revised because they are being addressed through means
28 other than financial statements.
29

30 The participants also discussed some of the ideas that led to the development of the
31 federal reporting model. It was noted that commercial type audited financial statements
32 were not viewed as the driver for affecting policy decisions at the federal level. Instead,
33 the statements were seen as a catalyst to move individuals toward improving their
34 accounting. Although this is important, the originators of SFFAC 1 wanted to recognize
35 that the Federal Government was much different and had different levels of
36 accountability and a different means of accounting to the American taxpayer. The
37 elements in the concept statement are those that the American taxpayer expects to see.
38

39 The participants did not believe that there have been changes in the environment that
40 require a change or changes to the objective. The participants did discuss that there
41 has been a change in that people now recognize the importance of internal control. The
42 President's management agenda is focused on financial reporting issues and the
43 previous resistance to implementing internal control initiatives no longer exists. It
44 appears that individuals recognize that the nation faces long term issues, and some of
45 the real forward looking views are probably more pertinent today, not because laws

1 have changed, but because of technological advancements that have made the
2 transmission of information easier.

3
4
5 Comments Regarding the Role of FASAB in meeting the Systems and Control Objective
6

7 The participants expressed that a concept statement that strictly expresses what
8 FASAB is to do may not be necessary. As FASAB considers a standard, the Board
9 should consider what does that standard do to “push forward” a financial reporting
10 objective such as systems and control, and whether there is some linkage that standard
11 can make or that standard at least refers to how it might affect the objective.
12

13 The participants did not believe that FASAB should issue a specific standard on
14 systems and control. Most of the participants expressed support for FASAB to continue
15 the indirect approach as it related to systems and control. In addition, the participants
16 explained that an indirect approach rather than prescriptive guidelines enables the
17 Board to be encompassing for everyone to accomplish their mission.
18

19 The participants did not identify a need for FASAB to engage in setting standards
20 concerning internal control. Some saw this as GAO’s role and it was noted that on
21 December 21, 2004, the Office of Management and Budget (OMB) issued a revised
22 Circular A-123, *Management’s Responsibility for Internal Control*. Circular A-123
23 requires a management assurance statement on the effectiveness of internal control
24 over financial reporting. Rather than issuing a standard, it was expressed that perhaps
25 FASAB could refer to Circular A-123 and state that the Board endorses the notion of
26 management’s reporting on controls over financial reporting. This would facilitate
27 continuity should the next administration decide to pursue changes.
28

29 Certain participants offered that FASAB with its limited resources should focus its efforts
30 on addressing the direct technical accounting issues that remain and those other items
31 on the technical agenda. The participants believed the projects on FASAB’s technical
32 agenda as well as those that are often the subject of inquiries are important to do. One
33 participant suggested that “I would be hard pressed to say you need to update a
34 conceptual framework that people may or may not be reading and not answer the direct
35 mail or the questions that you have to really respond to now.”
36
37

38 Staff Analysis and Recommendations:
39

40 *SFFAC 1 acknowledges that many information sources other than financial statements*
41 *help to attain the financial reporting objectives and that FASAB will consider where*
42 *accounting standards can contribute to attaining them. The roundtable participants*
43 *generally reiterated that this premise applied to the systems and control objective and*
44 *they appeared satisfied with FASAB’s primarily indirect impact. The systems and control*
45 *objective as stated permits a level of flexibility in prescribing internal control reporting*
46 *standards. Rather than committing FASAB to prescribing internal control requirements,*

1 *the objective allows the Board to prescribe reporting requirements where such*
2 *requirements might help to enhance accountability and decision-making and improve*
3 *the extent to which the objective is attained in a cost-effective manner. Since the Board*
4 *issued SFFAC 1, accounting standards along with other sources have contributed to*
5 *attaining the objective. Appendix I provides a listing of some of the relevant sources*
6 *regarding the systems and control objective since September 2, 1993.*

7
8 *Within the stated objective, FASAB concepts and standards have contributed to*
9 *ensuring that federal entities maintain a focus on sound internal control. In addition to*
10 *the many accounting standards that indirectly contributed to the objective, the concepts*
11 *and standards for management's discussion and analysis (MD&A) of the financial*
12 *statements have had a direct impact.*

13
14 *The concepts for MD&A discuss the significance of the systems and control objective*
15 *and the relationship between a federal entity's internal controls and its financial*
16 *statements. The Board noted that reporting information that helps people understand*
17 *the condition of the entity's internal control is an important objective of federal financial*
18 *reporting. The diversity of individuals affected by governmental action and the fact that*
19 *the government operates within a framework of laws indicates that more attention needs*
20 *to be focused on this topic than in financial reports of profit-seeking organizations.² The*
21 *Board also noted that financial statements alone do not provide adequate information*
22 *about the status of the entity's internal control that support reporting on financial and*
23 *operating performance and reporting on compliance with applicable laws.*
24 *Consequently, in addition to its basic financial statements, a federal entity should*
25 *include information about internal control and legal compliance.³*

26
27 *The Board then developed standards for MD&A that would include requirements for*
28 *internal control. In Statement of Federal Financial Accounting Standards No. 15,*
29 *Management's Discussion and Analysis, the Board stated that each general purpose*
30 *federal financial report should include a MD&A section.⁴ The MD&A is regarded as*
31 *required supplemental information and it should include information on the federal*
32 *entity's internal control.⁵ The Board allowed for OMB to provide more prescriptive*
33 *guidance by stating, "More specific requirements regarding the content of MD&A may*
34 *be added later by OMB acting on its own authority or pursuant to future FASAB*
35 *recommendations."⁶*

36
37 *With the MD&A being an integral part of the entity's financial report and providing the*
38 *link between information on internal control and the financial statements, the OMB acted*
39 *and provided more prescriptive guidance. The revised OMB Circular A-123 requires*
40 *management assurance statements on internal control. One assurance statement*

² Statement of Federal Financial Accounting Concepts (SFFAC) No. 3, paragraph 16.

³ SFFAC No. 3, paragraph 17.

⁴ Statement of Federal Financial Accounting Standards (SFFAS) No.15, Management's Discussion and Analysis, paragraph 1.

⁵ SFFAS No. 15, paragraphs 1 and 2.

⁶ SFFAS No. 15, paragraph 19.

1 concerns the effectiveness of internal control over financial reporting. In accordance
2 with OMB Circular A-136, Financial Reporting Requirements, entities should include this
3 statement and other assurances on internal control in the MD&A.

4
5 Also since FASAB issued SFFAC 1, many changes in the private sector and the federal
6 environment have placed greater emphasis on internal control. Changes in internal
7 control concepts and principles developed and the GAO and OMB have incorporated
8 the changes in the internal control standards and guidance that agencies are now using.

9
10 As required by the FMFIA, the GAO sets internal control standards for the federal
11 government. When addressing the need for revised standards and guidance on internal
12 control for FY 2000 and beyond, the GAO noted that:

- 13
- 14 • the Federal Financial Management Improvement Act of 1996 identifies
15 internal control as an integral part of improving financial management
16 systems;
- 17 • information technology had advanced rapidly and updated guidance was
18 needed to address modern computer systems;
- 19 • management of human capital had gained recognition as a significant part
20 of internal control; and
- 21 • the private sector had updated its internal control guidance with the
22 issuance of Internal Control — Integrated Framework, published by the
23 Committee of Sponsoring Organizations of the Treadway Commission
24 (COSO).⁷
- 25

26 Accordingly, the GAO issued its revised guidance on internal control entitled, Standards
27 for Internal Control in the Federal Government, November 1999, and effective beginning
28 with fiscal year 2000. The revised guidance incorporated applicable COSO concepts
29 and recognized the increased use of information technology and the importance of
30 human capital.

31
32 Subsequently, accounting scandals at several major corporations further directed
33 attention on internal control and increased the public's need for assurances that internal
34 control activities are in place and operating effectively. In response, Congress passed
35 the Sarbanes-Oxley Act of 2002 (SOX). The Act requires management of publicly-
36 traded companies to assess the effectiveness of internal control and it requires an audit
37 attestation on management's assessment. Considering the new requirements for
38 publicly-traded companies, OMB re-examined the existing internal control requirements
39 for Federal agencies and revised Circular A-123 in 2004.

40
41 The revised circular provided a principles-based approach that focuses on
42 management's responsibility for internal control and uses the current terminology
43 regarding internal control.⁸ The circular integrated the concepts and principles of the

⁷ GAO Standards for Internal Control in the Federal Government, November 1999.

⁸ For example, OMB replaced the term "management control" with "internal control" which aligns with the GAO standards.

1 COSO model, including its categories of control objectives and components.⁹ The
2 revised circular also:

- 3
- 4 • Strengthened the requirements for conducting management's assessment of
5 internal control over financial reporting.
- 6 • Introduced a new assurance statement¹⁰ on the effectiveness of internal control
7 over financial reporting. This helped emphasize management's responsibility for
8 assessing and documenting internal control over financial reporting.
- 9 • Provided a separate section on an integrated internal control framework,
10 including a listing of statutes to consider when assessing internal control. This
11 highlighted current legislative and regulatory requirements that should be
12 coordinated and considered when assessing the effectiveness of internal control.
- 13

14 It should be noted that unlike the SOX requirements, Circular A-123 does not require an
15 auditor opinion on management's assessment of internal control over financial
16 reporting. Also, it does not require an auditor opinion on the effectiveness of internal
17 control. Agencies are permitted to obtain an opinion on internal control over financial
18 reporting and OMB may require an audit opinion if management is not making progress
19 in correcting weaknesses in internal control over financial reporting.

20

21 A basic principle supporting the COSO internal control model is that management is
22 responsible for identifying risks and implementing controls that reduce those risks to
23 acceptable levels. Using the COSO model, the GAO and OMB emphasized the
24 importance of the tone at the top in ensuring effective internal control. Management and
25 employees must sustain a positive and supportive attitude toward internal control and
26 the control environment is part of the auditor's consideration of the agency's internal
27 control structure. The Association of Government Accountant's (AGA) 2005 CFO
28 Survey indicated that CFOs applauded the revised OMB circular for the attention it
29 draws to problems in internal control and has helped motivate action.

30

31 Also, the financial management community discussed the notion of requiring audits of
32 internal control. Pursuant to the Department of Homeland Security Financial
33 Accountability Act, the Chief Financial Officers Council (CFOC) and the President's
34 Council on Integrity and Efficiency (PCIE) conducted a joint study on the potential costs
35 and benefits of requiring the Chief Financial Officers (CFOs) Act agencies to obtain
36 audit opinions on internal control over financial reporting. The study determined that
37 there were several benefits to requiring audits, such as:

⁹ OMB A-123 issued December 21, 2004, states that the three objectives of internal control are: Effectiveness and efficiency of operations; Reliability of financial reporting; and Compliance with applicable laws and regulations. Also, the components of internal control include: Control Environment, Risk Assessment, Control Activities, Information and Communications, and Monitoring. These objectives and components are consistent with the COSO framework.

¹⁰ Beginning FY 2006, management assurance statements will consist of: management's overall statement of assurance (as required by Sections 2 and 4 of the FMFIA); and as a subset of the overall assurance statement of assurance, management's assurance on the effectiveness of internal control over financial reporting (OMB Circular A-136).

- 1 • *improved internal control and reduced material weaknesses;*
- 2 • *reduced errors and improved data integrity, documentation reliability, and*
- 3 *reporting; and*
- 4 • *improved agency focus and oversight.*

5
6 *However, the CFOs and Inspectors General (IGs) believed that these benefits could be*
7 *achieved if agencies properly implement an internal control review and testing program*
8 *as required by the revised OMB Circular A-123. CFOs and IGs assisted in revising the*
9 *circular and, among other enhancements, the circular strengthened the requirements for*
10 *management's assessment of internal control over financial reporting. The joint study*
11 *also noted that the costs to render an opinion on internal control would be substantial.¹¹*
12 *As a result, the two groups determined that it would be better to give the agencies time*
13 *to implement the revised OMB Circular A-123, rather than requiring audit opinions on*
14 *internal control. Agencies could obtain audit opinions where circumstances warrant an*
15 *opinion.¹²*

16
17 *The GAO has also noted that the following questions should be addressed in*
18 *determining when an auditor opinion on internal control should be required:*

- 19
20 1. *Is this a major federal entity, such as the 24 departments and agencies covered*
21 *by the CFO Act? There would be different consideration for small simple entities*
22 *versus large complex entities.*
- 23 2. *What is the maturity level of internal control over financial reporting?*
- 24 3. *Is the agency currently in a position to attest to the effectiveness of internal*
25 *control over financial reporting and subject that conclusion to independent audit?*
- 26 4. *What are the benefits and costs of obtaining an opinion?*

27
28 *The GAO points out that if an agency's management is not able to state that their*
29 *organization has effective internal control, there would not be a need for the auditor to*
30 *render an opinion that internal control was not effective.¹³*

31
32
33 *Recommendation: Systems and control remains a significant objective of federal*
34 *financial reporting. Its significance is evident in the many reforms and initiatives that*
35 *have occurred in the past few years and that have practically engaged the entire*
36 *financial management community. The objective's broad nature permits accounting*
37 *standards and other sources to act and provide guidance. This flexibility appears to be*
38 *working as intended and the OMB recently issued more rigorous internal control*

¹¹ For the 24 CFO Act agencies, the study noted that the average estimated incremental audit cost would be more than \$5.8 million per reporting entity.

¹² Estimating the Costs and Benefits of Rendering an Opinion on Internal Control over Financial Reporting - A Joint Study by the Chief Financial Officers' Council and the President's Council on Integrity and Efficiency.

¹³ GAO-05-321T, Financial Management - Effective Internal Control Is Key to Accountability, Testimony before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives, February 16, 2005, pp 12-13.

1 *requirements. Considering that the requirements have yet to be fully implemented and*
2 *the actual impact is not certain at this time, staff believes that the Board should maintain*
3 *the stated objective while monitoring the agencies' progress.*
4
5

6 **Methods for Better Achieving the Objective**

7

8 Given the lack of an apparent need to revise the objective, the participants discussed
9 ideas that could lead to better achievement. The participants discussed there was a
10 need for the conceptual framework to explain the integration and the importance of all
11 the efforts that relate to systems and control and accountability. The participants
12 suggested a need for SFFAC 1 to discuss the relationship between the objectives and
13 the reporting initiatives that are taking place in the federal government. Also, the
14 participants believed that SFFAC 1 could be enhanced to include knowledge that has
15 been gained in the past 12 years. Although the participants believed that objectives
16 could be enhanced, they did not identify a need for FASAB to engage in prescribing
17 standards concerning internal control.
18

19 Enhancing Explanations throughout SFFAC 1

20

21 The participants expressed that SFFAC 1 could also be enhanced by discussing some
22 of the knowledge that has been gained in the past 12 years. This could be done for all
23 the sections of Concepts 1. The participants also discussed that Concepts 1 could be
24 updated to emphasize that it is not just the financial statements that enable the
25 objectives to be met. The participants agreed that it may not be clear that the objectives
26 can be met by means other than audited financial statements and, particularly, audited
27 financial statements for which the board has written standards.
28

- 29 • Interrelationships
- 30

31 The participants explained that most preparers and users are not making the link of how
32 all the different reporting requirements relate to each other. The participants indicated a
33 need to explain the relationship between the financial reporting objectives and the
34 totality of reporting that is taking place in the federal government. It was expressed that
35 some preparers and auditors are possibly engaging in compliance exercises or simply
36 “checking the boxes” for many requirements, including those related to systems and
37 control. Also, the participants discussed that the standards may not be consistently
38 referenced in practice and few preparers may be considering how reporting
39 requirements interrelate. The participants explained that there was a need for the
40 concept statement to show and explain the relationships. The participants believed that
41 understanding the relationships would be valuable to preparers going through the
42 reporting process.
43
44
45
46

1 • Accountability Notion
2

3 The participants discussed that Concepts 1 was structured to have an accountability
4 mechanism and that is why the concept statement is even more important today. The
5 participants discussed that Concepts 1 should be more about overall “accountability”
6 versus “accounting.” The participants discussed that the Federal Government is much
7 different and involves various levels of accountability. The participants discussed that
8 agencies aren’t meeting accountability goals and there may be a need for a visionary
9 FASAB that explains that goal more, but perhaps that is a federal accountability
10 standard setter as opposed to an accounting standard setter.
11

12 The participants discussed that paragraphs 73 and 74 of SFFAC 1, entitled
13 “Accountability” provides two lists of information. The participants discussed that
14 because of its significance, the section could be expanded to discuss what
15 accountability involves, such as product accountability, program accountability, and
16 other types of accountability because accountability involves the whole organization and
17 not just accountants. The participants also discussed that the accountants and program
18 managers have not worked well together in the past on this issue and there has to be a
19 way to put accountability on both.
20

21
22 • Educational Platform
23

24 One participant suggested that through updating and enhancing SFFAC 1, it could be
25 used as an educational platform. The participant explained that it could be used as a
26 way to convey why different things are done with the hope that people will understand
27 the importance of meaningful information versus viewing it as a compliance exercise.
28 The participants discussed that the objectives make sense but the document could be
29 enhanced to discuss the relationships as well as how other reporting requirements are
30 enabling the objectives to be met.
31

32 On the subject of using the concept statement as an educational tool, a participant
33 cautioned that the concept statement should not be viewed as a textbook for
34 constituents to learn what to do. Training curricula could be developed to accomplish an
35 educational outreach. However, most participants did not believe that it would be
36 FASAB's role or that they should be instructing per se, but FASAB is the body to lay out
37 the overall. Also, it was noted that explanations included in an accounting standards
38 document are often viewed as information for accountants and auditors only, rather than
39 information that is also beneficial to program managers and other non-accountants.
40 The participants explained that there is a great need to reach non-accountants to
41 ensure that they understand, as the program managers and senior officials are often
42 ultimately responsible for systems and control. The participants suggested that
43 examples of how the objectives are currently being met could be included in the
44 discussions on each objective and some “real world” examples would help non-
45 accountants understand the role of accountability and financial reports and the
46 information that is used to demonstrate accountability.

1
2 Also, the participants noted other possible enhancements to Concepts 1 as follows:
3

- 4 • The concept statement discusses developing the financial management system. Financial management system is broader than core financial system, and some
5 may not understand that there is a difference. Thus, the statement could include
6 an explanation of a financial management system.
7
- 8 • An explanation of why performance information is important would be helpful to
9 users. The explanation could help users understand that they need to at least
10 ensure that performance information is adequately supported and maybe even
11 more.
12
- 13 • The concept statement could be updated and fine-tuned to reflect the COSO
14 changes and perhaps the changes that COSO is now considering.
15

16
17 Staff Analysis and Recommendations:
18

19 *SFFAC 1 states that the document helps users to understand federal accounting and*
20 *financial reports and that FASAB considers the information needs of both internal and*
21 *external users. The statement also notes that, users at all levels need information on*
22 *internal control and the adequacy of financial management systems. Although*
23 *SFFAC 1 provides explanations to assist constituents in understanding each of the*
24 *objectives, advancements, particularly in internal control concepts, have been made*
25 *since the explanations were crafted.*
26

27 *The participants viewed that, in the past, federal internal control reporting was merely a*
28 *“compliance exercise.” This view was noted as a basis for OMB’s 1995 revision to*
29 *Circular A-123. The OMB issued requirements for assessing and reporting on internal*
30 *control and the GAO issued standards that provided the overall framework for*
31 *establishing and maintaining internal control. Agencies appeared to focus on creating a*
32 *paper trail and voluminous reports to demonstrate that they had adhered to the OMB*
33 *assessment process. For some agencies, the assessment and reporting processes*
34 *were the end product. Too much process and paper became a concern with efforts to*
35 *implement aspects of the Federal Managers’ Financial Integrity Act (FMFIA). As a*
36 *result, the OMB relaxed some of the internal control assessment and reporting*
37 *requirements.*¹⁴
38

39 *The Chief Financial Officer (CFO) community also expressed the “compliance exercise”*
40 *view of internal control reporting. According to the 2005 CFO Survey, many CFOs*
41 *stated that internal control activities in the federal government have been perfunctory*
42 *and that program managers did not understand why internal control was important to*
43 *their mission. In addition, some have expressed that in efforts to improve financial*

¹⁴ GAO-05-321T, *Financial Management - Effective Internal Control Is Key to Accountability*, Testimony before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives, February 16, 2005.

1 *management, the financial management workforce may become burdened by detailed*
2 *rules and standards.*¹⁵
3

4 *Staff also notes that since the issuance of SFFAC 1, agencies are using standards and*
5 *guidance that employ different concepts and terminology. For example, the current*
6 *term “internal control” includes both “accounting” and “administrative” controls that is*
7 *currently used in the systems and control objective.*¹⁶ *Incorporating current concepts*
8 *and principles into SFFAC 1 may improve its usefulness in helping constituents in*
9 *understanding federal accounting and financial reports.*

10
11 *Recommendation:* *Staff notes that there have been several common themes discussed*
12 *in most of the Roundtable meetings that relate to enhancements of SFFAC 1 or other*
13 *areas, rather than an enhancement to a particular objective. The issue areas include*
14 *the following (along with the above, additional detail can be found in the summaries of*
15 *the other Roundtable meetings):*

- 16
17 • *Discussion of the inter-relationship of information to explain the*
18 *relationship between the financial reporting objectives and the totality*
19 *of reporting*
- 20 • *Proactively encourage better use of the Management Discussion and*
21 *Analysis*
- 22 • *Need for education and reiteration of decision usefulness as most*
23 *requirements have become a compliance exercise*
- 24 • *Expansion of the discussion of Accountability*
- 25 • *Better understanding of user needs--as well as internal users versus*
26 *external users*

27
28 *Staff believes the above items do not warrant enhancing the reporting objectives, but*
29 *instead relate to possible enhancements to SFFAC 1 or other areas. However, staff*
30 *notes that these are prevalent issues that came up in all or most of the roundtable*
31 *meetings. If the Board does agree with the staff recommendation to amend SFFAC 1,*
32 *staff will recommend the scope of the amendments. Additionally, staff will explore each*
33 *of the above areas by considering the comments from the participants at all roundtable*
34 *meetings along with the current discussion in SFFAC 1 and other concepts statements*
35 *and standards to determine if an update or expansion is necessary.*

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¹⁵ Mitch Laine and Catherine A. Kreyche, “Revisiting Federal Financial Management Reform,” The Journal of Government Financial Management, Summer 2005, p.53.

¹⁶ According to OMB Circular A-123, internal control applies to program, operational, and administrative areas as well as accounting and financial management

APPENDIX I

SOME KEY SOURCES REGARDING INTERNAL CONTROL SINCE THE ISSUANCE OF SFFAC 1

SOURCE	DESCRIPTION
Federal Financial Management Improvement Act of 1996 (FFMIA)	Requires each agency to implement and maintain financial management systems that can comply substantially with system requirements, applicable federal accounting standards, and the Standard General Ledger. For each CFO Act agency, FFMIA requires that the annual audit report state whether the agency's financial management systems comply with the requirements.
Statement of Federal Financial Accounting Standards No. 15: Management's Discussion and Analysis (April 1999)	Requires that the Management's Discussion and Analysis section include a section that addresses the entity's systems, controls, and legal compliance.
GAO Standards for Internal Control in the Federal Government (Revised November 1999)	Applies to both financial and nonfinancial controls. The five standards for internal control include (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring.
Reports Consolidation Act of 2000	Requires that, among other things, consolidated reports include a transmittal letter from the agency head containing an assessment of the completeness and reliability of performance and financial data used in the report.
OMB Bulletin 01-02, Audit Requirements for Federal Financial Statements (October 2000)	<p>Among other things, requires the auditor to obtain an understanding of the components of internal control and assess the level of control risks. For internal controls that have been properly designed and placed in operation, the auditor is required to perform sufficient tests to support a low assessed level of control risk.</p> <p>Also, when obtaining an understanding of the components of internal control, the auditor is required to obtain an understanding of the process that the agency implemented to identify and evaluate weaknesses required to be reported under FMFIA.</p>
OMB Circular A-123 (Revised December 2004) Management's Responsibility for Internal Control	Requires an assessment of internal control by management. Specifically, management is required to assert to the effectiveness of internal controls via an assurance statement "as of June 30." A-123 does not require a separate audit. However, agencies may secure a separate audit opinion on internal controls over financial reporting.
Department of Homeland Security Financial Accountability Act	Requires the Department of Homeland Security management to provide an assertion on the effectiveness of internal control over financial reporting for fiscal year 2005 and requires an auditor's opinion on internal controls over financial reporting for fiscal years beginning after 2005.
President's Management Agenda (PMA)	Under the PMA, OMB monitors internal control weaknesses regularly. To receive successful rating of "green" on the PMA scorecard, agencies must eliminate all internal control weaknesses.

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TAB 3
SUMMARY OF THE BUDGETARY INTEGRITY ROUNDTABLE MEETING¹
SEPTEMBER 19, 2005
9:00 a.m. – 12 p.m.

PARTICIPANTS

Chris Bonham	Government Accountability Office
Bing Bradshaw	Office of Management and Budget
Teresa Tancre	Office of Management and Budget
Diane Dudley	KPMG
Robin Landauer	U. S. Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management, Government Information, and International Security
Kathy Gramp	Congressional Budget Office
Joe Kull	PricewaterhouseCoopers LLP
Terry Patton	Governmental Accounting Standards Board

FASAB

Wendy Comes	Executive Director
Melissa Loughan	Assistant Director
Ross Simms	Assistant Director

PURPOSE OF ROUNDTABLE AND DISCUSSION TOPICS

FASAB's conceptual framework ensures that federal financial accounting standards are based on a sound framework of objectives and concepts. During its initial years of operation, FASAB developed a core set of accounting standards and concepts statements. Now, after 12 years of substantial progress, the Board believes that it is time to revisit the concepts given the changes in the federal financial reporting environment since the first concepts statement was issued.

The Board relies on Statement of Federal Financial Accounting Concepts 1 (SFFAC 1) – *Objectives of Federal Financial Reporting*, issued September 2, 1993, to support its deliberations on financial reporting issues. The first phase of the conceptual framework project involves reviewing the four objectives of financial reporting as described in SFFAC 1. The four objectives of financial reporting are Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. The Board is evaluating these

¹ Complete transcripts for the Roundtable Meeting are available upon request.

1 objectives with a focus on (1) clarifying their broad characteristics (by determining if they
2 are still valid and appropriate and whether additional ones are necessary) and (2)
3 defining the Board's role in achieving the objectives as the nature of the Board's
4 involvement may vary.

5
6 This was the first of four roundtable meetings and it focused on the Budgetary Integrity
7 objective. The primary purpose of the meeting was to discuss how the objective might
8 be improved to facilitate its use as a means for guiding the Board in developing
9 standards of financial accounting and reporting and in developing solutions to financial
10 accounting and reporting issues. The meeting discussions involved issues such as:

- 11
- 12 • Participants' experience with the Budgetary Integrity objective.
- 13 • How changes in the federal environment since 1993 may affect the Board's
- 14 reconsideration of the Budgetary Integrity objective.
- 15 • What the scope of FASAB's role should be in meeting the Budgetary Integrity
- 16 objective.
- 17 • General matters regarding the objectives of federal financial reporting and
- 18 SFFAC 1.
- 19

20 **Budgetary Integrity Objective of Federal Financial Reporting in** 21 **Existing FASAB Literature**

22
23 Federal financial reporting should assist in fulfilling the government's duty to be publicly
24 accountable for monies raised through taxes and other means and for their expenditure
25 in accordance with the appropriations laws that establish the government's budget for a
26 particular fiscal year and related laws and regulations. Federal financial reporting should
27 provide information that helps the reader to determine:

- 28
- 29 • how budgetary resources have been obtained and used and whether their
- 30 acquisition and use were in accordance with the legal authorization,
- 31 • the status of budgetary resources, and
- 32 • how information on the use of budgetary resources relates to information on the
- 33 costs of programs operations and whether information on the status of budgetary
- 34 resources is consistent with other accounting information on assets and liabilities.
- 35

36 **Summary of Issues, Including Staff Analysis and Recommendations**

37
38 The participants discussed the importance of the Budgetary Integrity objective in federal
39 financial reporting, and they discussed methods that could enhance achievement of the
40 objective. Also, while the participants noted the comparative advantage of financial
41 reporting, they did discuss concerns with the financial statements used to achieve the
42 objective. In addition, the participants noted specific concern with the third sub-
43 objective. The issues discussed and FASAB's staff analyses are presented as follows.

1
2
3 • **Benefits from Financial Reporting & Audit**
4

5 The participants agreed that financial reporting and the related audit have improved the
6 reliability of accounting information. Certain participants explained that although
7 financial reports may not be useful to agency management, the fact that the reports are
8 subjected to audit has been beneficial to improving the accuracy of the agency's
9 underlying accounting data. The participants explained that auditing the financial
10 statements has served to improve the accounting and underlying data that the agencies
11 use in managing programs. The participants believed that budget data has improved
12 since agency financial reports have been subjected to audit because the audit has
13 resulted in the identification of errors that result in correcting budgetary reports.
14 Additionally, the participants believed that audits help bring about consistency in
15 definitions and improvements in controls over assets.

16
17 *Staff Analysis and Recommendations:*
18

19 *The Board has acknowledged that financial reporting can lead to improved internal*
20 *reporting and analysis. SFFAC 1 discusses that financial reporting provides information*
21 *for various purposes including planning actions and evaluating performance. Also,*
22 *through enhanced systems and controls, the process of preparing and auditing financial*
23 *reports can provide greater assurance that transactions are recorded and reported*
24 *accurately.*

25
26 *During its deliberations, the Board has acknowledged the comparative advantages of*
27 *federal accounting in general and of GAAP reporting in particular. One advantage in*
28 *particular is that users can gain a level of assurance that the information they utilize is*
29 *accurate. The Board should continue to consider this and other advantages of GAAP*
30 *reporting while evaluating the objectives of federal financial reporting.*

31
32 *Recommendation:* *There are no specific staff recommendations for this issue.*
33
34

35 • **Statement of Budgetary Resources**
36

37 **Materiality and Presentation Detail**
38

39 Financial statement audits and the information that is audited help to achieve the
40 Budgetary Integrity objective. Although budget personnel gain assurance that budget
41 information is accurate, the participants expressed concern that the Statement of
42 Budgetary Resources is prepared and audited at a very high-level. The participants
43 explained that the materiality level is high and that it does not provide assurance that
44 each account is accurate. Interestingly, the participants most actively involved in budget
45 oversight expressed greater interest in accuracy at the account level. These participants
46 noted a desire for the information to be audited at a lower level--appropriation or

1 account level. Materiality levels for an audit opinion are determined based on the detail
2 presented on the face of the statements, rather than the information behind them.

3
4 The participants discussed that financial statement readers want to know how much is
5 being spent on each activity, but how to define an activity could be difficult. Also, the
6 level of detail needed by internal users and the terminology they use can vary
7 considerably. Internal users do need assurances of the integrity of the data but external
8 users may not need account-by-account reporting.

9
10 The participants discussed the fact that FASAB does not prescribe budgetary standards
11 and determining how to select accounts and sub-accounts to programs may not be
12 within FASAB's authority. It was noted that there are other ways of meeting the needs
13 of internal users without FASAB involvement. For instance, as part of its OMB Circular
14 A-136, *Financial Reporting Requirements*, OMB could develop criteria for more detailed
15 reporting. A participant noted that perhaps the current set of financial statements are
16 fine, except there is a need to drill down to a lower level, such as the account level, for
17 presentation and audit on items such as budgetary resources, obligations, and outlays.

18 **Conveying Accountability**

19
20
21 The Budgetary Objective states "Federal financial reporting should assist in fulfilling the
22 government's duty to be publicly accountable for monies raised through taxes and other
23 means and for their expenditure in accordance with the appropriations laws that
24 establish the government's budget for a particular fiscal year and related laws and
25 regulations." Certain participants noted that the Statement of Budgetary Resources
26 does not accomplish this. Specifically, several participants expressed the view that the
27 statement does not demonstrate whether an entity is publicly accountable.

28
29 The participants noted that the public's perception or context of the government is
30 normally communicated in terms of budgets and appropriations, yet the financial
31 statements do not convey information in these terms and many perceived this as a
32 disconnect. Certain participants believed that reporting in a traditional commercial
33 model probably contributes to the public's lack of understanding about the way the
34 government is making its financial decisions.

35
36 Most participants agreed that a budget to actual comparison would provide a better
37 report in meeting the overall Budgetary Objective. Specifically, several participants
38 expressed the view that a budget to actual comparison at some meaningful level of
39 detail would meet the objective of having the government publicly accountable. The
40 participants discussed the need for a single report that presents budget versus actual
41 information at a lower level such as appropriation account level.² The participants

² An appropriation account is "the basic unit of an appropriation generally reflecting each unnumbered paragraph in an appropriation act. An appropriation account typically encompasses a number of activities or projects and may be subject to restrictions or conditions applicable to only the account, the appropriation act, titles within an appropriation act, other appropriation acts, or the government as a

1 discussed that there is also Congressional interest in financial statements that show
2 budget versus actual comparisons for each program.

3
4 A few participants noted that state and local governments show budget to actual by
5 some major objective or activity. Specifically, state and local governments show their
6 original budget, final budget, a comparison between the actual and final budget
7 (prepared on the same basis), and the variance (see Appendix I for an example). Most
8 participants agreed that this type of information is useful to the public and that you don't
9 get this from the federal government's financial statements. There is a footnote
10 disclosure that shows the total of the President's Budget compared to total outlays, but
11 most participants believed that it is at such a high level that it is not meaningful.

12
13 A participant noted that the President's Budget does provide much of the information
14 necessary to meet the Budgetary Integrity objective because it does provide detailed
15 budget information. Most participants believed that there would be value if that
16 information was subject to audit. However, it was pointed out that such audits may be a
17 challenge because agencies change their programs or rename activities as detailed in
18 the budget from one year to the next, and the information would be difficult to compare
19 over time if not properly restated. The participants noted that the information to
20 compare budgeted amounts to actual amounts is available through the budget reports
21 but it involves looking at several reports and pulling amounts from the previous year.
22 Most participants believed it would be beneficial to have a concise audited statement
23 that showed the budgeted to actual amounts at some level that was subject to audit.

24
25 Given the interest in an audited report containing detailed budget versus actual
26 information, the participants discussed what vehicles could be used to prescribe such a
27 report. It was noted that there would be some benefit to FASAB prescribing a special
28 report, not a part of the financial statement reports, with detailed budget versus actual at
29 the appropriation account level. However, as noted above, FASAB does not prescribe
30 budgetary standards³ and participants believed that determining how to prescribe
31 accounts and sub-accounts to programs may not be within FASAB's authority.

32
33 It was noted that there are other ways of meeting the need for an audited report
34 containing detailed budget versus actual information. For instance, as part of its OMB
35 Circular A-136, *Financial Reporting Requirements*, OMB could develop criteria for more
36 detailed reporting on the Statement of Budgetary Resources that would include
37 additional columns that would compare budgeted amounts to actual information.

whole." See *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP, September 2005. Also, there are over 1,200 individual appropriations.

³ FASAB is prohibited by the Memorandum of Understanding which created it from setting or proposing "budget concepts, standards and principles." When the Board wishes to present information related to the budget it does so by calling for that information without prescribing detailed definition, measurement, recognition or display standards. For example, SFFAS 7 (par. 77 and 78) requires presentation of information on the budgetary resources made available to the entity, the status of those resources and outlays for the period. However, SFFAS 7 indicates that "recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34."

1
2 Staff Analysis and Recommendations:
3

4 *The Budgetary Objective states “Federal financial reporting should assist in fulfilling the*
5 *government’s duty to be publicly accountable for moneys raised from the public and for*
6 *their expenditure in accordance with applicable laws that establish the budget and other*
7 *related laws and regulations.” As a means to help achieve this objective, agencies are*
8 *required to prepare and submit for audit a Statement of Budgetary Resources in*
9 *addition to the other required financial statements.*

10
11 *The Statement of Budgetary Resources and related disclosures provide information*
12 *about budgetary resources made available to an agency as well as the status of those*
13 *resources at the end of the fiscal year. The Statement of Budgetary Resources and*
14 *related note disclosures serve as a tool to link budget execution data in an agency’s*
15 *financial statements to information reported in the “actual” column of the Program and*
16 *Financing Schedules in the Appendix of the Budget of the United States Government*
17 *(the President’s Budget). Coupled with the analysis of other budgetary data, the*
18 *Statement of Budgetary Resources linkage to the President’s Budget provides a means*
19 *to help assess the reliability of budgetary data reported in the President’s Budget. The*
20 *proper preparation and audit of the Statement of Budgetary Resources is a key to this*
21 *assessment. Further, reliable “actual” data in the President’s Budget helps ensure that*
22 *officials have accurate and complete information with which to assess spending by*
23 *agencies*

24
25 *It should be noted that information on the Statement of Budgetary Resources should be*
26 *consistent with and reconciled to the budget execution information reported on the*
27 *Report on Budget Execution and Budgetary Resources (SF 133) and the format of the*
28 *Statement of Budgetary Resources is based on the SF 133. Recognition and*
29 *measurement of budgetary information reported on this statement should be based on*
30 *budget terminology, definitions, and guidance in OMB Circular A-11, Preparation,*
31 *Submission, and Execution of the Budget (as amended). OMB Circular A-11 provides*
32 *definitions and instructions for each line item reported in this statement.*

33
34 *Beginning with fiscal year 2006, OMB revised the format of the SF 133. To align with*
35 *this change, the illustrative format of the Statement of Budgetary Resources in the OMB*
36 *Circular A-136, Financial Reporting Requirements also changed. The new format of the*
37 *Statement of Budgetary Resources planned to be included in OMB Circular A-11 as*
38 *amended, should be used beginning with the first quarter of fiscal year 2006 as*
39 *agencies submit interim financial statements to OMB. The enhancements to the*
40 *Statement of Budgetary Resources should facilitate the reconciliation of information*
41 *between the Statement of Budgetary Resources, and actual information reported in the*
42 *President’s Budget. Therefore, it appears that OMB has made certain changes to the*
43 *Statement of Budgetary Resources and may continue to explore other options that*
44 *would better demonstrate accountability. In an OMB lead effort, FASAB may be*
45 *consulted regarding alternative presentations. Alternatively, FASAB may wish to*
46 *consider how effectively its current reporting model aligns with the budgetary objective.*

1
2 *Paragraph 114 of SFFAC 1 describes the focus of the Budgetary Objectives as follows*
3

4 *114. The focus of this objective is retrospective. That is, the focus is on recording actual*
5 *data from budget execution against appropriations made by Congress using existing*
6 *budgetary standards. Thus, it would validate the "actual" column shown in the Budget of*
7 *the United States Government. It would also provide data that could be shown in other*
8 *reports as a statement of budget execution or a statement of the status of budgetary*
9 *resources. The data also could be displayed in analytical tables showing, for example,*
10 *the historical pattern of receipts and outlays.*

11
12 *The Board's authority does not extend to recommending budgetary standards or*
13 *concepts. Rather, the Board has recognized that assurance regarding the reliability of*
14 *budget information could be accomplished through financial reporting and subjecting the*
15 *statements to audit. Specifically, SFFAC 1 paragraphs 190-191 state:*

16
17 *190. The Board's authority does not extend to recommending budgetary standards or*
18 *budgetary concepts, but the Board is committed to providing reliable accounting*
19 *information that supports budget planning and formulation. The Board also supports*
20 *efforts to ensure the accuracy and reliability of reporting on the budget.*

21
22 *191. The Board's own focus is on developing generally accepted accounting standards*
23 *for reporting on the financial operations, financial position, and financial condition of the*
24 *federal government and its component entities and other useful financial information.*
25 *This implies a variety of measures of costs and other information that complements the*
26 *information available in the budget. Together with budgetary reports, these reports will*
27 *provide a more comprehensive and insightful understanding of the government's*
28 *financial position, results of operations, and financial condition than either set of reports*
29 *alone.*

30
31 *Concerning the Statement of Budgetary Resources, the Board has expressed flexibility*
32 *in the level of presentation. For example, in SFFAC 1, paragraph 117, the Board*
33 *explained that information to meet the budgetary objective could be reported "by*
34 *program and for all appropriations and fund accounts summarized appropriately to fit*
35 *the intended audience."*

36
37 *Additionally, SFFAC 2 paragraph 64 states:*

38
39 *64. The assurance as to reliability of the information could be accomplished by including*
40 *a statement of budgetary resources in the reporting entity's financial statements,*
41 *recognizing that the statement will likely be subject to audit. The presentation of data*
42 *could be for the reporting entity as a whole, for the major sub-organization units*
43 *(assuming there is congruity among the major sub-organization units and the budget*
44 *accounts), or for the aggregations of the major budget accounts, rather than for the*
45 *individual budget accounts of the entity or other types of entities.*

46
47 *In SFFAS 7, the Board requires the information currently presented in the Statement of*
48 *Budgetary Resources and also that "the reporting entity should provide this information*
49 *for each of its major budget accounts as supplementary information." (par. 78) The*

1 *Board may wish to consider a project to assess whether there are enhancements that*
2 *could be made to the level and means of disaggregation called for by SFFAS 7.*
3

4 *Recommendation: Given the flexibility in current standards and OMB's ability to*
5 *enhance the statements, staff does not believe there is a need to enhance the reporting*
6 *objective or to immediately address standards regarding this issue. Staff notes that the*
7 *International Federation of Accountants' International Public Sector Accounting*
8 *Standards Board (IPSASB) has issued an exposure draft on this topic. IPSAB*
9 *encourages disclosure of comparison of budget and actual amounts. The exposure*
10 *draft focuses on entities that make their approved budgets publicly available, and*
11 *proposes that such entities include a comparison of budget and actual amounts in their*
12 *general purpose financial statements. The exposure draft also proposes:*
13

- 14 • *That a comparison of budget and actual amounts be presented either as a*
15 *separate additional financial statement or as additional budget columns in the*
16 *financial statements currently presented in accordance with International Public*
17 *Sector Accounting Standards.*
- 18 • *Disclosure of the reasons for material differences between budget and actual*
19 *amounts.*
- 20 • *That, in a report issued in conjunction with, or at the same time as, the financial*
21 *statements, the entity present an explanation of whether changes between*
22 *original and final budget are a consequence of reallocations within the budget, or*
23 *of other factors.*
24

25 *Staff does not recommend immediate action by the Board on this issue. Instead, OMB*
26 *participants in the roundtable indicated that OMB may research this issue further and*
27 *determine if the Statement of Budgetary Resources could be expanded to include a*
28 *more detailed level of presentation as well as a comparison of budgeted to actual*
29 *amounts. If so, OMB could prescribe a more detailed level of presentation through its*
30 *OMB Circular A-136, Financial Reporting Requirements guidance. When the Board*
31 *considers the individual financial statements in a later phase of the conceptual*
32 *framework, these concerns may be addressed by the Board.*
33
34

35 • **Statement of Financing and Sub-objective 3**
36

37 Sub-objective 3 of the Budgetary Objective reads “Federal financial reporting should
38 provide information that helps the reader to determine how information on the use of
39 budgetary resources relates to information on the costs of programs operations and
40 whether information on the status of budgetary resources is consistent with other
41 accounting information on assets and liabilities.” Several participants commented that
42 this sub-objective is not being achieved through the current financial reports. Most
43 would agree that the Statement of Financing is the statement that is intended to help
44 achieve this but it is in fact not being achieved. The participants noted that this sub-
45 objective points to integrating the Statement of Net Cost with the budget and appears to

1 require a reconciliation to show how the budget compares to other information
2 presented in the financial statements.

3
4 The participants viewed that most users of the financial statements do not understand
5 the Statement of Financing and therefore, may not understand the relationship between
6 budget and cost that it is attempting to convey. Several participants commented that
7 most preparers and auditors utilize the detailed crosswalk provided by the Treasury's
8 Financial Management Service to prepare the statement, but most believe this does not
9 involve a lot of thinking about what the numbers are actually communicating.

10
11 Despite concerns regarding the understandability of the Statement of Financing, the
12 participants agreed that there is value in performing the exercise, but some questioned
13 if it should be a published report as most readers find it tremendously confusing. The
14 participants believed that the Statement of Financing may show that the agency can
15 reconcile the amounts and therefore it is a useful tool, but not something that can be
16 conveyed in an understandable financial statement. Consequently, most of the
17 participants believed the Statement of Financing may serve as an internal document
18 rather than a published document.

19
20 One participant suggested that Sub-objective 3 appears to refer to a reconciliation
21 exercise. The participant suggested that the Board should consider whether that is
22 significant enough to rise to the level of a sub-objective of financial reporting or whether
23 it should be a matter addressed to internal auditors and accountants to gain assurance
24 regarding the numbers. The participant noted that it appeared the sub-objective goes
25 down to a rule level and does not seem appropriate for a sub-objective. The participant
26 discussed that most would agree that a reconciliation is needed to be performed
27 internally and it assists in achieving the objective, but the participant questioned
28 whether it should be included as a sub-objective that indicates this is how to meet that
29 objective, especially when there may be other plausible ways.

30
31 For instance, certain participants noted that the best way to accomplish the sub-
32 objective would be the integration of the Statement of Net Cost with the Budget and
33 they should align. For example, there should be alignment between the programs
34 identified in the Statement of Net Cost and the programs listed in the Budget. The
35 participants noted that most agencies are tracking major programs in the Statement of
36 Net Cost and including this information with programs in the Management Discussion
37 and Analysis, but very few actually align these with the programs reported in the
38 Budget. Certain participants described that it would be ideal to have financial
39 statements report costs consistent with the program and financing schedules and object
40 classes as reported in the budget, and then align these with the GPRA goals to achieve
41 symmetry and accomplish the integration.

42
43 Staff Analysis and Recommendations:

44
45 *The Board primarily created the Statement of Financing to assist readers in*
46 *understanding the difference between obligations, reported in the Federal budget and*

1 *the Statement of Budgetary Resources, and the net cost of operations reported in the*
2 *Statement of Net Cost. “Net cost of operations” is the focal point of the Statement of*
3 *Financing and the Board perceived that information about gross and net cost to be the*
4 *principle advantage that financial statements offer those concerned with the budget and*
5 *those concerned with performance measurement. Consequently, reconciling budgetary*
6 *obligations with net cost can help individuals making program authorization,*
7 *modification, and discontinuation decisions. Additional benefits of the Statement of*
8 *Financing include:*

- 9
- 10 ○ *Reporting information not shown elsewhere in the financial statements,*
11 *such as the net change in the amount of obligations for undelivered orders*
12 *from the beginning to the end of the period, and the future budgetary*
13 *funding requirements for transactions reflected in the net cost of*
14 *operations for the period; and*
- 15 ○ *Providing additional assurance about the reliability of the system that*
16 *produces the accounting and budgetary information.*⁴
- 17

18 *SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for*
19 *Reconciling Budgetary and Financial Accounting, amended SFFAC 2, Entity and*
20 *Display, to include the Statement of Financing among the items to be included in*
21 *Federal financial reports. However, it was noted that OMB would provide guidance for*
22 *the statement. Particularly, in reference to the Statement of Financing, SFFAC 2 states,*
23 *“OMB will provide guidance regarding details of the display for the Statement of*
24 *Financing, including whether it shall be presented as a basic financial statement or as a*
25 *schedule in the notes to the basic financial statements.”*

26

27 *The Board intended that the Statement of Financing would facilitate understanding and*
28 *permitted flexibility in what should be conveyed. SFFAS 7, paragraph 95 states that*
29 *information in the statement should “...be presented in a way that clarifies the*
30 *relationship between the obligation basis of budgetary accounting and the accrual basis*
31 *of financial (i.e., proprietary) accounting. By explaining this relationship through a*
32 *reconciliation, the statement provides information necessary to understand how the*
33 *budgetary (and some nonbudgetary) resources finance the cost of operations and affect*
34 *the assets and liabilities of the reporting entity.” SFFAS 7 provides logical groupings of*
35 *reconciling items that help the reader move from obligations to net cost of operations.*

36

37 *SFFAC 1, paragraphs 120 and 121 discuss that sub-objective 3 arises from the fact that*
38 *accrual-basis measures of cost of government programs and activities may differ from*
39 *the amounts used in the budget for a variety of reasons. Reports intended to address*
40 *the overall objective and the first two sub-objectives would use budgetary*
41 *measurement, while reports intended to address sub-objective 3 would use both*
42 *budgetary and accrual measures because “reconciliation of the two is implied.”*

43

⁴ Implementation Guide to Statement of Federal Financial Accounting Standards No. 7: Accounting for Revenue and Other Financing Sources, paragraphs 72 and 73.

1 Although the intent of the Statement of Financing was to provide understanding, it
2 appears that the statement is not achieving that objective. In addition to comments by
3 the participants at the roundtable, others have indicated that the statement is not
4 achieving that objective. For example, respondents to the Board's recent Technical
5 Agenda expressed that the statement is confusing. A typical comment was that, "In its
6 current format, it is understood by very few preparers, auditors, or financial statement
7 users and its preparation does consume significant resources." Staff also notes that the
8 financial management community has long acknowledged dissatisfaction with the
9 Statement of Financing and has conveyed this to FASAB staff through communications
10 at conferences, workgroups, and other government-wide meetings.

11
12 At the government-wide level, SFFAS No. 24: Selected Standards for the Consolidated
13 Financial Report of the United States Government requires two statements for the
14 Consolidated Financial Report of the U.S. Government (CFR). One statement
15 reconciles accrual-based net operating results to the cash-based unified budget
16 (includes all federal activities). The other report shows how the annual unified budget
17 relates to changes in operating cash. Regarding the statements, SFFAS No. 24 states,

18
19 10. The financial report of the Government as a whole should provide a financial
20 statement reconciling net operating revenue (or cost) and the annual unified
21 budget surplus (or deficit). The financial statement should highlight:

22
23 •The components of net operating revenue (or cost) that are not part of the
24 unified budget surplus (or deficit), including the accrued and amortized
25 expenses not included in budget outlays and the accrued or other revenue
26 not included in budget receipts; and

27
28 •The components of the unified budget surplus (or deficit) that are not part
29 of net operating revenue (or cost), including budget receipts and outlays
30 that are not included in net operating revenue (or cost).

31
32 12. The Government as a whole should provide a financial statement explaining
33 how the annual unified budget surplus or deficit relates to the change in the
34 Government's cash. The financial statement should highlight:

35
36 •The components of the unified budget surplus or deficit that are not part
37 of the annual change in cash, including non-cash budget outlays; and

38
39 •Items affecting the Government's cash balance that are not included in
40 the budget outlays or receipts. The statement should prominently display
41 the cash inflow and outflow related to the changes in debt held by the
42 public and interest accrued and interest paid on debt held by the public.

43
44 In issuing these requirements, the Board noted the importance of both budgetary and
45 financial information and the need to assist users in relating the two. The statements

1 would enhance the use of Government financial reports for planning and control
2 purposes. SFFAS No. 24 states,
3

4
5 25. *Accrual accounting is the basis for proprietary accounting in the Federal
6 Government. Proprietary accounting and budgetary accounting are
7 complementary. Proprietary accounting provides an understanding of the
8 entity's net position and cost of operations during a period. Federal
9 Government financial statements have not been used for planning and
10 control as much as they might be. In part, this is because general purpose
11 financial reports have not presented budget information with the financial
12 statements in a way that helped users relate these two important, but
13 different, types of financial information. The Board's objective in requiring
14 new statements in the CFR addresses this issue.*

15
16 *In addition, the CFR statements would help achieve basic objectives of financial
17 reporting and in particular, sub-objective 3.*

18
19 *Understanding the relationship between budgetary and accrual accounting information
20 is important to understanding the information included in Government financial reports.
21 Users can use the CFR reconciling and statement of changes in cash balance reports to
22 identify information such as:*

- 23
24
- *major differences between the net operating cost and the unified budget,*
 - *how much of the federal government's operating cost was attributed to depreciation,*
 - *how much the federal government spent on capitalized fixed assets,*
 - *increases in federal borrowing as a result of the federal government spending more than it collected in taxes, and*
 - *decreases in federal borrowing as a result of a budget surplus.⁵*
- 25
26
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32

33 *Recommendation:* *The intent of the Statement of Financing was to assist in
34 understanding the difference between obligations, reported in the Federal budget and
35 the Statement of Budgetary Resources, and the net cost of operations reported in the
36 Statement of Net Cost. However, there is concern that the Statement of Financing may
37 not be conveying the information in an understandable way to achieve sub-objective 3).
38 Although an important tool for internal preparers and auditors, the Statement of
39 Financing may need enhancements to be a meaningful statement for readers or users
40 of the financial statements. As discussed above, SFFAC 2 states that OMB could
41 provide more prescriptive guidance for the Statement of Financing. The Board could
42 monitor OMB's progress on this topic as OMB considers annual revisions to its
43 guidance on financial reporting.*

44

⁵ Understanding the Primary Components of the Annual Financial Report of the United States Government, GAO-05-958SP, September 2005, pp. 13 and 15.

1 Also, regarding sub-objective 3, explaining the complimentary nature of budgetary and
2 accrual accounting information helps the user understand and identify key information
3 included in the federal government's financial statements. However, the information
4 does not necessarily need to be presented as a basic financial statement. SFFAC 2
5 states that OMB could determine whether it shall be presented as a basic financial
6 statement or as a schedule in the notes to the basic financial statements. Because this
7 determination is a responsibility of OMB, there are no specific staff recommendations.
8
9

10 • Internal versus External Users

11
12 There was a notion among certain participants in the group that determining who should
13 be the Board's audience was a fundamental issue. Specifically, certain participants
14 believed the Board should select whether financial reporting is intended for internal or
15 external users. The participants believed that when evaluating the financial reporting
16 objectives, the Board may need to consider its audience and then determine what
17 information is useful for that audience. The participants explained that the reason for
18 this view is that information that is important for managing an organization may not be
19 useful for demonstrating accountability to the public at large. For example, the
20 participants noted that the way the Performance and Accountability Reports (PARs) are
21 currently structured is not useful to either audience, and the way individuals operate
22 government is different from what they need to communicate to the public. Participants
23 also noted that PARs are a struggle for external users to understand. Some reports are
24 500 pages in length and are overwhelming to read.
25

26 The participants discussed the fact that FASB and GASB based reports are focused on
27 external users and the reports are meant to be accountable to someone outside of
28 management. Certain participants believed that the FASAB standards and resulting
29 reports are geared more towards external users as well, and the benefit to internal
30 users comes from the audit process itself. Specifically, auditing the financial statements
31 has served to improve the accounting and underlying data that the agencies use in
32 managing programs. The internal users' needs are met through the preparation and the
33 integrity of the system. Further, the financial reports themselves are not the end; rather
34 they are the means to improving data that managers actually use.
35

36 Staff Analysis and Recommendations:

37
38
39 *In June 2003, when considering the plan for the conceptual framework project, the*
40 *Board discussed the need for a new users' needs study and deliberated the implications*
41 *of the internal/external dual focus of SFFAC 1. At that time, the Board determined that*
42 *a users' needs study was not necessary. During the December 2003 Board meeting,*
43 *the Board again discussed the topic further and appeared comfortable with maintaining*
44 *the internal/external dual focus.*
45

1 *Recommendation:* Based on the discussion at the December 2003 meeting, the Board
2 appeared comfortable with maintaining the internal/external dual focus. However, staff
3 believes discussions from the other roundtable meetings may be helpful in determining
4 if this is a prevalent issue that should be revisited and a recommendation should be
5 delayed until after those meetings have occurred.
6
7

8 • Other Report Formats and Other Guidance Vehicles

9

10 Several participants commented that some of the PARs are over 500 pages in length
11 and are overwhelming to read. The participants agreed that it is a struggle to clearly
12 communicate the information effectively in the PARS. The participants noted that many
13 agencies are moving towards a 'popular report' or a 'condensed report' and believed
14 that the general public may find those much more useful and interesting. One
15 participant commented that condensed reports are easier for the public to understand.
16 Participants agreed that summary reports with a link to the detailed report would be an
17 improvement. The participants discussed that FASAB may want to consider the
18 requirements for the popular or condensed reports.
19

20 The participants discussed the use of multiple reports to convey different information.
21 The participants believed that the current financial statement reports are blended and
22 contain what some might consider special reports along with general-purpose financial
23 statements. Certain participants commented that if the Board took the approach of
24 multiple reports, the Board could consider what it wants a particular report to
25 communicate. The participants expressed interest in the Board using multiple reports,
26 some for external users and other reports that focus on internal users. Additionally, the
27 participants discussed that FASAB could in theory have a whole series of types of
28 pronouncements that address issues such as budgetary reporting or performance
29 reporting. The participants discussed that these pronouncements could be for special
30 reports and not for producing GAAP financial statements.
31

32 The participants discussed the use of multiple reports by reporting entities and special
33 report guidance from GASB in the state/local government arena as a possibility. For
34 example, GASB developed a special report regarding suggested criteria for effective
35 performance reporting. This report did not have authoritative status but provided criteria
36 for performance reporting. The participants discussed that FASAB could develop
37 similar reports depending on the objective they would like to achieve. The participants
38 discussed that similar to GASB, FASAB could setup a tool that is prescriptive for a
39 special report on accounts and that the auditors could use as a benchmark to test this
40 separate report.
41

42 The participants acknowledged that standards-setters typically use tools such as
43 concept statements, standards, and implementation guidance. The ones with force are
44 the standards and implementation guidance. These come into play when an entity is
45 producing a GAAP set of financial statements and seeking an audit opinion. FASAB
46 could in theory have a whole series of pronouncements that address detailed budgetary

1 account reporting and place these pronouncements under a category such as standards
2 of budgetary reporting. These standards would be used to judge the report and, as a
3 special report, the report would not be a part of the financial statements.
4

5 The participants also discussed that the special reports could alternatively be
6 accomplished through guidance produced by OMB instead of FASAB. Specifically, the
7 participants discussed that one could envision an attestation engagement that would not
8 necessarily need a FASAB pronouncement. Specifically, OMB could prescribe how
9 information should be prepared or give a common set of guidelines to all agencies and
10 require that an auditor attest against it.
11

12 Staff Analysis and Recommendations:

13
14
15 *Reporting vehicles that are shorter in length and containing condensed or summarized*
16 *information may offer some benefits to users. For instance, readability may be*
17 *enhanced and information may be more readily obtained. For the general public in*
18 *particular, condensed reports can be designed to enhance the citizen's understanding*
19 *of financial information. State and local governments have been using condensed*
20 *reports called "popular reports" to communicate financial information to citizens and*
21 *some federal agencies are starting to use summary reports or "highlights" to*
22 *communicate information to citizens about their organizations. While there may be*
23 *benefits to these reporting vehicles, some users require detailed information to assist*
24 *them in managing and monitoring government programs. Also, the Management's*
25 *Discussion and Analysis (MD&A) section of financial reports is intended to communicate*
26 *financial and performance results in a concise, readable manner for a broad audience.*
27

28 *State and local governments have been utilizing popular reports to help make financial*
29 *information easier for citizens to understand. For example, the popular report for the*
30 *Commonwealth of Virginia notes that information in the financial statements are*
31 *technical and complex and, as a result, the full financial statements may not be*
32 *particularly useful to the citizens who wish to better understand state government*
33 *finances. The popular report is intended to better inform the public about their*
34 *government's financial condition, without excessive detail or the use of technical*
35 *accounting terms.*
36

37 *GASB notes that external reports include popular reports and Comprehensive Annual*
38 *Financial Reports (CAFRs). The popular reports are less detailed and are often*
39 *intended for users whose financial reporting needs are better satisfied through more*
40 *condensed information. CAFRs are more detailed and are intended for users who need*
41 *a broad range of information. Both popular reports and CAFRs may include such*
42 *nonfinancial information as statistical data, analytical data, demographic information,*
43 *forecasts, economic and service delivery statistics, legally required data, narrative*
44 *explanations, and graphic displays.⁶*
45

⁶ GASB Concepts Statement No. 1, Objectives of Financial Reporting, paragraph 6.

1 In addition, similar to FASAB, the GASB considered that some financial reporting
2 objectives can be met by means of reporting beyond the general purpose financial
3 statements (GPFS) and outside the CAFR, such as in the popular report. In its
4 Concepts Statement No. 1, Objectives of Financial Reporting, paragraph 91, the GASB
5 stated,

6
7 ...developing and implementing standards to achieve these objectives will
8 be an ongoing and evolutionary process. The Board has no preconception
9 of precisely how an individual objective will be met. It is likely that some
10 objectives will be accomplished in the GPFS without significant extension
11 of the GPFS's scope. It is also likely that other objectives will be better
12 accomplished by some means of reporting beyond the GPFS—in the
13 CAFR, for example. In addition, some objectives may be met by standards
14 developed for means of reporting outside the CAFR—in condensed
15 "popular" reports, for example. The Board will determine—on a standard-
16 by-standard basis—the best means of financial reporting, and only after
17 full due process. The Board believes that it is unlikely that all of the
18 objectives will be, or can be, met through a single means of reporting,
19 such as the GPFS.
20

21 When summarizing information, decisions need to be made to determine what
22 information should be included and how it should be presented to ensure consistency
23 with the more detailed report. Regarding criteria for reporting information in the state
24 and local government popular reports, the National Council on Governmental
25 Accounting Statement 1, Governmental Accounting and Financial Reporting Principles
26 notes that

27
28 ...such statements should supplement, rather than supplant, the CAFR
29 and the separately issued GPFS. Further, the Council believes that the
30 data in such highly condensed summary statements should be
31 reconcilable with the combined, combining, and individual fund and
32 account group statements, and that the reader of such statements should
33 be referred to the CAFR and/or the separately issued GPFS of the
34 governmental unit. (paragraph 175)
35

36 In the federal environment, agencies are starting to use summary or highlight reports in
37 addition to the PARs. The number of agencies using summary reports increased from
38 five for FY 2002 to seven for FY 2003. This increase probably resulted from the view
39 that PARS were lengthy. Agencies needed to include all the prescribed materials in a
40 single document that was primarily of interest to persons in oversight roles, such as
41 OMB. Agencies perhaps used the summary report because they sought ways to
42 demonstrate accountability to constituents, stakeholders, new employees, members of
43 Congress and others with less extensive information.⁷ The length of the summary

⁷ Accountability Reporting Trends & Techniques: A survey of Federal Agencies' Accountability Reporting Practices, KPMG, Summer 2004, pp. 91,

1 reports for FY 2003 ranged from 24 to 84 pages,⁸ while the length of PARs ranged from
2 123 to 564 pages.⁹
3

4 Also, OMB is encouraging the use of highlight reports. OMB Circular A-136, Financial
5 Reporting Requirements, provides federal financial reporting guidance for Executive
6 branch departments, agencies, and entities required to submit audited financial
7 statements and PARs. The circular encourages a brief highlight version of the PAR.
8 Section 2.2 – Format of the PAR, footnote 2, states,
9

10 Agencies are also encouraged to develop a brief highlights version of the
11 annual PAR. The PAR Highlights should exist as a standalone document,
12 presenting key findings and relevant financial and performance data.
13 Agencies should prepare the highlights document in a manner and writing
14 style appropriate for the general public. Agencies may find it useful to
15 prepare a PAR highlights with a CD of the entire PAR document included
16 as an alternative to distributing numerous printed copies of the entire PAR
17 document.
18

19
20 Although the number of agencies using summary reports appears to be increasing,
21 some of the information contained in the reports varied. All seven summary reports
22 prepared for FY 2003 were drawn from the PARs. However, only four agencies
23 specifically mentioned the PAR and directed the reader to the PAR for more detailed
24 information. In addition, although all of the seven reports included performance results,
25 only four included financial statements and the auditor's report.¹⁰
26

27 It should be noted that a vehicle for communicating information in a concise manner
28 already exists. The MD&A section of each financial report is intended to provide
29 concise information on an agency's financial and performance results and to describe
30 these results in a manner that is readable to a broad audience. SFFAC 3,
31 Management's Discussion and Analysis, issued April 1999, states,
32

33
34 MD&A is an important vehicle for (1) communicating managers' insights
35 about the reporting entity, (2) increasing the understandability and
36 usefulness of the GPFRR (general purpose federal financial report) and
37 (3) providing accessible information about the entity and its operations,
38 service levels, successes, challenges, and future.(Summary)
39

40 MD&A should address the reporting entity's program and financial
41 performance measures, financial statements, systems and controls,
42 compliance with laws and regulations, and actions taken or planned to
43 address problems. The discussion and analysis of these subjects may be

⁸ Ibid, p. 91,

⁹ Ibid p. 5

¹⁰ Ibid pp. 92-93,

1 based partly on information contained in reports other than the GPFFR.
2 MD&A also should address significant events, conditions, trends and
3 contingencies that may affect future operations. (paragraph 1)
4

5 A Federal reporting entity's GPFFR should be understandable and useful
6 to a wide audience, not just members of the entity's management and
7 specialized analysts working for special interest groups, corporations, and
8 other entities affected by the Government's actions. Therefore, the report
9 should be accompanied by a concise narrative discussion and analysis.
10 Even insiders and specialized analysts often need such a discussion and
11 analysis to understand the report. Communication with a wide audience
12 may require effective use of colors, graphs, photographs, and charts.
13 Reporting understandable, accessible information on the Government's
14 actions and the effects of its actions helps assure accountability and
15 provides a more "level playing field" on which the public interest can best
16 be served. (paragraph 5)
17

18 Also, like a summary report, the MD&A could include links to direct the reader to more
19 detailed information.
20

21 Summary/highlight reports is an area that is newly evolving in the federal environment
22 which may require further study. SFFAC1 notes,
23

24 35. The FASAB recognizes that developing and implementing standards
25 that will contribute to achieving certain objectives may take considerable
26 time. Time will be needed to establish information-gathering systems and
27 to gain experience by experimenting with alternative approaches.
28

29 36. The FASAB expects that some of these objectives may best be
30 accomplished through means of reporting outside general purpose
31 financial reports. Indeed, the FASAB recognizes that information sources
32 other than financial reporting, sources over which the FASAB may have
33 little or no influence, also are important to achieving the goals implied by
34 these objectives.
35

36 37. In developing specific standards, the FASAB will consider the needs of
37 financial information users, the usefulness of the information in relation to
38 the cost of developing and providing it, and the ability of accounting
39 standards to address those needs compared with other information
40 sources.
41

42
43 Based on the government-wide efforts to streamline reporting requirements and to
44 consolidate reporting (Reports Consolidation Act), it appears that exploring multiple
45 reports would not be consistent with these efforts. However, encouraging the use of a
46 summary report with links to detailed reports and information does seem to be a

1 plausible way to clearly communicate what agencies are reporting. This could be
2 particularly beneficial at the CFR level. At the CFR level, users can gain insights into
3 the financial operations and condition of the federal government as a whole. Also,
4 effectively utilizing the MD&A section of financial reports may achieve similar results.
5

6 Recommendation: It appears there would be value in ensuring that agencies are
7 consistent in preparing the summary level reports and ensuring that links or narratives
8 are included that would direct users to more detailed information. However, the Board
9 should consider that the MD&A could be used to provide concise information to a broad
10 audience. FASAB could explore the possibilities of other guidance vehicles during its
11 strategic planning process. As part of strategic planning, Board members can examine
12 issues such as what the Board does and why it does it. Going through the process and
13 resolving these issues may help identify the types of guidance vehicles that will help the
14 Board achieve its goals and objectives. In addition, staff believes discussions from the
15 other roundtable meetings may be helpful in determining if this is a prevalent issue that
16 should be considered further and a final decision should be delayed until after those
17 meetings have occurred.
18
19

20 • **General Comments about the Objectives**

21
22 Most of the participants agreed that the objectives in SFFAC were very broad, but that
23 was the intent. The participants did not expect FASAB or financial statement reporting
24 to cover or meet all the objectives alone. Specific to the Budgetary Objective, several
25 participants noted that the Budget itself also assists in achieving the objectives. Other
26 than the specific comments on sub-objective 3 identified above, the participants were
27 satisfied with the wording of the Budgetary Objective and did not offer comments on the
28 other federal financial reporting objectives.
29

30 Staff Analysis and Recommendations:

31
32 *During the December 2003 meeting, the Board expressed general satisfaction with the*
33 *Budgetary Integrity objective. The discussion at the roundtable was consistent with the*
34 *Board's position that the objective appears broad, but there are other documents such*
35 *as the President's Budget that accomplishes the objective.*
36

37 Recommendation: There are no specific staff recommendations for this issue.

EXAMPLE BUDGETARY COMPARISON SCHEDULE

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF FAIRFAX, VIRGINIA
 Budgetary Comparison Schedule - General Fund (Budget Basis)
 For the fiscal year ended June 30, 2004

	Budgeted Amounts		Actual Amounts (Budget Basis)	Variance from Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,139,644,748	2,155,947,504	2,183,671,850	27,724,346
Permits, privilege fees, and regulatory licenses	26,851,322	26,902,515	28,675,370	1,772,855
Intergovernmental	320,474,316	335,179,755	339,355,974	4,176,219
Charges for services	38,148,727	41,941,708	42,529,744	588,036
Fines and forfeitures	12,044,433	12,778,263	13,272,803	494,540
Revenue from the use of money and property	16,936,547	18,797,119	18,166,576	(630,543)
Recovered costs	5,395,848	6,052,139	6,492,301	440,162
Total revenues	2,559,495,941	2,597,599,003	2,632,164,618	34,565,615
EXPENDITURES				
Current:				
General government administration	84,261,105	90,170,330	84,278,513	5,891,817
Judicial administration	26,382,592	27,146,531	26,165,531	981,000
Public safety	314,344,171	322,571,046	312,007,368	10,563,678
Public works	52,705,647	55,497,674	53,366,808	2,130,866
Health and welfare	221,752,095	234,603,394	214,474,072	20,129,322
Community development	37,687,030	40,689,690	36,794,741	3,894,949
Parks, recreation, and cultural	60,450,523	61,476,693	59,775,119	1,701,574
Nondepartmental	147,978,554	155,665,666	146,605,328	9,060,338
Total expenditures	945,561,717	987,821,024	933,467,480	54,353,544
Excess of revenues over expenditures	1,613,934,224	1,609,777,979	1,698,697,138	88,919,159
OTHER FINANCING SOURCES (USES)				
Transfers in from other primary government funds	1,396,150	1,396,150	1,396,150	-
Transfers out to other primary government funds	(374,551,862)	(419,080,185)	(419,080,185)	-
Transfers out to component units	(1,239,690,634)	(1,242,065,754)	(1,242,065,754)	-
Total other financing sources (uses)	(1,612,846,346)	(1,659,749,789)	(1,659,749,789)	-
Net change in fund balance	\$ 1,087,878	(49,971,810)	38,947,349	88,919,159

See accompanying notes to required supplementary information.

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TAB 3
SUMMARY OF THE OPERATING PERFORMANCE ROUNDTABLE MEETING¹
SEPTEMBER 28, 2005
9:00 a.m. – 12 p.m.

PARTICIPANTS

Jim Dalkin	Deloitte
Rick Hass	Department of Energy, Office of Inspector General
Diana Espinosa	Office of Management and Budget
Barry White	Council for Excellence in Government
Maurice McTigue	Mercatus Center, George Mason University
Anna Miller	Association of Government Accountants
Hal Steinberg	Former FASAB member
Terry Patton	Government Accounting Standards Board
Leo Lex	Congressional Budget Office
Robin Landauer	U. S. Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management, Government Information, and International Security
Chris Mihm	Government Accountability Office

FASAB

Wendy Comes	Executive Director
Melissa Loughan	Assistant Director
Ross Simms	Assistant Director

PURPOSE OF ROUNDTABLE AND DISCUSSION TOPICS

FASAB's conceptual framework ensures that federal financial accounting standards are based on a sound framework of objectives and concepts. During its initial years of operation, FASAB developed a core set of accounting standards and concepts statements. Now, after 12 years of substantial progress, the Board believes that it is time to revisit the concepts given the changes in the federal financial reporting environment since the first concepts statement was issued.

The Board relies on Statement of Federal Financial Accounting Concepts 1 (SFFAC 1) – *Objectives of Federal Financial Reporting*, issued September 2, 1993, to support its deliberations on financial reporting issues. The first phase of the conceptual framework project involves reviewing the four objectives of financial reporting as described in SFFAC 1. The four objectives of financial reporting are Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. The Board is evaluating these objectives with a focus on (1) clarifying their broad characteristics (by determining if they

¹ Complete transcripts for the Roundtable Meeting are available upon request.

1 are still valid and appropriate and whether additional ones are necessary) and (2)
2 defining the Board's role in achieving the objectives as the nature of the Board's
3 involvement may vary.

4
5 This was the second of four roundtable meetings on each financial reporting objective.
6 This meeting focused on the Operating Performance objective and its primary purpose
7 was to discuss how the objective might be improved to facilitate its use as a means for
8 guiding the Board in developing standards of financial accounting and reporting and in
9 developing solutions to financial accounting and reporting issues. The meeting
10 discussions involved issues such as:

- 11 • Participants' experience with the Operating Performance objective.
- 12 • How changes in the federal environment since 1993 may affect the Board's
- 13 reconsideration of the Operating Performance objective.
- 14 • What the scope of FASAB's role should be in meeting the Operating
- 15 Performance objective.
- 16 • General matters regarding the objectives of federal financial reporting and
- 17 SFFAC 1.
- 18
- 19
- 20

21 **Operating Performance Objective of Federal Financial Reporting in** 22 **Existing FASAB Literature**

23
24 The Operating Performance objective of federal financial reporting states that:

25
26 Federal financial reporting should assist report users in evaluating the service
27 efforts, costs, and accomplishments of the reporting entity; the manner in which
28 these efforts and accomplishments have been financed; and the management of
29 the entity's assets and liabilities. Federal financial reporting should provide
30 information that helps the reader to determine:

- 31
- 32 • the costs of providing specific programs and activities and the composition of,
- 33 and changes in, these costs;
- 34 • the efforts and accomplishments associated with federal programs and the
- 35 changes over time and in relation to costs; and
- 36 • the efficiency and effectiveness of the government's management of its
- 37 assets and liabilities.
- 38
- 39

40 **Summary of Issues, Including Staff Analysis and Recommendations**

41
42 The participants confirmed that performance reporting is an important initiative in the
43 federal government and they discussed matters associated with reporting on program
44 performance. While they did not determine a need for FASAB to consider changes to
45 the Operating Performance objective of financial reporting, the participants did discuss

1 issues and methods that could enhance achievement of the objective. The issues and
2 methods discussed and FASAB's staff analyses are presented as follows.

3
4
5 • **Challenges in Achievement of the Operating Performance Objective**
6

7 Based on their experiences working with federal agencies and reviewing agency
8 performance and accountability reports, the participants offered their views on how well
9 the Operating Performance objective is being achieved. Generally, they noted that
10 while there is a need to maintain high standards, agencies are still having difficulty
11 meeting basic financial reporting requirements as well as the objective. Additionally, the
12 participants noted that agencies continue to struggle with determining what information
13 should be conveyed. The participants also believed that integrating financial and
14 performance systems and consequences for not controlling costs may help change
15 behavior and begin to address some of the challenges. Further, the participants
16 discussed that FASAB could have a role in education and providing non-authoritative
17 guidance, but some participants felt that guidance vehicles already exist and more
18 guidance may overwhelm a community already struggling to meet requirements.
19 A description of each of these challenges in achieving the operating performance
20 objective follows.

21
22 **Systems and Control Issues**
23

24 Certain participants explained that because of system issues and internal control
25 weaknesses, agencies are having difficulty meeting even some of the fundamental
26 requirements such as those involved in preparing financial statements for the standard
27 financial statement audits. The participants explained that there is a need to get internal
28 controls to a certain level before agencies can hone in on some of the performance type
29 objectives. One participant described that agencies are really far behind in terms of
30 systems and controls and added that most auditors have chosen not to rely on controls
31 while performing the financial statement audits. Although this issue may tie closer with
32 the 4th Roundtable on the Systems and Control Objective, the participants did want to
33 point out that this issue affects achieving the Operating Performance Objective.
34

35
36 **Determining Appropriate Information to Convey and Utility of Information**
37

38 The participants explained that agencies are having difficulty determining the
39 appropriate information to convey through performance measures. Additionally, the
40 participants described that agencies are having difficulty determining unit cost
41 information, linking that information to outcome, and developing performance measures
42 for some services. Participants noted that, in some instances, performance measures
43 can not be quantified. Further, the participants explained that agency difficulty in
44 achieving the objective could be due to more than simply the agency's level of effort and
45 capacity. Other concerns and comments regarding the challenges in conveying the
46 appropriate information and to achieving the objective include:

- When focusing on accomplishments, skills beyond those of a typical accountant are needed, such as the disciplines of program evaluation and social science research.
- For some agencies, the accomplishments have not been clearly defined. As a result, linking funding to accomplishments is difficult.
- Multi-year investments and activities pose concerns. For example, some accomplishments are the result of multiple years of investments and activities. It was believed that in some cases, spending occurs over such a long period of time that a review is not performed to determine how much was actually spent in relation to the budget. Also, evaluating long-term results requires connecting short-term outputs with the long-term outcome.
- Another factor that may be considered is that most federal programs are unique and subject to change with each administration. Consequently, developing comparable measures among entities may be a challenge.
- Meaningful outcome measures are difficult to develop. For example, if output is measured in terms of number of grants awarded, that information alone does not describe what happens with those grants.
- Outcome measures that cross organizational boundaries are difficult to capture and report. Some measures may involve other agencies and state and local governments.
- Outcome measures in the federal government could be enhanced through integrating data from states and local governments. States and local governments develop outcome measures that federal agencies could use in their reporting. The challenge would be obtaining up-front agreement on the requirements.

The participants discussed the notion that the utility of the information should be the key factor in determining what should be presented. Additionally, the participants discussed that there should be a focus on simplicity and who the audience is when determining performance information to present. Although the participants noted that the utility of the financial and performance information has improved remarkably, much work remains. Several participants explained that the eventual goal is for there to be constant and real-time cost information that could be used day-to-day to monitor performance and make managerial decisions and ultimately, be able to determine the cost per unit of success. The participants also commented that financial and performance information should not be produced for the sake of producing it, the utility of the information should drive what is reported.

Integrating Budget, Performance and Financial Information and Consequences

The participants discussed the need for integration of the many systems and information across the government. The participants explained that there is a need to establish and recognize the degree of required integration of accounting data, internal controls, financial management, and performance reporting with the capital

1 management and performance management systems. Further, the participants
2 discussed the integration of performance and financial information and the need for
3 consequences when results are not achieved or costs are not properly controlled.
4 Although the participants noted that this may be outside of FASAB's purview and
5 FASAB may not be the body to lead or direct this effort, the participants believed
6 bringing it up could stimulate discussion among appropriate parties.
7

8 The participants also discussed that there is disconnect among budget, performance
9 and financial personnel, and they appear to use different vocabulary. One participant
10 explained that although the President's Management Agenda includes Budget and
11 Performance Integration, there is still a lack of consistency in reporting information for
12 different purposes. Additionally, the participants noted differences or issues with
13 guidance issued by OMB for performance reporting, budget reporting and financial
14 reporting.
15

16 The participants noted that the Government Performance and Results Act (GPRA)
17 requirements and implementation were developed separately from financial reporting.
18 Although the participants acknowledged that reporting requirements have been
19 streamlined to integrate GPRA reporting with the financial information in the
20 Performance and Accountability Reports, much remains to truly integrate the
21 information. Integration is necessary because it is difficult to discuss "results" without
22 determining the cost and how efficiently the cost was managed to achieve those results.
23 The participants believed that to address performance and accountability reporting, a
24 community broader than the "accountants" needs be engaged.
25

26 The participants discussed that performance measures are good in different contexts,
27 and the right performance measures to have in performance and accountability reports
28 might be different than the ones that the managers are using on a day-to-day basis, and
29 they might be different from the ones that OMB uses when reviewing the effectiveness
30 of a program overall. Perhaps OMB working with agencies and other groups needs to
31 continue refining the guidance. However, the challenge is avoiding being too
32 prescriptive, because there are so many different cases.
33

34 Also, the participants discussed that the federal government may not have appropriate
35 consequences and incentives to control costs. Although some progress is being made,
36 integrating financial, performance, and performance appraisal systems could contribute
37 to changing behavior toward cost information. The Sarbanes-Oxley Act poses
38 consequences for financial officers of corporations who fail on internal control over
39 financial reporting, but OMB A-123, the comparable federal government requirement,
40 does not have consequences. One step that is being taken to integrate consequences
41 is that the federal government's human capital initiative involves linking managers'
42 appraisals and pay to results.
43

44 The participants discussed that FASAB operates in a public setting through due
45 process. An advantage of operating in this manner is that FASAB can bring people to
46 the table from different backgrounds, different fields, and have a dialogue around issues

1 such as integrating accounting, capital management, and performance management.
2 That wouldn't necessarily fall into an accounting standard that one audited against, but
3 rather would be a different kind of product, a more thought-provoking, visionary type of
4 a product. Also, while FASAB could provide some lessons learned, other vehicles, such
5 as the CFO and CIO Council already exist for communicating that information.
6
7

8 **Other Report Formats and Guidance Vehicles**

9

10 The participants noted that FASAB could have a role in education and providing non-
11 authoritative guidance. However, most participants felt that guidance vehicles already
12 exist and more guidance may overwhelm a community already struggling to meet
13 requirements. The participants also expressed the view that any guidance issued
14 should be less prescriptive and more open so it may be applied as needed to particular
15 agencies. The participants cautioned that auditors and agencies believe that too many
16 requirements already exist, and agencies are still trying to meet those. For example,
17 the participants noted that OMB A-11 provides some criteria regarding the accuracy of
18 performance information.
19

20 The participants discussed that if FASAB were to issue guidance, FASAB should
21 consider the importance of simplicity and the users of financial information. The
22 participants explained that additional guidance could result in significant amounts of
23 effort being utilized to prepare reports that users do not read. The participants
24 discussed that if FASAB pursues developing performance measures guidance, one
25 should consider that auditors may then have to verify the information. The participants
26 were concerned that when a standards setting body such as the FASAB issues
27 guidance, the natural reaction is to get someone to measure it. The participants
28 explained that if you have performance measures, it can be debated who sets those
29 measures, but the next logical step is having the accountants verify that that data is
30 accurate and this results in increased costs. The participants explained that in the case
31 of Sarbanes-Oxley, audit fees for public companies have doubled. Accordingly, the
32 participants believed having the accountants look at the performance measures could
33 have a substantial impact on the agencies' costs.
34

35 The participants discussed using GASB's approach may address this concern. GASB
36 recognized that there could be multiple general purpose external reports of interest to
37 citizens. In the late eighties, GASB hired academicians to perform research and
38 subsequently issued a number of research reports. The reports primarily focused on
39 coming up with measures. Now it appears that GASB has moved way away from that
40 approach and recently issued a special report called, Suggested Criteria for
41 Performance Reporting.² In this report, GASB does not advocate any measures at
42 least being set by a standard setter. Instead, GASB discusses that the governments
43 need to set their own measures. After more research, GASB may consider issuing
44 standards. The Association of Government Accountants has a Certificate of Excellence

² This special report describes a set of 16 suggested criteria that state and local governments can use when preparing external reports on performance information.

1 in Accountability Reporting (CEAR) program for federal agencies and a Service Efforts
2 and Accomplishments (SEA) program for state and local governments. Through SEA,
3 they are trying to encourage state and local governments to follow the GASB suggested
4 criteria.

5
6 The American Institute of Certified Public Accountants basically says that if a state or
7 local government wants to follow generally accepted accounting principles in their
8 external financial reports, and receive a clean audit opinion on them, they have to follow
9 the GASB standards. On the other hand, the performance report would be separate
10 from the financial report and no organization has designated GASB as the body to set
11 standards for this type of report.

12
13 Also, GASB advocates that governments layer their reports. In the Internet
14 environment, a user can click on, for example, a government in which they have an
15 overall interest. Then, if they have a particular interest, they can “drill down” to the next
16 level, such as public safety. From there they could drill down further and review the fire
17 or police department. The individuals in the police or fire department would set their
18 measures while considering their budget.

19
20 A participant offered an additional alternative FASAB could consider relative to
21 performance reporting. As part of the project on elements, FASAB could consider
22 defining the elements of a performance measure. GASB has done this and they
23 discuss relevance, reliability, consistency, comparability, understandability, and
24 timeliness. These may apply at the federal level, as well as the state and local level.

25
26
27 Staff Analysis and Recommendations:

28
29 *The Board acknowledged the complexities of cost measurement and performance*
30 *reporting when crafting SFFAC 1. Rather than address challenges and implementation*
31 *issues, the Board decided to establish a framework for reporting on performance to*
32 *demonstrate how cost information can assist in the process. SFFAC 1, paragraph 194*
33 *states,*

34
35 *Both cost measurement and performance measurement are complex subjects.*
36 *Difficult problems arise during attempts to implement the ideas involved. For*
37 *example, meaningful interpretation may require disaggregation of information, or*
38 *adjustment of targets for differences in client characteristics, for local conditions,*
39 *and for other factors beyond the government’s control. Such problems are*
40 *beyond the scope of this conceptual document. This Statement does not purport*
41 *to present a comprehensive discussion of how to measure cost or performance.*
42 *Neither does this Statement address the problems of implementation; it merely*
43 *shows the relationship between financial reporting and performance reporting in*
44 *conceptual terms.*
45

1 *In SFFAS 4, the Board recognized the importance of the reporting relationships among*
2 *budgetary, financial, and performance information. Specifically, par.55 of SFFAS 4*
3 *states “Proper financial management requires that the three accounting processes work*
4 *closely together to provide useful reporting to both internal and external users.”*
5 *Additionally, SFFAS 4 also presented the notion of special purpose reports by*
6 *explaining in par. 56 “Federal financial reporting encompasses general and special*
7 *purpose reports to meet the needs of the four user groups. Information produced by*
8 *managerial cost accounting appears in or influences both types of reports. As*
9 *discussed above, managerial cost accounting should provide information for use by*
10 *both financial accounting and budgetary accounting. That information is used by those*
11 *processes in producing both general purpose and special purpose reports.” SFFAS 4*
12 *addressed the linkage to performance reporting as follows:*

13
14 *57. Managerial cost accounting also results in reports of its own. Most often*
15 *these are special purpose reports designed for internal users, typically program*
16 *and line managers. However, they may be for groups generally considered*
17 *external users.*

18
19 *58. One of the most important aspects of reporting in which managerial cost*
20 *accounting plays a large role is that of performance reporting. Measuring and*
21 *reporting actual performance against established goals is essential to assess*
22 *governmental accountability. Cost information is necessary in establishing*
23 *strategic goals, measuring service efforts and accomplishments, and relating*
24 *efforts to accomplishments. The importance of cost information in relation to*
25 *performance measurement and performance reporting has been recognized in*
26 *the Objectives of Federal Financial Reporting, which said “One reason for*
27 *performing cost accounting is to assist in performance measurement” and it also*
28 *stated that “The topics of cost and performance measurement are related*
29 *because it is by associating cost with activities or ‘cost objectives’ that accounting*
30 *can make much of its contribution to reporting on performance.*

31
32 *As noted in the above paragraphs, it appears the Board has attempted to make clear*
33 *the importance of the reporting relationships among budgetary, financial, and*
34 *performance information. Staff believes efforts to further integrate systems may be*
35 *best accomplished through other means, such as guidance from OMB. It should be*
36 *noted that the President’s Management Agenda (PMA) does include the Budget and*
37 *Performance Integration initiative. This initiative directs departments to improve*
38 *program results and to ensure that performance is routinely considered in funding and*
39 *management decisions. The goal of this initiative is to use performance information in*
40 *budgeting and improving program performance and efficiency. The standards for*
41 *success in this initiative includes areas such as demonstrating improvement in program*
42 *performance and efficiency in achieving results, strategic plans contain outcome-*
43 *oriented goals and objectives, and linkage of performance appraisal plans and award*
44 *programs for all SES and managers.*

1 The Board noted the broad nature of performance reporting and its relationship to
2 financial reporting and utilized some of GASB's performance reporting work in
3 describing the relationship between performance and financial reporting. SFFAC 1
4 paragraph 199 states,

5
6 *Performance reporting is broader than financial reporting, but good financial*
7 *reporting is essential to support performance reporting. The GASB has identified*
8 *three broad categories of measures for reporting on performance of state and*
9 *local governmental entities: those that measure service efforts, those that*
10 *measure service accomplishments, and those that relate efforts to*
11 *accomplishments. Although some performance measures may not be clearly*
12 *assignable to one of these categories, the categories are helpful for*
13 *understanding how and where financial reporting can contribute to performance*
14 *reporting by providing relevant financial information.*

15
16 *The Board further noted the evolutionary nature of the standards setting process by*
17 *discussing that, in future projects, the FASAB may wish to change or expand parts of*
18 *the financial and performance reporting framework described in SFFAC 1 (SFFAC1,*
19 *paragraph 200). Since FASAB issued SFFAC1, GASB has been making progress in*
20 *the area of performance reporting. GASB developed a special report entitled, Reporting*
21 *Performance Information: Suggested Criteria for Effective Communication, issued*
22 *October 2003. The special report suggests criteria that provide a basis for more*
23 *extensive experimentation with the external reporting of service efforts and*
24 *accomplishments (also referred to as performance information) that will communicate*
25 *relevant, reliable information about the results of government programs and services to*
26 *elected officials, citizens, and other users. Over the next few years, GASB plans to*
27 *encourage and assist with experimentation using the suggested criteria.*

28
29 *While GASB is making progress in performance reporting, some groups do not believe*
30 *that an accounting standards board should be involved in setting standards concerning*
31 *performance reporting. They believe that performance measures are managerial in*
32 *nature and setting standards for performance could imply defining what the government*
33 *should do and how it should spend money, which is more appropriately the role of*
34 *elected officials. Also, the existence of benchmarks established by a standard-setting*
35 *body may place pressure on organizations to conform their own performance measures*
36 *to the standard-setter's model measures.*

37
38 *In addition, FASB includes neutrality among the desired qualitative characteristics of*
39 *accounting information, while asserting that its standards affect resource allocation.*
40 *Although FASAB does not include neutrality as a qualitative characteristic of financial*
41 *reporting, the Board has stated in SFFAC 1, paragraph 193, that setting performance*
42 *targets³ is a function of management (elected and appointed officials) and that financial*
43 *reporting standards deal with what information is reported and how it is reported.*
44

³ A performance target refers to the desired level of performance defined by elected or appointed officials.

1 *Recommendation:* Staff does not believe there is a need to enhance the reporting
2 objective or to immediately address standards regarding the issues identified above.
3 FASAB could explore the possibilities of other guidance vehicles during its strategic
4 planning process. As part of strategic planning, Board members can examine issues
5 such as what the Board does and why it does it. Going through the process and
6 resolving these issues may help identify the types of guidance vehicles that will help the
7 Board achieve its goals and objectives. In addition, staff believes discussions from the
8 other roundtable meetings may be helpful in determining if this is a prevalent issue that
9 should be considered further and a final decision should be delayed until after those
10 meetings have occurred. Also, in later phases of the Conceptual Framework project,
11 the Board could consider updating SFFAC 1 for recent developments in the relationship
12 between financial reporting and performance reporting.
13
14

15 • **Cost Accounting Issues and SFFAS 4, Managerial Cost Accounting**
16 **Concepts and Standards⁴**
17

18 Certain participants discussed the belief that the least has been completed to achieve
19 sub-objective 1, which states “Federal financial reporting should provide information that
20 helps the reader to determine the costs of providing specific programs and activities and
21 the composition of, and changes in, these costs.” The participants discussed that even
22 though SFFAS 4 requires the notion of costs of specific programs, it is not being
23 accomplished or reported in the published financial reports. The participants discussed
24 that although some agency financial statements show the total costs of strategic goals,
25 the notion of costs of specific programs and activities, is not specifically included in the
26 statements.
27

28 Certain participants suggested that FASAB could ascertain and address the conditions
29 that are impeding the implementation of SFFAS 4. Additionally, participants expressed
30 that FASAB could focus on standards to ensure the inclusion of full costs and improve
31 the alignment of budget accounts with the programs for which costs are reported.
32

33 The participants discussed the level of understanding regarding what the cost
34 accounting system should produce, and they discussed their views on SFFAS 4’s
35 contribution to cost accounting at agencies. SFFAS 4 was developed in response to
36 one of the requirements in the National Performance Review (NPR). The NPR required
37 that FASAB produce, within 18 months, a cost accounting standard. The Board did
38 proceed and produced the standard, which is our cost accounting standard. Essentially,
39 the goal of the standard is full cost on an accrual basis of the program, and divided by
40 segments. The participants noted that SFFAS 4 drives what is presented on the face of
41 the Statement of Net Cost, as well as the additional note disclosures that agencies

⁴ Staff notes that this issue area (Cost Accounting Issues and SFFAS 4, *Managerial Cost Accounting Concepts and Standards*) could have been included with the prior area--Challenges in Achievement of the Operating Performance Objective. However, due to the length of discussion devoted to this topic at the Roundtable meeting and this issue has been considered as an agenda topic in the past, staff believed it to be more appropriate to include as a separate issue area.

1 prepare to get the information to a finer level. The participants expressed concern that
2 the standard does not require explicitly that the statement of net cost match the goals
3 under GPRA, and align with all of the other efforts.
4

5 The participants noted other matters regarding SFFAS 4. The participants discussed
6 that it is possible for agencies to receive a clean opinion on their financial statements
7 but not have adequate systems to adhere to accounting standards such as SFFAS 4.
8 However, the auditor's work on agency compliance with laws and regulations can
9 provide an indication of whether agencies are actually determining the cost of providing
10 specific programs.
11

12 Also, certain participants believed that SFFAS 4 did not go far enough. Specifically, one
13 participant commented that it talked about concepts and not enough about
14 requirements. A participant also noted that it allowed manual or non-computerized
15 accounting for costs and was not strong enough to get agencies to change their
16 behavior. Because agencies use many different systems, there needs to be an effort to
17 integrate financial systems with the larger performance measurement system. This
18 could help achieve the integration of performance and financial information as
19 discussed above.
20

21 It was noted that SFFAS 4 does have strengths. For example, SFFAS 4 does set forth
22 the requirement for entities to accumulate and report the costs of its activities on a
23 regular basis for management purposes. Additionally, it sets forth the requirement for
24 entities to report the full costs of outputs. Also, SFFAS 30, *Inter-entity Cost*
25 *Implementation*, will require full implementation of the inter-entity cost provision in
26 SFFAS 4. Specifically, SFFAS 30 will require that each entity's full cost incorporate the
27 full cost of goods and services that it receives from other entities in FY 2009. The
28 participants noted that although this will help show the cost of running an agency,
29 agencies have a problem with accounting for costs that they cannot control or influence
30 the quality of the service.
31

32 In addition, the participants agreed that some education on cost accounting and SFFAS
33 4 would be helpful. The participants discussed that program staff members need to
34 understand the utility in this information. The participants discussed that perhaps
35 identifying an "access point" to the persons responsible for results would facilitate
36 education. For example, in private industry, a comptroller could institute a cultural
37 concern with cost and cost drivers. The participants discussed that a comparable
38 position in the federal government could be the CFO or CIO. However, the structure of
39 agencies could be a factor that hinders progress in this area. As noted earlier, program
40 managers often do not have control over all the resources that support their programs.
41
42
43
44
45
46

1 Staff Analysis and Recommendations:

2
3 *With the issuance of SFFAS 4, the Board intended that agencies perform managerial*
4 *cost accounting on a “regular basis.” SFFAS 4, paragraph 68, describes regular basis*
5 *as follows,*

6
7 *To perform managerial cost accounting on a “regular basis” means that entities*
8 *should establish procedures to accumulate and report costs continuously,*
9 *routinely, and consistently for management information purposes. Consistent and*
10 *regular cost accounting is needed to meet the second objective of federal*
11 *financial reporting which states information should be provided to help the user*
12 *determine the costs of providing specific programs and activities and the*
13 *composition of, and changes in those costs. That objective also requires the*
14 *reporting of performance information of federal programs and the changes over*
15 *time in that performance in relation to the costs.*

16
17 *SFFAS 4 also requires that management of each reporting entity define and establish*
18 *responsibility segments and that managerial cost accounting should be performed to*
19 *measure and report the costs of each segment's outputs. SFFAS 4 explains the*
20 *purpose for responsibility segments, which includes the following—provide a vehicle for*
21 *accumulating costs incurred by the segment to match with its outputs, facilitate cost*
22 *control and management, provide useful information in support of financial reporting by*
23 *components. In addition, SFFAS 4 provides the linkage to performance reporting as*
24 *follows:*

25
26 *85. For internal management, segmentation could also facilitate performance*
27 *measurement. Since each segment is responsible for a mission, or a line of*
28 *activity to produce a certain type of output, performance goals can be set for*
29 *each segment based on its specific tasks and operating patterns. Information on*
30 *costs, outputs, and outcomes related to each segment can be used to measure*
31 *its performance against the goals. The results of the segment performance*
32 *measurement could also support external reporting on performance measures for*
33 *the entire reporting entity or its major programs.*

34
35 *SFFAS 4 provides flexibility to management in establishing segments by providing in*
36 *par. 86 that “Reporting entity management should define and structure its responsibility*
37 *segments. The designation of responsibility segments should be based on the following*
38 *factors: (a) the entity's organization structure, (b) its lines of responsibilities and*
39 *missions, (c) its outputs (goods or services it delivers), and (d) budget accounts and*
40 *funding authorities. However, the predominant factor is the reporting entity's*
41 *organization structure and its existing responsibility components, such as bureaus,*
42 *administrations, offices, and divisions within a department.” Although SFFAS 4 does*
43 *not explicitly state that the segments should be the same as programs identified under*
44 *GPRA, there is sufficient flexibility and language that encourages segmentation to*
45 *facilitate performance measurement reporting.*

1 *In a recent Government Accountability Office (GAO) report entitled, Achieving FFMI*
2 *Compliance Continues to Challenge Agencies (GAO 05-881, issued September 2005),*
3 *it was noted that despite becoming effective in 1998, SFFAS 4 remains particularly*
4 *difficult for agency financial managers to fully implement. This difficulty appears to exist*
5 *even with the Board affording agencies a level of flexibility in implementing the*
6 *standard. SFFAS 4 states,*

7
8 *70. The managerial cost accounting processes consist of collecting data from*
9 *the common data source, processing that data, and reporting cost and*
10 *output information in general purpose and special purpose reports.*
11 *Appropriate procedures and practices should also be established to enable*
12 *the collection, measurement, accumulation, analysis, interpretation, and*
13 *communication of cost information. This can be accomplished through the*
14 *use of a cost accounting system or the use of cost finding techniques and*
15 *other cost studies and analyses. A cost accounting “system” is an organized*
16 *grouping of methods and activities designed to consistently produce reliable*
17 *cost information.*

18
19 *71. Regardless of whether a reporting entity uses a cost accounting system or*
20 *cost finding techniques, the methods and procedures followed should be*
21 *designed to perform at least a certain minimum level of cost accounting and*
22 *provide a basic amount of cost information necessary to accomplish the*
23 *many objectives associated with planning, decision making, control, and*
24 *reporting. The more important of these minimum criteria for cost accounting*
25 *are associated with the standards in the remainder of this statement. Others*
26 *are also important.*

27
28 *Responsibility Segments - Cost information should be collected by*
29 *responsibility segments which have been identified by management and*
30 *outputs should be defined for each responsibility segment.*

31
32 *Full Costing - Each reporting entity should measure the full cost of outputs*
33 *so that total operational costs and total unit costs of outputs can be*
34 *determined. “Full cost” includes the cost of goods or services provided by*
35 *other entities when the applicable criteria are met.*

36
37 *Costing Methodology - The costing methodology used (e.g., activity-based*
38 *costing, job order costing, standard costing, etc.) should be appropriate for*
39 *management’s needs and the operating environment.*

40
41 *Performance Measurement - Cost accounting should provide information*
42 *needed to determine and report service efforts and accomplishments and*
43 *information necessary to meet the requirements of the GPRA or interface*
44 *with a system that provides such information. This includes the quantity of*
45 *inputs and outputs and other non-financial information needed in the*
46 *measurement of performance.*

1
2 *Reporting Frequency - Cost information should be reported in a timely*
3 *manner and on a regular basis consistent with the needs of management*
4 *and the requirements of both budgetary and financial reporting.*
5

6 *Standard General Ledger - Managerial cost accounting should be*
7 *integrated with general financial accounting. Both depend on the standard*
8 *general ledger for basic financial transaction data.*
9

10 *Precision of Information - Cost information supplied to internal and*
11 *external users should be reliable and useful in making evaluations or*
12 *decisions. At the same time, unnecessary precision and refinement of*
13 *data should be avoided.*
14

15 *Special Situations - The managerial cost accounting processes should be*
16 *designed to accommodate any of management's special cost information*
17 *needs that may arise due to unusual or special situations or*
18 *circumstances. If such cost information is needed on a regular basis,*
19 *appropriate procedures to provide it should be developed.*
20

21 *Documentation - All managerial cost accounting activities, processes, and*
22 *procedures should be documented by a manual, handbook, or guidebook*
23 *of applicable accounting operations. This reference should outline the*
24 *applicable activities, provide instructions for procedures and practices to*
25 *be followed, list the cost accounts and subsidiary accounts related to the*
26 *standard general ledger, and contain examples of forms and other*
27 *documents used.*
28

29 *72. While each entity's managerial cost accounting should meet the basics*
30 *discussed above, this standard does not specify the degree of complexity or*
31 *sophistication of any managerial cost accounting process. Each reporting*
32 *entity should determine the appropriate detail for its cost accounting*
33 *processes and procedures based on several factors. These include the:*
34

- 35 • *nature of the entity's operations;*
- 36 • *precision desired and needed in cost information;*
- 37 • *practicality of data collection and processing;*
- 38 • *availability of electronic data handling facilities; cost of installing,*
39 *operating, and maintaining the cost accounting processes; and*
- 40 • *any specific information needs of management.*

41
42 *Also, agencies could use a gradual approach to the development of cost systems while*
43 *developing basic cost information through other means in the short run (paragraph 266).*
44

45 *The Board's flexibility permits others to develop more prescriptive guidelines. It should*
46 *be noted that the President's Management Agenda (PMA) does include the Budget and*

1 *Performance Integration initiative. This initiative directs departments to improve*
2 *program results and to ensure that performance is routinely considered in funding and*
3 *management decisions. The standards for success in this initiative includes the area of*
4 *reporting the full cost of achieving performance goals accurately in budget and*
5 *performance documents and accurately estimate the marginal cost of changing*
6 *performance goals.*

7
8 *In addition, the GAO report discussed some current initiatives in the federal government*
9 *that can help address financial management system issues. One initiative is OMB's*
10 *task forces to conduct a government-wide analysis of lines of business that support the*
11 *PMA goal to expand electronic government. The purpose of the Line of Business (LOB)*
12 *initiative is to develop business-driven, common solutions for lines of business that*
13 *extend across the entire federal government. The lines of business are financial*
14 *management, human resources management, grants, federal health architecture, and*
15 *case management. These lines of business share similar business requirements and*
16 *processes. OMB and designated agency LOB task forces plan to use enterprise*
17 *architecture-based principles and best practices to identify common solutions for*
18 *business processes, technology-based shared services, or both to be made available to*
19 *government agencies. The solutions are expected to address business improvements*
20 *to enhance government's performance and services.*

21
22 *Also, OMB established agency task forces that focused on developing Centers of*
23 *Excellence (COE). The purposes of the COE's are to (1) reduce the number of systems*
24 *that each individual agency must support, (2) promote standardization, and (3) reduce*
25 *the duplication of efforts.*

26
27 *The Board has been monitoring cost and performance issues in the federal government,*
28 *and in 2001, considered a project designed to assess concerns similar to those*
29 *expressed by the participants, including assessing the effectiveness of SFFAS 4,*
30 *whether the objectives of the standards are being met and, if not, options for the Board*
31 *in improving the effectiveness of the standard. However, the Board determined that*
32 *other financial reporting projects warranted higher priority.*

33
34 *Recommendation: While there has been significant progress in improving federal*
35 *financial management, challenges such as establishing financial management systems*
36 *that provide reliable, timely, and useful information to support day-to-day decision-*
37 *making and oversight and for the systematic measurement of performance remain.⁵*
38 *Given the time that has elapsed since SFFAS 4 was issued, and the flexibility afforded*
39 *in its implementation, more progress in achieving the standard may have been*
40 *expected. The Board may want to reconsider a project devoted to assessing the*
41 *effectiveness of SFFAS 4 during the next agenda setting process. In addition, as part of*
42 *the strategic planning process, the Board should consider whether additional vehicles*
43 *and the types of vehicles that may be needed to enhance the progress in*
44 *implementation. The Board would need to remain aware that others such as OMB have*

⁵ See GAO-06-242T, CFO ACT OF 1990: Driving the Transformation of Federal Financial Management, November 17, 2005.

1 *initiatives on-going and are able to provide more prescriptive guidance. However, staff*
2 *does not believe there is a need to enhance the reporting objective or to immediately*
3 *address standards regarding the issues identified above.*

4
5
6 • **Sub-Objective 3**

7
8 Certain participants believed that additional reporting could be done with respect to sub-
9 objective 3. Sub-objective 3 states “Federal financial reporting should provide
10 information that helps the reader to the efficiency and effectiveness of the government’s
11 management of its assets and liabilities.” Relative to Sub-objective 3, certain
12 participants expressed the concern that physical assets may be underutilized in the
13 federal government. A participant noted that physical assets in the federal government
14 are probably under-utilized with some not utilized at all, and there needs to be a
15 mechanism to identify this fact so the right financial management decisions are made.
16 One participant explained that to address this concern, New Zealand utilized an
17 approach that involved imposing a capital charge on all the capital in a department’s
18 budget. As a result, underutilized property began to be identified.

19
20 The participants acknowledged FASAB’s previous consideration of the capital charge
21 approach. FASAB studied New Zealand’s process and issued an invitation to comment.
22 The issue faced by standard setters is that they can require reporting and produce nice
23 reports, but in some ways not achieve the end that they wanted. The key that FASAB
24 perceived with the New Zealand approach is the funding of the charge. FASAB could
25 have these reports impute a charge, but in the past Board deliberations, the feeling was
26 that unless there was some “meat” behind a charge, just having a debit and a credit in
27 the system was not going to change behavior.

28
29 It should be noted that most other participants believed that the publication of the
30 standards and the initiation of the audited financial statements have contributed to
31 providing information to the public regarding the efficiency and effectiveness of the
32 government’s management of its assets and liabilities.

33
34
35 *Staff Analysis and Recommendations*

36
37 *In 1999, the Report of the President’s Commission to Study Capital Budgeting proposed*
38 *the Capital Acquisition Fund (CAF)⁶ concept as a means to improve annual budget*
39 *decisions by promoting better planning and budgeting of capital expenditures. The*
40 *report noted that CAF encourages managers to make more efficient use of assets by*
41 *ensuring that individual programs are charged the true cost of using capital assets.*

⁶ It has been suggested that CAFS would operate as department-level funds that would use appropriated up-front borrowing authority to buy new departmental subunit assets. These subunits would then pay the CAF a mortgage payment sufficient to cover the principal and interest payment on the Treasury loan. The CAF would use those receipts only to repay Treasury and not to finance new assets. If existing capital assets were transferred to the CAF, subunits would pay an annual capital usage charge to the CAF.

1 *During its deliberations in 1999, the Board considered a cost of capital project, including*
2 *the issue of implementing a capital charge. However, the Board determined that other*
3 *financial reporting issues warranted higher priority and that this may be an area that the*
4 *budget needed to go first to ensure changes in behavior and realized consequences.*

5
6 *More recently, in April 2005, the GAO completed a study and noted that although CAFs*
7 *might achieve the goals intended, the goals can be achieved through simpler means.*
8 *For instance, asset management systems, cost accounting systems, and working*
9 *capital funds may achieve the goal of allocating annual capital costs and improving*
10 *decision making for capital assets. Also, the report noted that Agency officials,*
11 *congressional staff, and other key players raised concerns about CAFs and that*
12 *implementation issues could overwhelm its potential benefits.*⁷

13
14 *Recommendation: Given that the Board has made a determination on this issue, there*
15 *are no specific staff recommendations unless the Board decides that this is an area that*
16 *should be revisited. Therefore, staff does not believe there is a need to enhance the*
17 *reporting objective or to immediately address standards regarding the issues identified*
18 *above.*

19
20
21 • **General Comments about the Objectives**

22
23 Most of the participants agreed that the objectives in SFFAC were very broad, but that
24 was the intent. The participants did not expect FASAB or financial statement reporting
25 to cover or meet all the objectives alone. Most of the participants agreed with the
26 wording of the Operating Performance objective and did not offer comments on the
27 other federal financial reporting objectives.

28
29 *Staff Analysis and Recommendations:*

30
31 *During the December 2003 meeting, the Board expressed general satisfaction with the*
32 *Operating Performance objective. The discussion at the roundtable was consistent with*
33 *the Board's position that the objective appears broad, but there are other documents*
34 *and requirements that assist in accomplishing the objective.*

35
36 *Recommendation: There are no specific staff recommendations for this issue.*

⁷ Potential Benefits of Capital Acquisition Funds Can Be Achieved through Simpler Means, GAO 05-249, issued April 2005.