



December 2, 2010

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Priorities and Plans – Reporting Model and Note Disclosures – TAB D¹

MEETING OBJECTIVE

The objective of the meeting is to discuss priorities, next steps, and deliverables regarding the reporting model and note disclosures. The discussion will inform development of project plans to be considered in February 2011.

BRIEFING MATERIAL

Attachment 1: Considerations for Prioritizing Future Reporting Model Efforts

BACKGROUND

Reporting Model

FASAB organized the Financial Reporting Model Task Force (task force) to revisit the federal reporting model. FASAB members expressed concerns regarding how financial information was being communicated and the need to consider ways of presenting information other than the standard financial statements. In addition, FASAB studied user needs and noted that while citizens sought understandable financial information about the

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

federal government, they were not aware that the federal government and individual departments and agencies prepared financial reports. In April 2010, FASAB organized a nine-member task force consisting of the current Deputy Chief Financial Officer (CFO) of the Department of the Treasury as well as the former Deputy CFO of the Department of Agriculture; the first Controller of the Office of Federal Financial Management in the Office of Management and Budget (OMB) and former FASAB member; a former senior leader from the Congressional Budget Office, who also was a former FASAB member; the former Assistant Comptroller General of the United States for Accounting and Information Management and Managing Director for Financial Management and Assurance at the Government Accountability Office (GAO); the former staff director of the House Committee on Government Oversight; a former top OMB management official who was instrumental in performance reporting concepts; the founder and CEO of the Institute for Truth in Accounting; and a partner in a major CPA firm, which audits the most federal CFO Act agencies' financial statements, and who chairs the Certificate of Excellence in Accountability Reporting (CEAR) program sponsored by the Association of Government Accountants.

The task force decided to begin with the government-wide report because, for external users such as citizens and citizen-intermediaries, it is a likely starting point in the search for federal financial information² and make actionable recommendations to increase users' understanding, access, and use of federal financial information while avoiding costly requirements that do not add value. The task force formally met eight times and discussed federal reporting issues during the months of April, May, July, August, September, October, and November 2010.

During FASAB's October 2010 meeting, the task force presented preliminary draft recommendations consistent with its objectives. The presentation included a preliminary draft recommendation to adopt an electronic, Web-based reporting method. Features of this method included: a central Web site for federal financial information which permits users to select the appropriate level of technical information. Also, the Web site would be searchable, possess drill-down capability, present machine-readable data, permit data to be downloaded in different formats, use multimedia for explanations of statements, and present some information using graphical and other user-friendly displays. FASAB members discussed the benefits and need to implement this recommendation soon. In addition, members noted that some initiatives along the lines of Web-based reporting have been started.

Subsequent to FASAB's October 2010 meeting, the task force noted that the nation is engaged in debates concerning the government's role in the economic future of the country and federal financial and program performance information is crucial for informing these debates. As a result, the task force discussed additional recommendations regarding: 1) the presentation of government-wide program performance information; and 2) raising

² Statement of Federal Financial Accounting Concepts 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, notes that the government-wide report tells users where to find information in other formats.

awareness of federal financial information. The task force's report for the December 2010 meeting is provided in [Tab C - Reporting Model](#).

Disclosures

In August 2010, FASAB began discussing plans to review disclosures. Members discussed starting with a survey, but noted that some disclosures may not be important to some agencies. As a result, when they receive a survey questionnaire listing various disclosures, they will respond that those items are not important. Also, the questionnaire may not include disclosures that are unique to particular agencies. In addition, members expressed concern that there may not be enough individuals who are knowledgeable enough to read disclosures and understand whether or not items are useful. The Board believed that a comprehensive review should be conducted involving structured interviews.

During the October 2010 meeting, FASAB reviewed a proposal for a comprehensive review of disclosures. The proposed objective of the review was to refine existing disclosure requirements by determining whether certain required information is no longer relevant or useful; could be streamlined; or improved, as well as whether additional information is needed. The scope of the project was intended to be comprehensive and would involve panels who would review each disclosure or a cluster of disclosures. Approximately 18 review panels would be conducted and the panels would consist of preparers, auditors, and analysts. Following the panel discussions, interviews with users would be conducted to provide input about: a) specific items of information they find most valuable or useful and why; and b) their understanding of and interest in specific illustrative disclosures.

FASAB members considered the benefits of the approach and the resources that would be required, and determined that the major issues need to be determined and the project streamlined. In addition, Board members noted that CEAR program participants review agency financial statements and staff could coordinate with the program to obtain views regarding disclosures. Consequently, staff is implementing the Board's suggestion.

QUESTIONS FOR FASAB

To facilitate discussion of priorities, next steps, and deliverables regarding the reporting model and note disclosures, members may wish to review Attachment I: Considerations for Prioritizing Future Reporting Model Efforts. The following factors have been used to assess options in the past and you may wish to keep these in mind as you review the attachment:

1. With respect to the reporting objectives, what next steps would most likely enable the Board to improve the communication of financial information in a timely manner?
2. Are additional concepts needed or do concepts need to be clarified to provide a sound foundation for advancing financial reporting in the future?
3. Are other standards setters conducting similar projects?

4. Are sufficient resources available to resolve issues timely?

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

In considering the next steps for the reporting model and disclosures projects, staff suggests that the Board consider the points³ described below.

1. The Future of Financial Reporting

As members are aware, our society demands timely information for quick analysis and the technology has evolved to accommodate that requirement. Also, as technology continues to evolve, the possibility for real-time information will become a routine experience. This is evident in the variety of Web sites that are now providing real-time multimedia presentations and searchable, downloadable data. With real-time information, risks can be identified more readily and corrective actions taken promptly before greater issues develop. Accordingly, management would have enhanced tools to significantly advance performance and the delivery of required services. The Board may wish to consider the future of financial reporting and note that embracing the task force's recommendation for an electronic, Web-based reporting method could enable the Board to take a proactive role and lead innovations in financial reporting.

2. Roles for FASAB in Electronic, Web-based Reporting

Electronic media can be useful to internal users as well as external users. Supporting an electronic, Web-based reporting method could enable federal entities to better share information. For example, federal agencies are using Web-based methods to provide a single architecture for their programs and for providing information to the public. For example, the Bureau of Labor Statistics (BLS) uses the internet to collect labor statistics from employers. The site provides a single entry point for all BLS surveys and supports multi-survey respondents.

In April 2010, the FASAB discussed a potential project on Electronic Reporting. At that time, Board members discussed the benefits of electronic reporting and a summary of concerns/practices that might be addressed through guidance. However, some members were not sure what role the FASAB should have regarding electronic reporting. Among other issues, the FASAB could assist by:

Helping to Ensure the Completeness of Information

FASAB guidance would be helpful for ensuring that financial information is complete even when presented using multimedia. A printed document has attributes that provides the user with some level of assurance that the

³ The points are not listed in any order, but are intended to provide members with criteria for prioritizing next steps.

document is complete. For example, a printed document usually has a cover, table of contents, sequential page numbers, and references. These attributes and the user's routine of reading the document from front to back help the user to understand whether material is missing from the document, such as a series of missing page numbers. However, the boundaries of electronic information may not always be apparent, especially when the user has the ability to simply select the specific item of information they need from a Web site. As part of a project, the FASAB could consider: What attributes should be in place to provide a user with assurance that information is complete, regardless of the medium of presentation (electronic, paper, etc.)?

Determining "What" and "How" to Present

Because the potential for information content and format that could be offered on a Web site is significantly broader than that of a printed document, the FASAB would have a significant role in defining the data that would be needed and helping to determine how to present it. Some Web users may seek different items of information, while others may seek to review information presented in a particular way such as an audio/visual presentation or customizable graph.⁴

Helping to Inform Readers of GAAP versus Non-GAAP Information

Because Web reporting enables readers to go directly to the information of interest to them, they may not be particularly aware that the information was not prepared in conformity with an established set of standards. Companies are including hyperlinked statements on their Web sites, such as, "the following information should be read in conjunction with the Consolidated Financial Statements." The statements help to direct readers to the information presented in conformity with GAAP.

Monitoring User Needs and Reporting Practices

The Web site could provide FASAB with metrics on what information users are viewing and how much time they spend viewing it. Also, the site could include feedback mechanisms such as a user survey that would seek suggestions for presentation and content improvement. Accordingly, the Board could stay up to date on: user data interests; types of analyses performed and why; what items are useful; what items are not useful; and other matters. In addition, FASAB and its sponsors could electronically monitor trends in federal entity practices rather than manually reviewing and comparing individual agency reports.

⁴ See <http://reports.nexeninc.com/ar/2009/financialstatements.html?cat=m> for example. The site provides users with downloadable financial statements and a chart generator.

Developing Multimedia Educational Tools

The FASAB could consider educational tools to be presented within the model using multimedia. The Governmental Accounting Standards Board has prepared printed educational material for state and local government financial reporting.

In addition, regarding the efforts of other government accounting standards setters, the Governmental Accounting Standards Board (GASB) initiated a research project to monitor the effect of electronic media on information delivery and user needs.

Also, see consideration 3 below.

3. The Need to Shift from a Linear, Sequential Perspective

Existing conceptual guidance and standards envision a printed document, generally read from front to back. Under this framework, important information may be aggregated and presented as close to the front as possible while detailed information is presented toward the back, along with other information that may be of interest to limited readers. For example, Statement of Federal Financial Accounting Concepts 3, *Management's Discussion and Analysis*, provides a schematic diagram of a general purpose federal financial report. The schematic portrays the arrangement of a printed document. Also, upon issuance of Statement of Federal Financial Accounting Standards (SFFAS) 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government,"* the FASAB noted that the CFR had grown in "size" and was attempting to satisfy too many audiences in "one format."

Currently individuals seek information from the internet and prefer to obtain information on demand. An electronic, Web-based reporting method addresses today's user preferences and permits them to easily choose between a horizontal perspective (developing an understanding of a variety of topics) and a vertical perspective (drilling down and gaining knowledge about specific topics). This lessens the need for FASAB to focus on how to present as much information as possible in a linear, sequential construct or the need for an assortment of reports such as a citizens' guide and a performance and accountability report for a single entity. Instead of concerns about weighing down readers with information, the focus would shift to how many "clicks" it would take for a user to locate the information they are seeking. FASAB may need to consider an omnibus project to revisit its guidance in light of an electronic, Web-based reporting method.

4. The Need for General Purpose Information Continues in Web-based Reporting

While a Web-based method would allow users to download data and customize reports, general purpose information would remain a necessary component of the Web site. The task force noted that electronic, Web-based reporting would permit the federal government to address the broad range of information that a variety of users seek. In addition, the method would enable individuals to download data and present it in their Web sites and other media. However, there are common items of information that users seek, such as fiscal gap and program costs. Also, general purpose information facilitates comparisons among federal entities and a more efficient approach for monitoring entity financial reporting practices than various entities preparing an assortment of statements and reports.

5. Operating Performance is FASAB's Top Priority

Strategic Directions discusses FASAB's assessment of the reporting objectives and determination that the operating performance and stewardship objectives are the Board's primary near-term focus objectives. Between the operating performance and stewardship objectives, the Board believed that operating performance is its top priority. The operating performance objective allows for progress on all the objectives because of the interrelated nature of the reporting objectives⁵ and states the following:

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

- the costs of providing specific programs and activities and the composition of, and changes in, these costs;
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
- the efficiency and effectiveness of the government's management of its assets and liabilities.

The task force believes that government-wide program performance information is needed to inform public policy decisions. The task force recommendation to present such information is consistent with the Board's priorities.

⁵ See <http://www.fasab.gov/stratdirections.html>.

6. The Need for Intergovernmental Dependency Information

The task force noted the need for intergovernmental dependency information. Currently, the Analytical Perspectives of the President's Budget discusses financial assistance provided to other levels of government. However, the task force recommendation goes further and discusses the need for a discussion of how other aspects of the federal government impact the state economics. For example, the level of federal employment and federal procurements impact the economy of Northern Virginia. This information is important for the public to consider during these times of addressing fiscal challenges at all levels of government and would help achieve the Board's other primary focus – the stewardship objective.

The task force recommends that intergovernmental information be presented as RSI. This is consistent with previous Board categorizations of information that may be valuable but more experience is needed to determine whether measurements can be regarded as reliable. RSI categorization would also allow the Board to refine what information may need to be presented and how.

7. The Need for Functional Net Cost and Spending Information

The task force recommendation for presenting net cost and spending by function is consistent with our user needs study. Users sought information by categories such as defense, health, transportation, rather than by agency. In addition, taking action on the recommendation would be consistent with the Board's top priority reporting objective – operating performance. Providing cost information by functions would help users assess the government's performance by relating the cost of functions to accomplishments. However, Board members noted that providing information by budget function may present operational challenges for consolidated reporting. To address this concern, a project could be initiated to determine the challenges involved and to address any needed changes in the accounting standards.

8. Improvements to Specific Presentations

The task force recommended improvements to specific financial statements to help improve users' understanding of the information presented. The Board may wish to consider the recommendations and whether changes to accounting standards are needed.

9. Revisiting the Role of Note Disclosures in an Electronic Environment

The Board has discussed various approaches for revisiting note disclosures and staff conducted some preliminary work to assist the Board in considering how to proceed with the project. Staff reviewed discussions conducted during

the FASAB user needs study, conducted discussions with preparers, and reviewed agency FY 2010 financial reports.

- Users of disclosures primarily include agency management, the Office of Management and Budget (OMB), Government Accountability Office (GAO), Department of the Treasury (Treasury), Office of Inspector General (OIG) and Congressional staff. Agencies receive questions on specific issues that appear to be of importance at that particular time, rather than recurring questions on the same item of information. For example, when a major asset is damaged questions may arise internally regarding how the agency accounts for the item and its inventory or property, plant, and equipment management practices.
- Some information may be useful internally, but may be difficult for external users to understand. A particular example of a note that may be useful internally, but appears to have limited understanding is the note regarding the reconciliation of budgetary resources and net cost. FASAB intended that the note be used to help users understand the differences between budgetary resources obligated for and the net cost of operations, e.g., users could review the note to identify the components of net cost that will require budgetary resources in future periods such as an increase in employee benefit liabilities. However, in practice, reconciling net cost to budget may be considered a good internal control activity for management rather than an exercise for providing information that is useful to financial report users.
- Some particularly useful disclosures include liabilities not covered by future budgetary resources, direct loans and loan guarantees, budgetary resources, and environmental liabilities. Respectively, these notes provide: information about the additional amount of budgetary resources that may be needed; information about the effectiveness in managing assets; information to help users understand the budgetary information presented in the financial statements;⁶ and information about the effectiveness in managing liabilities. Also, the notes help demonstrate accountability to the public.

However, the disclosure for direct loans and loan guarantees is lengthy and the user of this detailed information may not be clear. A preparer suggested revisiting the history of the disclosure to identify to whom the information is directed and evaluating whether the level of detail continues to be needed.

⁶ There may be a perception that external financial report users are not as familiar with budgetary terminology as internal users.

- Given the need to move toward electronic, Web-based reporting, the FASAB may wish to consider how note disclosures may be best used in such an environment. For example, consider whether note disclosures can only be narrative presentations. Multimedia also serves as a means for providing additional information about elements presented in a financial statement. A disclosures project could continue to be conducted as a subset of a larger reporting model project. The disclosure project could focus on developing principles for disclosures that would assist users in determining how to present them in any medium, printed or electronic.

10. Resource Needs

To address the Board's resource constraints, members may consider that the technology exists and the federal government has developed Web sites to inform the public. The FASAB could review how some existing efforts may be used to advance a financial reporting Web site. Also, the FASAB could continue the financial reporting model task force to help discuss and resolve issues as they develop.

11. Agency Financial Reporting Model Implications

The task force recommendations primarily concerned the CFR. However, the Board may consider the implications of the CFR recommendations on the agency reporting model. Also, FASAB could further explore user needs and focus on agency financial reports. Additionally, the CFO Council is developing a statement of spending for agency reporting. The Board could continue to monitor the Council's progress in developing the statement.