



April 14, 2012

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model– **Tab E**¹

OBJECTIVE

Staff is proposing to segment the reporting model project into three separate projects. The objective of this session is to **approve the project plans, so that staff may take action on the next agreed-upon steps.**

BRIEFING MATERIAL

The following tabs provide the three project plans for the Board's consideration:

- TAB E -1 – Statement of Net Cost discusses a plan to help improve the presentation of information in the statement of net cost.
- TAB E- 2 – Improving Performance Reporting discusses a plan to help improve performance reporting in financial reports.
- TAB E- 3 – Improving Budgetary Reporting discusses a plan to help improve budgetary reporting in financial reports.

You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

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

BACKGROUND

FASAB initiated the overall reporting model project to determine necessary improvements to the existing federal reporting model. To determine how best to improve the model while balancing the cost and benefit of its decisions, the Board sought input from users and the financial reporting community and organized a task force to consider enhancements to the model. The task force focused on the government-wide level because this was the level that users would likely begin their search for financial information about the federal government. Upon completion of reviewing this level, the task force prepared a report with recommendations for FASAB and its sponsors and the Board discussed the report and recommendations. As a result, the Board noted that many of the task force proposals could be implemented voluntarily by preparers and experimentation would be needed before the Board could consider addressing other proposals.

Later in 2011, the Board discussed the report entitled, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General* (CFO Act Report). The report identified the lessons learned since the CFO Act of 1990 was enacted and recommended that

The Congress should consider directing OMB, GAO, and the Federal Accounting Standards Advisory Board (FASAB), in consultation with CIGIE, to evolve the financial reporting model by examining the entire process with an eye toward how to further improve and streamline current reporting requirements and to better meet the needs of all stakeholders.²

Subsequently, the Board determined that staff should begin reviewing the component entity level by conducting discussions with CFOs and representatives from various groups to help the Board better determine what information is of value to users.

Staff conducted roundtable discussions with CFOs, auditors, and analysts and in February 2012, informed the Board of the results. The Board deliberated the results and the next steps for the project and determined that the reporting model project should be segmented into multiple projects. Also, while members discussed initiating several possible projects, the Board primarily focused on improving the statement of net cost, performance reporting, and budgetary information. Accordingly, staff met with Congressional Budget Office, Office of Management and Budget, and Senate Budget Committee staff members and prepared project plans to address each of the areas of concern to the Board. To complete the projects timely, resources would have to be aligned to support more than one of the options.

² The Chief Financial Officers Council and The Council of the Inspectors General on Integrity and Efficiency, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General*, (Washington DC: July 2011), 2.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-2512 or by e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov.



April 14, 2012

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model: Statement of Net Cost Project Plan – **Tab E-1**¹

OBJECTIVE

The objective of this session is to **approve the attached project plan** for the project on the Reporting Model Statement of Net Cost Project, **so that staff may take action on the next agreed-upon step.**

BRIEFING MATERIAL

The proposed Project Plan is attached to this transmittal memorandum. In addition, there is a separate Attachment containing reference material that provides additional information should you desire more details. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-2512 or by e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov.

Attachments:

Project Plan
Reference Material

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STATEMENT OF NET COST
PROJECT PLAN



APRIL 2012

Why is a project on the Statement of Net Cost needed?

The main purpose of the statement of net cost (SNC) is to provide, “an understanding of the net cost of each organization and each program that the government supports with taxes and other unearned monies.”² Decisions about how to display this data should be based, in part, on “a consideration of what the Congress, management, and others might want to know about the costs of providing an organization’s programs.”³ The FASAB developed the initial concepts and guidance for the SNC in the early 90s and Board members have noted that the guidance was intended to permit flexibility in aggregating cost data. This approach would allow managers to aggregate the data in a manner that is most meaningful. However, the approach may have led to various presentations of cost among agencies and a variety of presentations could make it challenging for Congress and others to compare organizations and understand the cost of federal programs supported with taxes.

What are some of the questions / issues to be addressed by the Statement of Net Cost project?

Since the 90s, FASAB has researched the needs of various users and noted that they seek cost data from different perspectives. To help meet the expectations of various users, the project will address the following:

- a. What criteria should agencies consider in determining responsibility segments?
- b. What levels of aggregation should be offered in a presentation intended for various audiences?
- c. How should responsibility segments be aligned with performance reporting requirements?

² SFFAC 2, Entity and Display, par. 86.

³ Ibid, par. 99.

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**STATEMENT OF NET COST
PROJECT PLAN**

- Purpose:** The Federal Accounting Standards Advisory Board (FASAB or Board) developed the SNC in the early 90s and now after several years of progress, the Board is revisiting the presentation to determine needed improvements.
- Applicability:** This project applies to the government-wide and component entities that prepare and present general purpose financial reports in conformance with paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
- Also, any conceptual guidance developed as a result of the project would guide the Board's development of accounting and reporting standards. Knowledge of the concepts that the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards understand the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.
- Objectives:** The overall objective of this project is to improve the reporting of cost data in the SNC.
- Assigned staff:** TBD
- Other resources:** Staff plans to conduct structured interviews and may engage a task force to help accomplish the project objectives. Also, staff plans to consider any ongoing efforts to improve the reporting model.
- Timeline:** The timeline for the project is as follows.

Period Ending	Step
June 2012	Organize task force to determine criteria for defining responsibility segments, levels of aggregation and linkage to performance reporting requirements.
October 2012	Preliminary recommendations to FASAB
December 2012	Present recommendations to FASAB
February 2013	Discuss Draft ED with FASAB
April 2013	Discuss Draft ED with FASAB
June 2013	Discuss Draft ED with FASAB
August 2013	Issue ED for Comment
December 2013	Analyze ED Responses
February 2014	Analyze ED Responses
April 2014	Finalize Standard and submit to sponsors
July 2014	Issue standard

PROPOSED APPROACH

I. Consider Existing Concepts, Standards, Other Guidance, Legislation, Previous Research:

Existing concepts

- SFFAC 2, *Entity and Display*, paragraphs 86-99.

Existing Standards

Various standards may be involved including Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*.

Other Guidance

- Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the financial section of financial reports.

Legislation

- Federal Managers Financial Integrity Act of 1982
- Chief Financial Officer’s (CFO) Act of 1990
- Government Performance and Results Act of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Sarbanes-Oxley Act of 2002
- Department of Homeland Security Financial Accountability Act
- Improper Payments Elimination and Recovery Act (IPERA) of 2010
- GPRA Modernization Act of 2010

Previous Research

- User Needs
- Roundtables and Interviews

II. Resources

Staff plans to engage a task force to help achieve the project objectives. The task force will consist of citizen intermediaries, managers, executives, Congress, preparers, and auditors. Also, staff may seek input from experts in disciplines such as performance reporting.

III. Research Steps

- a. Organize a task force to determine criteria for defining responsibility segments, levels of aggregation, and linkage to performance reporting requirements.
 - i. Seek representatives from each of the user groups (citizens, program managers, executives, and Congress) and include preparers and auditors.

- ii. Provide task force members with results of previous research and roundtable discussions (user needs results, Financial Reporting Model Task Force recommendations, FASAB Strategic Directions, CFO Council and CIGIE recommendations, CFO and auditor roundtable discussions).
- b. Review SFFAS 4, *Managerial Cost Accounting Standards and Concepts* to determine the changes that may be needed.
- c. Report results to the Board.
- d. Develop an ED that provides guidelines for the changes identified.
- e. Issue ED for comment.
- f. Analyze comments.
- g. Issue standard.

POTENTIAL PROJECT MANAGEMENT CONCERNS

None

The objective of this session is to approve this project plan for the project on the Statement of Net Cost, so that staff may take action on the next agreed-upon step.

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-2512 or by e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov.

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Tab E-1 – Reference Material
Reporting Model: Statement of Net Cost

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USER NEEDS AND OTHER RESEARCH

Congressional staff, citizens and citizen intermediaries, and internal users (managers and executives) appear to seek less aggregated cost information. For example, citizens sought information on the cost of wars in Iraq and Afghanistan¹ and Congressional budget staff sought information classified by budget function as part of their analyses, and budget functions are used in Congressional budget resolutions.² Also, during discussions with internal users it was noted that department level financial statements were highly aggregated and that level of aggregation makes it challenging for them to learn about their area of responsibility.³ They may need disaggregated data for making economic choice decisions, e.g. whether to leave an item of equipment at a site or incur the cost the transporting it to another or whether to in-source or contract for services. Internal users also sought to relate cost data to their strategic goals and performance data.⁴ As a result, our work confirmed some findings noted in earlier managerial cost accounting implementation research.⁵

Additionally, preparers and auditors have expressed concerns regarding the statement of net (SNC). For example, as part of the Association of Government Accountants' 2011 survey of CFOs, survey participants noted that the SNC should be changed to "be about costs, not just expenses as it is now."⁶ Specific reporting model ideas from the survey are presented below.

¹ Staff Issue Paper for April 2010.

² Bill Heniff, *CRS Report for Congress: Formulation and Content of the Budget Resolution*, (Washington DC: Congressional Research Service, May 1, 2007).

³ Staff Issue Paper for February 2012.

⁴ *Ibid.*

⁵ For example, the Association of Government Accountant's *Managerial Cost Accounting in the Federal Government: Providing Useful Information for Decision Making*, noted that, among other things, the best way to get buy-in for managerial cost accounting is to link cost data to program level performance and budgetary data.

⁶ Association of Government Accountants, Annual CFO Survey, (Washington DC: July 2011), 26.

Enhance and Expand Existing Statements

- Create a new statement associated with spending money.
- Change the Statement of Net Costs to be about costs, not just expenses as it is now.
- Break information down by projects and programs, which would produce information of more value to program managers and citizens.
- Integrate performance results with financial information in a single report.
- Add predictive information to the statements.
- Focus on both financial and nonfinancial performance metrics.
- Use plain English in the reports.

Align Statements and Audits with Greatest Needs

- Eliminate statements no one uses, then take away all other unnecessary requirements and hold requirements stable.
- Report the information that stakeholders say they want.
- Make the model risk-based.
- Simplify the reports; there are now too many overlaps and layers.
- Move toward the Government of Canada model, so that the auditors' opinion is on the consolidated financial statements of the United States government instead of on its components, and only on components and other factors that are material to the consolidated report.
- Focus on speeding up the sharing of information, which means simplifying and setting priorities on what is to be reported.

Source: Association of Government Accountants, Annual CFO Survey, (Washington DC: July 2011), 26.

Also, during roundtable discussions with preparers and auditors, some participants noted that the SNC should more clearly present the cost of programs and relate cost to the value being provided.⁷

Moreover, staff noted that it was difficult to compare agencies because of the range in categories used to aggregate cost data in the SNC. Agencies presented cost data aggregated by strategic goals; major programs; products and services; lines of business; or offices, operating units, branches, and divisions.⁸

⁷ Staff Issue Paper for February 2012.

⁸ Staff Managerial Cost Accounting Project Issue Paper for June 2010.

EXCERPTS FROM EXISTING CONCEPTS, STANDARDS, OTHER GUIDANCE, AND LEGISLATION

The project will consider existing concepts, standards, and legislation regarding financial statements of government-wide and component entities. The concepts and standards consider legislation and help address the financial information needs of users.

Concepts

Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, provides guiding principles for the SNC. Those principles appear to focus on an organization and program perspective as follows:

The main purpose of a statement of net costs is to provide an understanding of the net costs of each organization and each program that the government supports with taxes and other unearned monies. Another important purpose for the statement is to provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and/or organization. Thus the statement of net costs should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities. (par. 86)

The costs can be classified in a reporting entity's statement of net costs by sub-organization (assuming the reporting entity is an organization), by program, or by object class, or any combination thereof. Object class, also referred to as a "natural" classification, represents the nature or types of goods or services acquired without regard to the organization involved or the program for which they were used. Reporting of the sub-organization incurring the costs and/or the purposes for which the costs were incurred generally provides more useful information than reporting on the types of goods or services acquired. (par. 87)

In addition, SFFAC 2 presents an example statement of net cost. The example shows net cost by program and suborganization.

Standards

Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, requires that management of each reporting entity define and establish responsibility segments and that managerial cost accounting should be performed to measure and report the costs of each segment's outputs. SFFAS 4 explains the purpose for responsibility segments, which includes the following—provide a vehicle for accumulating costs incurred by the segment to match with its outputs, facilitate cost control and management, provide useful information in support of financial reporting by components. In addition, SFFAS 4 provides the linkage to performance reporting as follows:

For internal management, segmentation could also facilitate performance measurement. Since each segment is responsible for a mission, or a line of activity to produce a certain type of output, performance goals can be set for each segment based on its specific tasks and operating patterns. Information on costs, outputs, and outcomes related to each segment can be used to measure its performance against the goals. The results of the segment performance

measurement could also support external reporting on performance measures for the entire reporting entity or its major programs.⁹

Although SFFAS 4 does not explicitly state that the segments should be the same as programs identified under GPRA, there is sufficient flexibility and language that encourages segmentation to facilitate performance measurement reporting.

Other Guidance

The project will consider the financial section of OMB A-136, *Financial Reporting Requirements*. The complete section can be accessed at http://www.whitehouse.gov/omb/circulars_default.

Legislation

Legislation that will be considered during the project includes those described in [FASAB's Strategic Directions, Appendix IV](#). The document, accessible at <http://www.fasab.gov/about/mission-objectives/>, provides a discussion and analysis of the following legislation:

- Federal Managers Financial Integrity Act of 1982
- Chief Financial Officer's (CFO) Act of 1990
- Government Performance and Results Act (GPRA) of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Sarbanes-Oxley Act of 2002
- Department of Homeland Security Financial Accountability Act

Generally, the laws require the federal government and its components to provide audited financial statements and other information such as strategic plans and information on operating performance and systems and control. Accordingly, each component is responsible for managing its resources and program performance and developing discrete financial and performance information. Also, components may need to develop systems and internal controls to help them accomplish these responsibilities. However, while developing discrete financial and performance information, components must rely on centralized processes conducted for the benefit of the government as a whole. Those processes include taxation, borrowing from the public, acquisition services, and employee retirement, health benefits, and life insurance programs.

⁹ SFFAS 4, par. 85.

In addition, the project will consider the results of particular Improper Payments Elimination and Recovery Act (IPERA) of 2010 requirements. IPERA requires the CFO Council and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to

- A. jointly examine the lessons learned during the first, 20 years of implementing the Chief Financial Officers Act of 1990 (31 U.S.C. 901) and identify reforms or improvements, if any, to the legislative and regulatory compliance framework for Federal financial management that will optimize Federal agency efforts to
 - publish relevant, timely, and reliable reports on Government finances; and
 - implement internal controls that mitigate the risk for fraud, waste, and error in Government programs; and
- B. jointly submit a report on the results of the examination...¹⁰

The project will also consider the GPRA Modernization Act of 2010 which updated the GPRA of 1993 and was intended to take advantage of advancements in technology and lessons learned in performance management over the years.¹¹ The Act requires agencies to provide performance information in a searchable, machine-readable format and make the information available on their public websites.

¹⁰ IPERA of 2010, Section 3(e).

¹¹ United States Senate, *Report of the Committee on Homeland Security and Governmental Affairs*, Washington, 2010.

ABBREVIATIONS

CFO	Chief Financial Officer
CIGIE	Council of the Inspectors General on Integrity and Efficiency
FASAB	Federal Accounting Standards Advisory Board or Board
GPRA	Government Performance Results Act
IPERA	Improper Payments Elimination and Recovery Act
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

KEY TERMS

Cost refers to “the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service to the processes used in delivering financial information.” FASAB Handbook Appendix E: Consolidated Glossary.

Full cost refers to “...the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities.” FASAB Handbook Appendix E: Consolidated Glossary.

Responsibility Segment refers to “a significant organizational, operational, functional, or process component which has the following characteristics: (a) its manager reports to the entity’s top management; (b) it is responsible for carrying out a mission, performing a line of activities or services, or producing one or a group of products; and (c) for financial reporting and cost management purposes, its resources and results of operations can be clearly distinguished, physically and operationally, from those of other segments of the entity.” FASAB Handbook Appendix E: Consolidated Glossary.



April 14, 2012

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model: Improving Performance Reporting Project Plan – **Tab E-2**¹

OBJECTIVE

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

BRIEFING MATERIAL

The proposed Project Plan is attached to this transmittal memorandum. In addition, there is a separate Attachment containing reference material that provides additional information should you desire more details. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-2512 or by e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov.

Attachments:

Project Plan
Reference Material

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PERFORMANCE REPORTING
PROJECT PLAN



APRIL 2012

Why is a project on Performance Reporting needed?

Users are seeking information on program performance. FASAB's citizens survey indicated that 77% of respondents believed that performance information was very/extremely important.² Also, Congressional staff, managers, and other participants in reporting model discussions have noted the importance of performance information and the need for improvement in reporting. Performance information helps users assess the government's performance in providing services and the outcome of those services. Despite the high level of interest and concern regarding performance information, FASAB standards continue to permit a high degree of discretion regarding what management should present in financial reports. With respect to performance information, the standards simply state that Management's Discussion and Analysis (MD&A) should address the entity's "performance goals, objectives, and results."³

What are some of the questions / issues to be addressed by the Performance Reporting project?

To help meet the expectations of various users, the project will address the following matters:

- Whether the level of flexibility afforded in FASAB's standards could be narrowed by providing some minimum criteria.
- Whether other possible methods of presenting performance information (schedule in disclosures, required supplementary information (RSI) other than MD&A, etc.) would be more beneficial to users. Existing FASAB performance information standards focus on reporting the information in the MD&A.
- How should reporting entities reconcile different requirements for delivering performance information? The Government Performance and Results Modernization Act requires that all performance information be provided electronically. However, agencies generally prepare printed documents which include performance information consistent with the Reports Streamlining Act.

² Staff Issue Paper for April 2010.

³ Statement of Federal Financial Accounting Standards 15, *Management's Discussion and Analysis*, par. 2.

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PERFORMANCE REPORTING PROJECT PLAN

- Purpose:** The Federal Accounting Standards Advisory Board (FASAB or Board) developed initial guidance for performance information in the early 90s and now after several years of progress, the Board is revisiting the requirements to determine needed improvements.
- Applicability:** This project applies to the government-wide and component entities that prepare and present general purpose financial reports in conformance with paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
- Also, any conceptual guidance developed as a result of the project would guide the Board's development of accounting and reporting standards. Knowledge of the concepts that the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards understand the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.
- Objectives:** The overall objective of this project is to improve the reporting of performance information in financial reports.
- Assigned staff:** TBD
- Other resources:** Staff plans to engage a task force to help accomplish the project objectives. Also, staff plans to consider any ongoing efforts to improve the reporting model.
- Timeline:** The timeline for the project is as follows.

Period Ending	Step
June 2012	Organize task force to determine minimum criteria for performance reporting, other possible reporting methods, and how to reconcile different requirements for delivering the information.
October 2012	Preliminary recommendations to FASAB
December 2012	Present recommendations to FASAB
February 2013	Discuss Draft ED with FASAB
April 2013	Discuss Draft ED with FASAB
June 2013	Discuss Draft ED with FASAB
August 2013	Issue ED for Comment
December 2013	Analyze ED Responses
February 2014	Analyze ED Responses
April 2014	Finalize Standard and issue to sponsors
July 2014	Issue standard

PROPOSED APPROACH

I. Consider Existing Concepts, Standards, Other Guidance, Legislation, Previous Research:

Existing concepts

- Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, paragraphs 65-67.
- SFFAC 3, *Management’s Discussion and Analysis*, paragraphs 42-47.
- SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, paragraphs 35 and 36.

Existing Standards

Various standards may be involved including SFFAS 15, *Management’s Discussion and Analysis*.

Other Guidance

- Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the financial section of financial reports.

Legislation

- Federal Managers Financial Integrity Act of 1982
- Chief Financial Officer's (CFO) Act of 1990
- Government Performance and Results Act of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Sarbanes-Oxley Act of 2002
- Department of Homeland Security Financial Accountability Act
- Improper Payments Elimination and Recovery Act (IPERA) of 2010
- GPRA Modernization Act of 2010

Previous Research

- User Needs
- Roundtables and Interviews

II. Resources

Staff plans to engage a task force to help achieve the project objectives. The task force will consist of citizen intermediaries, managers, executives, Congress, preparers, and auditors. Also, staff may seek input from experts in disciplines such as performance reporting.

III. Research Steps

- a. Organize a task force to determine minimum criteria for performance reporting, other possible reporting methods, and how to reconcile different requirements for delivering the information..

- i. Seek representatives from each of the user groups (citizens, program managers, executives, and Congress) and include preparers and auditors.
 - ii. Provide task force members with results of previous research and roundtable discussions (user needs results, Financial Reporting Model Task Force recommendations, FASAB Strategic Directions, CFO Council and CIGIE recommendations, CFO and auditor roundtable discussions).
- b. Discuss preliminary results with FASAB.
- c. Report final results to the Board.
- d. Develop an ED that provides guidelines for the changes identified.
- e. Issue ED for comment.
- f. Analyze comments.
- g. Issue standard.

POTENTIAL PROJECT MANAGEMENT CONCERNS

None

The objective of this session is to approve this project plan on Performance Reporting, so that staff may take action on the next agreed-upon step.

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-2512 or by e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov.

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**Tab E-2 – Reference Material
Reporting Model: Improving
Performance Reporting**

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USER NEEDS AND OTHER RESEARCH

Congressional staff, citizens and citizen intermediaries, and internal users (managers and executives) sought performance information. During our reporting model discussions with various groups, we noted several instances which indicate the level of interest and concern for performance information. The following are some examples:

- One agency established a performance management system to help managers and executives track grant recipient performance and, using data warehousing, integrated the data with budget and other data.
- Senate budget committee staff sought data on the full cost of programs, unit costs, and program outcomes.
- Citizens participating in our survey sought information on the results of programs.¹
- Auditors noted that performance information is important to users and that because agencies use different cost allocation methodologies, agencies could be required to disclose their methodology.²
- Preparers noted that users are interested in the value being provided for the costs incurred.³
- FASAB's Reporting Model Task Force noted that performance information could inform national debate on the federal government's future role in the economy and society.⁴

Although the high degree of interest in performance information is apparent, the Government Accountability Office noted that federal government decision makers often lack the performance information they need.⁵

To assist their citizens in assessing government performance, other national governments are presenting performance information in their financial reports. For example, the Board observed that the New Zealand reporting model includes a Statement of Service Performance. The statement provides comparisons of forecasted performance with actual performance and forecasted revenue and output expenses with actual amounts. In addition, the statement is audited.⁶

Also, other government accounting standards-setters have appeared to focus on providing guidelines to encourage consistency in performance information reporting. For instance, in 2011, the International Public Sector Accounting Standards Board (IPSASB) developed a consultation paper regarding reporting service performance information. The objective of the IPSASB's reporting service information project is to

¹ Staff Issue Paper for April 2010.

² Staff Issue Paper for February 2012.

³ Ibid.

⁴ FASAB, *Report of the Reporting Model Task Force*, (Washington DC: December 2010), 6.

⁵ Government Accountability Office, *Managing for Results: GPRA Modernization Act Implementation Provides Important Opportunities to Address Government Challenges*, (Washington DC: May 10, 2011), 10.

⁶ Staff Issue Paper for December 2011.

...use a principles-base approach to develop a consistent framework for reporting service performance information of public sector entities, a framework that focuses on meeting the needs of intended users.⁷

Also, in 2010, the Governmental Accounting Standards Board (GASB) issued suggested guidelines for voluntary performance reporting. The guidelines, *SEA Performance Information*, provide state and local governments with a common framework for communicating performance information.

⁷ IPSASB, *Consultation Paper: Reporting Service Performance Information*, (Toronto, Ontario: International Federation of Accountants, October 2011), 3.

EXCERPTS FROM EXISTING CONCEPTS, STANDARDS, OTHER GUIDANCE, AND LEGISLATION

The project will consider existing concepts, standards, and legislation regarding financial statements of government-wide and component entities. The concepts and standards consider legislation and help address the financial information needs of users.

Concepts

Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, states

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.⁸

To help achieve the reporting objectives, SFFAC 2, *Entity and Display*, refers to a performance measures statement. In particular, the concepts state

The second objective of Federal financial reporting states, in part, that Federal financial reporting should provide information that helps readers of the financial reports determine the efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs. This suggests that a **statement of program performance measures**, [footnote omitted] i.e., one or more statements presenting service efforts and accomplishments measures for each of a reporting entity's significant programs, is necessary.⁹

The Federal Government is increasing its interest in measuring and reporting program performance, as evidenced by the enactment of the Government Performance and Results Act and increasing emphasis during budget reviews on program performance. Moreover, the ability to seek and obtain maximum return from increasingly limited resources can be enhanced by an understanding of the results of the programs for which budget resources have been expended. In the final analysis, the objective of the Federal Government is to provide services, in contrast to the objective of private sector organizations, which is to earn profits and enhance the return on investment, both of which are monetary objectives. All of these factors suggest that the statement of program performance measures is not only an appropriate statement, but likely to be the most important statement for those persons interested in how a Federal entity is using its resources.¹⁰

⁸ SFFAC 1, par. 14.

⁹ SFFAC 2, par. 66.

¹⁰ SFFAC 2, par. 67.

Although FASAB does not consider the performance measures statement to be a basic financial statement,¹¹ the guidance notes the importance of the data to users interested in how a federal entity is using its resources. As a result, the statement could be considered a candidate for required supplementary information.

Also, SFFAC 3, *Management's Discussion and Analysis*, provides conceptual guidance for reporting on performance in the Management's Discussion and Analysis. The guidance states

Performance Measurement—The objectives and needs of the Federal Government are markedly different from the objectives and needs of non-governmental organizations. This difference extends to the needs of those who use financial statements of governmental organizations. Their needs are different in many ways from the needs of investors, which the SEC's requirements address. In particular, reporting on the performance of governmental programs, organizations, and activities requires information that goes beyond the change in net assets and, indeed, beyond financial information.¹²

The actual outcomes, accomplishments, or degree to which predetermined objectives are met provide indicators or measures of some aspects of effectiveness. [footnote omitted] MD&A should objectively discuss the entity's program results and indicate the extent to which its programs are achieving their intended objectives. [footnote omitted] Efficiency and effectiveness are important elements of performance measurement, and measuring cost is an integral part of assessing the efficiency and effectiveness of programs. Relating outputs (the quantity of services provided) to inputs (the cost incurred to provide the services) provides an indicator or measure of one aspect of efficiency. Information about effectiveness is often combined with cost information to help assess "cost effectiveness."¹³

The entity's financial performance should be summarized to provide significant indicators of its financial operations for the reporting period. Indicators of financial performance are presented in notes and supplementary information as well as on the face of the principal financial statements, e.g., information about management of loans and accounts receivable. Financial performance is only one aspect of performance for governmental entities. Financial performance should be discussed to the extent relevant for the entity, in a way that appropriately balances the discussion of financial and nonfinancial performance relevant to the program or other reporting entity.¹⁴

The discussion of performance should relate to major goals and objectives from the agency's strategic plan and to the indicators reported pursuant to the Results Act. It should explain what key performance indicators say about program performance. The summary discussion of performance in MD&A should:

- discuss the strategies and resources the agency uses to achieve its performance goals;
- provide a clear picture of actual and planned performance across the agency; and
- explain the procedures that management has designed and followed to provide reasonable assurance that the reported performance information is relevant and reliable.¹⁵

¹¹ SFFAC 2, footnote 9.

¹² SFFAC 3, par. 42.

¹³ *Ibid*, par. 43.

¹⁴ *Ibid*, par. 44.

¹⁵ *Ibid*, par. 45.

The discussion of performance should:

- include both positive and negative results;
- present historical and future trends, if relevant (see paragraphs 31-36 regarding projections of the financial effects of known and anticipated demands, commitments, events, risks, uncertainties or trends for which a material financial effect is reasonably possible);
- be illustrated with charts and graphs, whenever helpful, for easy identification of trends;
- explain the significance of the trends;
- provide comparison of actual results to goals or benchmarks;
- explain variations from goals and plans; and
- provide other explanatory information that management believes readers will need to understand the significance of the indicators, the results, and any variations from goals or plans.¹⁶

To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what they plan to do to improve program performance.¹⁷

SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, discusses the measures that users may need to evaluate service efforts and accomplishments.

The standard states

Measuring costs is an integral part of measuring performance in terms of efficiency and cost-effectiveness. Efficiency is measured by relating outputs to inputs. It is often expressed by the cost per unit of output. While effectiveness in itself is measured by the outcome or the degree to which a predetermined objective is met, it is commonly combined with cost information to show “cost-effectiveness.” Thus, the service efforts and accomplishments of a government entity can be evaluated with the following measures:

- (1) Measures of service efforts which include the costs of resources used to provide the services and non-financial measures;
- (2) Measures of accomplishments which are outputs (the quantity of services provided) and outcomes (the results of those services); and
- (3) Measures that relate efforts to accomplishments, Such as cost per unit of output or cost-effectiveness.¹⁸

Thus, as stated previously, performance measurement requires both financial and non-financial measures. Cost is a necessary element for performance measurement, but is not the only element.¹⁹

¹⁶ Ibid, par. 46.

¹⁷ Ibid, par. 47.

¹⁸ SFFAS 4, par. 35.

¹⁹ Ibid, par. 36.

Standards

SFFAS 15, *Management's Discussion and Analysis*, provides standards regarding performance information. It states

A report that presents a Federal reporting entity's financial statements in conformance with Federal accounting principles should include management's discussion and analysis (MD&A) of the financial statements and related information. MD&A should provide a clear and concise description of the reporting entity and its mission, activities, program and financial performance, systems, controls, legal compliance, financial position, and financial condition. MD&A should provide a balanced presentation that includes both positive and negative information about these topics. MD&A should be regarded as "required supplementary information" as that term is used in auditing standards. [footnote omitted]²⁰

MD&A should contain sections that address the entity's:

- mission and organizational structure;
- performance goals, objectives, and results;
- financial statements; and
- systems, controls, and legal compliance.²¹

Thus, it appears that FASAB did not want the standard to be overly prescriptive. The Board believed that "management should have great discretion regarding what to say about those topics..."²² Also, the lack of specific criteria would permit management to have flexibility in dealing with topics such as performance measurement.²³

Other Guidance

The project will consider the financial section of Office of Management and Budget (OMB) A-136, *Financial Reporting Requirements*. The complete section can be accessed at http://www.whitehouse.gov/omb/circulars_default.

Legislation

Legislation that will be considered during the project includes those described in [FASAB's Strategic Directions, Appendix IV](#). The document, accessible at <http://www.fasab.gov/about/mission-objectives/>, provides a discussion and analysis of the following legislation:

- Federal Managers Financial Integrity Act of 1982
- Chief Financial Officer's (CFO) Act of 1990

²⁰ SFFAS 15, par. 1.

²¹ Ibid, par. 2.

²² SFFAS 15, par. 13.

²³ SFFAS 15, par. 14.

- Government Performance and Results Act (GPRA) of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Sarbanes-Oxley Act of 2002
- Department of Homeland Security Financial Accountability Act

Generally, the laws require the federal government and its components to provide audited financial statements and other information such as strategic plans and information on operating performance and systems and control. Accordingly, each component is responsible for managing its resources and program performance and developing discrete financial and performance information. Also, components may need to develop systems and internal controls to help them accomplish these responsibilities. However, while developing discrete financial and performance information, components must rely on centralized processes conducted for the benefit of the government as a whole. Those processes include taxation, borrowing from the public, acquisition services, and employee retirement, health benefits, and life insurance programs.

In addition, the project will consider the results of particular Improper Payments Elimination and Recovery Act (IPERA) of 2010 requirements. IPERA requires the CFO Council and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to

- A. jointly examine the lessons learned during the first, 20 years of implementing the Chief Financial Officers Act of 1990 (31 U.S.C. 901) and identify reforms or improvements, if any, to the legislative and regulatory compliance framework for Federal financial management that will optimize Federal agency efforts to
 - publish relevant, timely, and reliable reports on Government finances; and
 - implement internal controls that mitigate the risk for fraud, waste, and error in Government programs; and
- B. jointly submit a report on the results of the examination...²⁴

The project will also consider the GPRA Modernization Act of 2010 which updated the GPRA of 1993 and was intended to take advantage of advancements in technology and lessons learned in performance management

²⁴ IPERA of 2010, Section 3(e).

over the years.²⁵ The Act requires agencies to provide performance information in a searchable, machine-readable format and make the information available on their public websites.

²⁵ United States Senate, *Report of the Committee on Homeland Security and Governmental Affairs*, Washington, 2010.

ABBREVIATIONS

CFO	Chief Financial Officer
CIGIE	Council of the Inspectors General on Integrity and Efficiency
FASAB	Federal Accounting Standards Advisory Board or Board
GAGAS	Generally Accepted Government Auditing Standards
GASB	Governmental Accounting Standards Board
GPRA	Government Performance Results Act
IPERA	Improper Payments Elimination and Recovery Act
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

KEY TERMS

Cost refers to “the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service to the processes used in delivering financial information.” FASAB Handbook Appendix E: Consolidated Glossary.

Efficiency Measure refers to “a type of measure, specifically a ratio of a program activity’s inputs (such as costs or hours worked by employees) to its outputs or outcomes. Efficiency measures reflect the resources used to achieve outcomes or produce outputs. Efficiency measures may not be appropriate for every program, project, or goal. Measuring the cost per unit of outcome or output tends to be most useful for similar, repeated practices.” OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2011.

Full cost refers to “...the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities.” FASAB Handbook Appendix E: Consolidated Glossary.

Machine Readable Format refers to a “format in a standard computer language (not English text) that can be read automatically by a web browser or computer system. (e.g., xml). For performance information, machine readable format will conform to a government-wide performance management data standard based on extensible markup language (xml).” OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2011.

Outcome refers to “the desired results of a program. For example, an outcome of a nation-wide program aimed to prevent the transmission of HIV infection might be a lower rate of new HIV infections in the U.S.” OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2011.

Outcome measure refers to “a type of measure that indicates progress against achieving the intended result of a program. Indicates changes in conditions that the government is trying to influence.” OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2011.

Output refers to “actual products or services delivered by a program, such as the number of inspections conducted or the number of people trained.” OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2011.

Output measure refers to “a type of measure, specifically the tabulation, calculation, or recording of activity or effort usually expressed quantitatively. Outputs describe the level of activity that will be provided over a period of time. Outputs refer to the activities or products of a program.” OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2011.

Performance Indicator refers to “a particular value or characteristic used to measure progress toward goals, and also used to find ways to improve progress, reduce risks, or improve cost-effectiveness.” OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2011.

Process measure refers to “a type of measure that indicates how well a procedure, process or operation is working, (e.g., timeliness, accuracy, or completeness).” OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, August 2011.

Responsibility Segment refers to “a significant organizational, operational, functional, or process component which has the following characteristics: (a) its manager reports to the entity’s top management; (b) it is responsible for carrying out a mission, performing a line of activities or services, or producing one or a group of products; and (c) for financial reporting and cost management purposes, its resources and results of operations can be clearly distinguished, physically and operationally, from those of other segments of the entity.” FASAB Handbook Appendix E: Consolidated Glossary.



April 14, 2012

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model: Improving Budgetary Reporting Project Plan – **Tab E-3**¹

OBJECTIVE

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

BRIEFING MATERIAL

The proposed Project Plan is attached to this transmittal memorandum. In addition, there is a separate Attachment containing reference material that provides additional information should you desire more details. You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-2512 or by e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov.

Attachments:

Project Plan
Reference Material

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.

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BUDGETARY REPORTING
PROJECT PLAN



APRIL 2012

Why is a project on Budgetary Reporting needed?

The nation is currently facing fiscal pressures and the federal budget is receiving increased attention. Users are seeking information on budgetary integrity and they would like information such as the amount of budget authority that has been approved and whether or not spending exceeded that authority. While the existing reporting model includes budgetary data, FASAB roundtable participants have noted challenges in understanding the data being presented. Also, based on interviews, analysts appear to prefer the less aggregated data presented in *The President's Budget*. A financial presentation that clearly articulates budgetary integrity information to the public may be useful in today's environment.

What are some of the questions / issues to be addressed by the Budgetary Reporting project?

The project will address issues involved in presenting data drawn from budgetary reports. In particular, the project will address the following:

- a. What data would be useful for clearly articulating budgetary integrity to the public, given the unique circumstances associated with the federal budget process, such as the following:
 - some agencies receive permanent indefinite budget authority which involves multiple periods;
 - while new budget authority may be obligated during the year enacted, a portion of the outlays may not be made until later years;
 - in some instances, new budgetary authority may remain unobligated until a future period; and
 - citizens may not be familiar with many of the terms used in federal budgeting.
 - b. What levels of aggregation should be offered in a presentation intended to communicate specialized data to a general audience?
 - c. What budgetary data should be presented at the government-wide level versus the agency level given the differences in financing (generally, the government-wide level receives tax revenue while the agency level receives budget authority)?
 - d. How should budgetary statements relate to other statements presented in financial reports?
-

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BUDGETARY REPORTING
PROJECT PLAN

- Purpose:** The Federal Accounting Standards Advisory Board (FASAB or Board) developed initial guidance for budgetary information in the early 90s and now after several years of progress, the Board is revisiting the requirements to determine needed improvements.
- Applicability:** This project applies to the government-wide and component entities that prepare and present general purpose financial reports in conformance with paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
- Also, any conceptual guidance developed as a result of the project would guide the Board's development of accounting and reporting standards. Knowledge of the concepts that the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards understand the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.
- Objectives:** The overall objective of this project is to improve the reporting of budgetary information in financial reports.
- Assigned staff:** TBD
- Other resources:** Staff plans to engage a task force to help accomplish the project objectives. Also, staff plans to consider any ongoing efforts to improve the reporting model.
- Timeline:** The timeline for the project is as follows.

Period Ending	Step
June 2012	Organize task force to determine the data that may be most useful for articulating budgetary integrity to the public and how the presentation would relate to existing financial statements. Also, when available, the task force will review the statement of spending pilot results.
December 2012	Discuss prototype budgetary presentation with FASAB
January 2013	Consider statement of spending pilot results
February 2013	Discuss Draft ED with FASAB
April 2013	Discuss Draft ED with FASAB
June 2013	Discuss Draft ED with FASAB
August 2013	Field testing
October 2013	Field testing
December 2013	Issue ED
April 2014	Analyze ED Responses
June 2014	Analyze ED Responses
July 2014	Finalize Standard and issue to sponsors
October 2014	Issue standard

PROPOSED APPROACH

I. Consider Existing Concepts, Standards, Other Guidance, Legislation, Previous Research:

Existing concepts

- SFFAC 2, *Entity and Display*, paragraphs 63 and 64.

Existing Standards

Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraphs 77-79.

Other Guidance

- Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the financial section of financial reports.

Legislation

- Federal Managers Financial Integrity Act of 1982
- Chief Financial Officer's (CFO) Act of 1990
- Government Performance and Results Act of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Sarbanes-Oxley Act of 2002
- Department of Homeland Security Financial Accountability Act
- Improper Payments Elimination and Recovery Act (IPERA) of 2010
- GPRA Modernization Act of 2010

Previous Research

- User Needs
- Roundtables and Interviews

II. Resources

Staff plans to engage a task force to help achieve the project objectives. The task force will consist of citizen intermediaries, managers, executives, Congress, preparers, and auditors.

III. Research Steps

- a. Organize a task force to determine the data that may be most useful for articulating budgetary integrity to the public and how the presentation would relate to existing financial statements. Also, when available, the task force will consider the statement of spending pilot results.
 - i. Seek representatives from each of the user groups (citizens, program managers, executives, and Congress) and include preparers and auditors.
 - ii. Provide task force members with results of previous research and roundtable discussions (user needs results, Financial Reporting Model Task Force recommendations, FASAB Strategic Directions, CFO Council and CIGIE recommendations, CFO and auditor roundtable discussions).
- b. Based on previous discussions about budgetary reporting and relevant issues, develop a prototype statement.
- c. Determine challenges to preparing the prototype statement, how the challenges might be addressed, and how it would integrate with existing statements.
- d. Report results to the Board.
- e. Develop an ED that provides guidelines for preparing the statement and any changes to existing standards.
- f. Conduct pilot testing.
- g. Issue ED for comment.
- h. Analyze comments.
- i. Issue standard.

POTENTIAL PROJECT MANAGEMENT CONCERNS

None

The objective of this session is to approve this project plan on Budgetary Reporting, so that staff may take action on the next agreed-upon step.

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-2512 or by e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov.

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Tab E-3 – Reference Material
Reporting Model: Improving Budgetary
Reporting

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USER NEEDS AND OTHER RESEARCH

Participants in FASAB reporting model discussions and Board members have indicated that the budgetary integrity objective could be better achieved. Participants in roundtables and other discussions have noted that existing agency level statements are challenging to understand and they noted that other possible presentations could be more useful. Also, FASAB members have noted that other budgetary presentations could enhance the usefulness of financial reports.

Currently, agencies present an annual Statement of Budgetary Resources (SBR). Also, while FASAB concepts list a budget to actual comparison for presentation at the government-wide level, the Board has not developed standards for the presentation. Participants in FASAB staff's Budgetary Integrity Roundtable Discussion noted that a budget to actual comparison would provide a better presentation than the existing SBR for meeting the overall objective. In particular, they noted that a budget to actual comparison at some meaningful level of detail, such as the appropriation account level, would meet the objective of having the government publicly accountable. They also noted that other government entities prepare comparisons and there was Congressional interest in a budget to actual comparison for each program.¹

In addition, the SBR links to the Program and Financing (P&F) schedules in the Appendix of *The President's Budget* and analysts use these less aggregated schedules in their work. Also, agency managers use less aggregated and timelier budgetary data for their financial decisions.² Audits of the SBR provide analysts and managers with a level of assurance with respect to the integrity of the budgetary data they use.

Also, Board members have noted that a comparison statement could enhance the usefulness of the financial report and could replace existing presentations. For example, a former Department of the Treasury (Treasury) FASAB member noted that the Board could enhance the usefulness of financial statements by better linking them to the budget. He proposed that this could be accomplished through a comparison statement. The statement would have the following columns:

- the original budget request;
- the original budget approved by Congress;
- any budget modifications throughout the year;
- the final budget amount;
- a comparison of budgetary receipts and outlays to the budget;
- the effect of accruals; and
- a total that would look like generally accepted accounting principles (GAAP).³

¹ Staff Reporting Objectives Issue Paper for January 2006.

² Staff Issue Paper for April 2010.

³ FASAB April 2008 minutes.

Moreover, during the February 2012 meeting, Board members expressed an interest in a budget to actual comparison statement and a member noted that a budget to actual comparison could either replace the SBR or be added to the existing set of financial statements. The comparison could contain four columns: final appropriation, obligation, outlay, accrual-based expenditure and the line items could be objects, programs, or some other cost center. This type of statement would fulfill the desire for a schedule of spending and provide the information that focus groups and others have indicated is useful.⁴

However, other Board members have expressed concern with a budget to actual comparison. They noted issues such as the following:

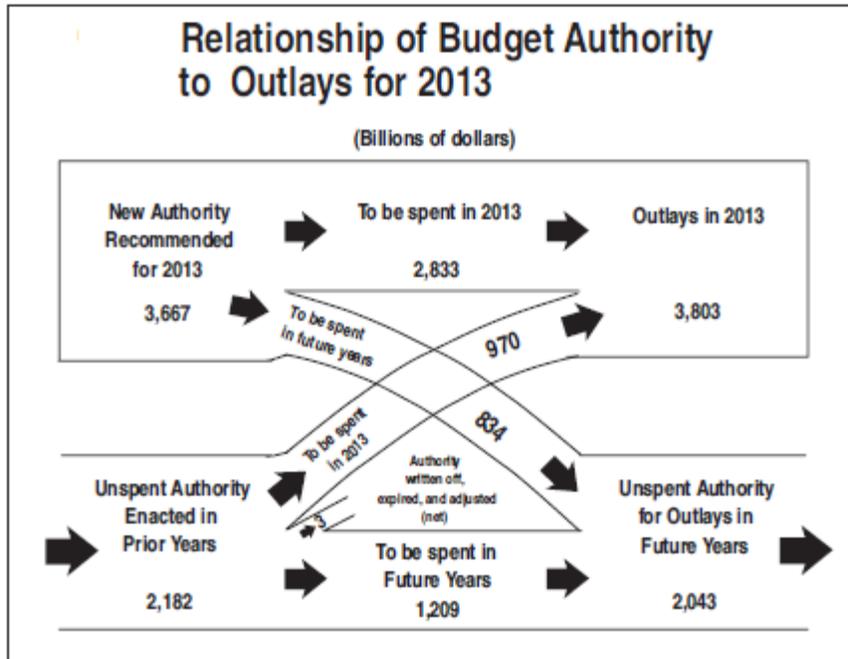
- a. FASAB's role with respect to budgetary integrity is difficult to define and that the budget and financial statements are looking through different lenses.
- b. The financial report of the U.S. government addresses issues that cannot be taken up in the budget. Helping to achieve the budgetary integrity reporting objective should be a by-product of FASAB's work.
- c. The preparer community is focused on developing a schedule of spending. The objective of this initiative is to better convey data to citizens and provide audit rigor around data that the public demands.
- d. The spending (outlays) today relates to budgets approved (budgetary authority) over the past several years. This makes budget to actual comparisons quite difficult and more complex than in a state government environment where budgetary resources are available only for one year.⁵

Issue item d. presents a significant challenge to an understandable presentation. New budget authority may be obligated during the year enacted, but a portion of the outlays may not be made until later years or the authority may remain unobligated until a future period. Accordingly, Congressional analysts consider the "spendout" rate or the proportion of budget authority that will become outlays during the period. Chart 1: Relationship of Budget Authority to Outlays illustrates the relationship between budgetary authority and outlays.

⁴ February 2012 minutes.

⁵ February 2011 minutes.

Chart 1: Relationship of Budget Authority to Outlays



Source: Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government Fiscal Year 2013* (Washington, D.C.), 138.

Analysts also noted that a budget to actual comparison may not be useful for mandatory spending programs. While discretionary spending programs often conform to the amount appropriated, mandatory spending frequently varies from budgeted amounts. The variances may be due to estimation errors, unanticipated changes in economic conditions, or policy changes.⁶ Thus, staff discussions with budget analysts suggested that a budget to actual comparison would be more suitable for discretionary spending, which is decreasing in relation to mandatory spending.

⁶ Allen Schick, *The Federal Budget: Politics, Policy, Process* (Washington, DC: Brookings Institution Press, 2007), 62.

EXCERPTS FROM EXISTING CONCEPTS, STANDARDS, OTHER GUIDANCE, AND LEGISLATION

The project will consider existing concepts, standards, and legislation regarding financial statements of government-wide and component entities. The concepts and standards consider legislation and help address the financial information needs of users.

Concepts

Federal financial reporting objectives require reporting of budgetary integrity information. Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, states that

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

- how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
- the status of budgetary resources, and
- how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

To help achieve this objective, SFFAC 2, *Entity and Display*, calls for an SBR which shows the status of budgetary resources for the agency. In particular, the guidance states

Meeting the first objective of SFFAC No. 1, "Objectives of Federal Financial Reporting," namely the budgetary integrity objective, necessitates that the reader receive assurance that

- the amounts obligated or spent did not exceed the available budget authority,
- obligations and outlays were for the purposes intended in the appropriations and authorizing legislation,
- other legal requirements pertaining to the account have been met, and
- the amounts are properly classified and accurately reported.⁷

This information is provided in other reports, but there needs to be auditor involvement to provide assurance as to the reliability of the information. The assurance as to reliability of the information

⁷ SFFAC 2, Entity and Display, par. 63.

could be accomplished by including a statement of budgetary resources in the reporting entity's financial statements, recognizing that the statement will likely be subject to audit. The presentation of data could be for the reporting entity as a whole, for the major suborganization units (assuming there is congruity among the major suborganization units and the budget accounts), or for the aggregations of the major budget accounts, rather than for the individual budget accounts of the entity or other types of entities. Violations of budgetary integrity at the account level occurring during the current year could be disclosed on an exception basis. (Many violations of budgetary integrity would also be violations of the Anti-Deficiency Act. Disclosure in the financial statements notwithstanding, these violations would also have to be reported as required by the Act.)⁸

For the government-wide level, the concepts list a comparison of budgeted and actual use of resources.⁹

Standards

Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states

The budget is the primary financial planning and control tool of the government. For this reason, and because of the importance of this information to users of federal financial information, the following material budgetary information should be presented by reporting entities whose financing comes wholly or partially from the budget:

- (a) total budgetary resources available to the reporting entity during the period;
- (b) the status of those resources (including "obligations incurred");
- (c) outlays.¹⁰

Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34. In addition, the reporting entity should provide this information for each of its major budget accounts as supplementary information. Small budget accounts may be aggregated.¹¹

The following information about the status of budgetary resources should be disclosed.

- (a) the amount of budgetary resources obligated for undelivered orders at the end of the period;
- (b) available borrowing and contract authority at the end of the period;
- (c) repayment requirements, financing sources for repayment, and other terms of borrowing authority used;
- (d) material adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation thereof;
- (e) existence, purpose, and availability of permanent indefinite appropriations;
- (f) information about legal arrangements affecting the use of unobligated balances of budget authority such as time limits, purpose, and obligation limitations;

⁸ SFFAC2, Entity and Display, par. 64.

⁹ *Ibid.*, par. 79.

¹⁰ SFFAS 7, par. 77.

¹¹ SFFAS 7, par. 78.

- (g) explanations of any material differences between the information required by paragraph 77 and the amounts described as “actual” in the Budget of the United States Government;
- (h) the amount, and an explanation that includes identification of balance sheet components, when recognized unfunded liabilities do not equal the total financing sources yet to be provided; and
- (i) the amount of any capital infusion received during the reporting period.

Other Guidance

The project will consider the financial section of OMB A-136, *Financial Reporting Requirements*. The complete section can be accessed at http://www.whitehouse.gov/omb/circulars_default.

Legislation

Legislation that will be considered during the project includes those described in [FASAB's Strategic Directions, Appendix IV](http://www.fasab.gov/about/mission-objectives/). The document, accessible at <http://www.fasab.gov/about/mission-objectives/>, provides a discussion and analysis of the following legislation:

- Federal Managers Financial Integrity Act of 1982
- Chief Financial Officer's (CFO) Act of 1990
- Government Performance and Results Act (GPRA) of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Sarbanes-Oxley Act of 2002
- Department of Homeland Security Financial Accountability Act

Generally, the laws require the federal government and its components to provide audited financial statements and other information such as strategic plans and information on operating performance and systems and control. Accordingly, each component is responsible for managing its resources and program performance and developing discrete financial and performance information. Also, components may need to develop systems and internal controls to help them accomplish these responsibilities. However, while developing discrete financial and performance information, components must rely on centralized processes conducted for the benefit of the government as a whole. Those processes include taxation, borrowing from the public, acquisition services, and employee retirement, health benefits, and life insurance programs.

In addition, the project will consider the results of particular Improper Payments Elimination and Recovery Act (IPERA) of 2010 requirements. IPERA requires the CFO Council and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to

- A. jointly examine the lessons learned during the first, 20 years of implementing the Chief Financial Officers Act of 1990 (31 U.S.C. 901) and identify reforms or improvements, if any, to the legislative and regulatory compliance framework for Federal financial management that will optimize Federal agency efforts to
 - publish relevant, timely, and reliable reports on Government finances; and
 - implement internal controls that mitigate the risk for fraud, waste, and error in Government programs; and
- B. jointly submit a report on the results of the examination...¹²

The project will also consider the GPRA Modernization Act of 2010 which updated the GPRA of 1993 and was intended to take advantage of advancements in technology and lessons learned in performance management over the years.¹³ The Act requires agencies to provide performance information in a searchable, machine-readable format and make the information available on their public websites.

¹² IPERA of 2010, Section 3(e).

¹³ United States Senate, *Report of the Committee on Homeland Security and Governmental Affairs*, Washington, 2010.

ABBREVIATIONS

CFO	Chief Financial Officer
CIGIE	Council of the Inspectors General on Integrity and Efficiency
FASAB	Federal Accounting Standards Advisory Board or Board
GPRA	Government Performance Results Act
IPERA	Improper Payments Elimination and Recovery Act
SBR	Statement of Budgetary Resources
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

KEY TERMS

The following terms are excerpts from the *Analytical Perspectives, Appendix to The President's Budget 2013*.

Budget authority refers to the authority provided in law to incur financial obligations that will result in outlays.

Budgetary resources refers to the amounts available to incur obligations in a given year. The term comprises new budget authority and unobligated balances of budget authority provided in previous years.

Continuing Resolution refers to an appropriations act that provides for the ongoing operation of the Government in the absence of enacted appropriations.

Deficit refers to the amount by which outlays exceed receipts in a fiscal year.

Discretionary spending refers to budgetary resources (except those provided to fund mandatory spending programs) provided in appropriations acts.

Mandatory spending refers to spending controlled by laws other than appropriations acts (including spending for entitlement programs) and spending for the food stamp program.

Obligation refers to a binding agreement that will result in outlays, immediately or in the future.

Outlay refers to a payment to liquidate an obligation (other than repayment of debt principal or other disbursements that are “means of financing” transactions).

Receipts refer to collections that result from the Government’s exercise of its sovereign power to tax or otherwise compel payment.

Surplus refers to the amount by which receipts exceed outlays in a fiscal year.

Unobligated balance refers to the cumulative amount of budget authority within a budget account that is not obligated and that remains available for obligation under law.