



Federal Accounting Standards Advisory Board

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## User Needs Study: Interviews with Executives and Managers



April 14, 2010

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## Executive Summary

Executives and managers play a key role in ensuring that the federal government serves the needs of the American public. They lead programs intended to accomplish a wide range of objectives such as protecting the health of Americans, providing food assistance and nutrition education, supporting scientific innovation and community development, providing humanitarian assistance to other countries, and maintaining national security. To conduct their responsibilities, executives and managers need a variety of financial information; therefore, the Federal Accounting Standards Advisory Board (FASAB) conducted interviews with 35 leaders to determine their financial information needs.

Federal leaders need accurate information regarding the status of their budgetary resources and the performance of their programs, but the availability of this information may be a concern. They need this information in a timely manner and in some cases more timely than their existing financial systems can provide. Further, they seek information from systems in addition to or in lieu of the financial system. As a result, multiple systems may be involved in their efforts to obtain useful information. Moreover, these leaders admit that they may not always understand the information provided in financial reports; therefore, they develop their own data and reports. Consequently, it appears that individual leaders are using and/or developing specialized financial information beyond what is provided in their agency's financial systems and, in addition to different systems and processes across federal agencies, there may be different systems and processes across programs and organizations within agencies.

Our interviews with federal leaders are part of the FASAB's user needs study series that is intended to help improve the use of financial reports. The other studies involve citizens' financial information needs (the document, *User Needs Study: Citizens*, discusses the results) and the Congress' financial information needs (discussed in *User Needs Study: Congress*). Finally, the document, *User Needs Study: Inventory of User Needs*, provides an inventory of user needs considering the information sought by executives and managers, citizens, and the Congress. Staff plans to use the information needs results to determine the need for improvements in financial reports.

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**Table of Contents**

Executive Summary .....	3
Other Studies of Executives and Managers .....	7
Results .....	9
Leaders Seek Budgetary and Performance Information .....	9
Sources of Information.....	10
Frequency and Format of Distribution .....	11
Characteristics of Information and Whether Information Should be Verified.....	12
Benefits of Financial Statements .....	12
Enhancements Needed .....	13
Understandability of Financial Information .....	13
Availability of Information May Need Improvement .....	14
Use of Systems other than Financial Systems .....	15
Training .....	16
Distribution of Agency Financial Statements .....	16
Other Matters.....	17
Next Steps .....	17
Appendix A: Purpose, Scope, and Methodology .....	19
Appendix B: Examples of Information Considered Most Useful .....	21
Appendix C: Suggestions for Improving Financial Statements .....	22
Appendix D: Abbreviations .....	23
Appendix E: Reporting Objectives.....	25

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## Other Studies of Executives and Managers

A March 1986 federal government reporting study (FGRS) involving the financial information needs of federal executives and managers focused on the need for information to demonstrate accountability for management and use of public resources and the study noted two types of financial information that would be needed:

1. Summary or aggregate information that will be used in assessing the federal government's socio-economic impact and financial position
2. Detailed or disaggregated information to report on and measure compliance, resource management, and cost-effectiveness<sup>1</sup>

The FGRS study noted that this user group needed both spending and cost information to: (1) assess and demonstrate economical and efficient use of resources and the effectiveness of achieving objectives; and (2) help monitor the socio-economic impact of the federal government's activities. Spending information measures the cost of economic resources acquired during a period and is useful for reporting on the short-term economic effects of the federal government's activities. It provides a measure of the amount of dollars flowing into the economy. On the other hand, cost information measures the cost of resources consumed or used in a period and is needed to assist in measuring and demonstrating operational performance.<sup>2</sup>

Interestingly, while the FGRS focused on accountability, the user group involving executives and managers noted that a summary document comparing planned versus actual spending would have limited meaning. They noted that spending authority is very detailed and a detailed description of the purposes for the spending would be needed to demonstrate compliance. Instead of a summary document, auditor reports and agency head certification of systems and internal control could be provided.<sup>3</sup>

Subsequently, in the early 1990s the FASAB conducted user needs research involving executives and managers and then developed the Statement of Federal Financial Accounting Concepts (SFFAC) 1: Objectives of Federal Financial Reporting (Objectives). Objectives notes that the information needs of executives

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<sup>1</sup> GAO, Federal Government Reporting Study: A Joint Study by the Office of the Auditor General of Canada and the United States General Accounting Office, GAO/AFMD-86-30B (Washington, D.C.:1986).

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

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and managers may be grouped into four broad categories: (1) budgetary integrity; (2) operating performance; (3) stewardship; and (4) systems and control. The budgetary integrity, operating performance, and systems and control categories include consideration of the spending and cost information discussed in the FGRS. Appendix E: *Reporting Objectives* discusses each of the categories.



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## Results

### Leaders Seek Budgetary and Performance Information

Federal leaders need information regarding the status of their budgetary resources and the performance of their program. The leaders we interviewed noted that they need timely information regarding the amount of budgetary resources provided to them, the amount obligated or expended, and the amount remaining available for use. They also need to know the rate at which they are using their budgetary resources, i.e. "burn rate." This information helps them determine whether they can take on additional responsibilities or acquire additional goods or services and when they may run out of resources. Some comments that illustrate the views of the respondents are as follows:

*Once we get the need of the program and the demand, ensuring that you have enough funding to match the need, so I guess the supply to meet the demand.*

*...the only numbers we really look at are the amount of money we have in our budgets and the amount of money we are spending....*

Leaders also noted that performance information such as cost and schedule and whether intended results were achieved are helpful in assessing efficiency and effectiveness and in identifying problems and the necessary corrective actions. Information such as net cost per item could be compared with benchmarks to determine if improvements in operations are needed. Respondents noted,

*I think today's government, when we fail to look at what the true cost is -- and when I'm saying true cost, I'm talking about accrual-based, so you're looking at everything rolled in there -- of various services and programs, I think that the lack of information results in decisions that are being made in an uninformed environment and in a time when increasingly it becomes more important that decisions need to be made based on knowing the true cost of the services provided, so that hard choices can be made as to how to allocate limited resources.*

*As stewards of Federal facilities, we have to be able to do the same sort of thing as being able to first be predictive about it. If you do an acquisition of a capital asset, it's more than just that acquisition cost. It's that life-cycle cost that's important, so that you can get the funding as steward to sustain that, you know, for its design life. So finance and information related to those life-cycle costs are absolutely critical.*

Respondents also noted that it is important to know how much contractors and grantees spend, for what purposes, and when the funds are spent. This information would also help in managing program performance and ensure funds are used as intended.

These respondents' views are consistent with other federal government studies. For example, the GAO noted that performance information can be used to identify factors causing problems and to modify the service to correct the problem. The GAO also noted that "linking cost with performance information infuses performance concerns into planning and budgetary deliberations, prompting agencies to reassess their performance goals and strategies and to more clearly understand the cost of performance."<sup>4</sup> In addition, the respondent's views indicate some of the progress that has been made since the early 1990s when program managers viewed financial management as "simply getting their budget dollars."<sup>5</sup> Appendix B: Examples of Information Considered Most Useful provides a list of examples of the information that the leaders considered useful to their responsibilities.

### Sources of Information

The respondents obtained their information from various systems. They used the financial systems, multiple systems including the financial system, and systems independent of the financial system such as contractor systems and systems they developed themselves (cuff systems). They believe that the internal systems have controls that increase the likelihood that the information would be reliable, while information obtained externally may not be as reliable. Leaders often consider the source of the information they use when determining whether they need to verify the accuracy of the information. If the information is provided from an internal source, they are more likely to rely on that information than information from an external source.

Some respondents noted that they developed their own systems or access multiple systems to obtain information more timely, in the format or "language" that they

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<sup>4</sup> GAO, *Managing for Results: Enhancing Agency Use of Performance Information for Management Decision Making*, GAO-05-927, (Washington D.C.: 2005)

<sup>5</sup> Joint Financial Management Improvement Program, *Strategies to Improve Communication between Program and Financial Managers: Proceedings of a Conference Sponsored by the Joint Financial Management Improvement Program*, (Washington, D.C.: 1992)

understand, and to include the content that they use. We discuss this issue more in the Enhancements Needed section beginning on page 13.

### Frequency and Format of Distribution

Regarding how readily the information should be provided, the respondents noted that they generally need the information monthly, but at times they may need the information daily or weekly, depending on the circumstances at the time or complexity of the program. For example, one respondent noted that at year-end, information may be needed weekly to monitor spending and reduce the risk of exceeding budgeted amounts. Also, some respondents did not believe that timelier information was “realistic.” For instance, one respondent noted that ideally information should be provided daily or weekly. However, the respondent believed that monthly or every six to eight weeks would be adequate given the burden timelier information requirements would place on the finance department.

Regarding the format of the information, nearly all the leaders believed that information should be made available electronically versus in hardcopy format. The leaders believed that having access to information electronically enabled them to access the information more timely.

Some comments regarding the frequency and format of distribution are as follows:

*It depends on the complexity of the program. Some activities require a frequent update on a weekly basis. Others require it on a monthly basis. It shouldn't be anything less than monthly basis to keep information current, and program managers should be aware of the status of the dollar or resources available to execute activities.*

*Internet definitely would be helpful because that will allow us access to it anytime and anywhere,... timely access to information is important.*

*Even with the computer systems, there are so many -- so many details to be taken care of and so much reporting, accountability that has to be performed that I'm guessing that once a month or once every six weeks or eight weeks would probably be adequate, but, ideally, you know, daily or weekly.*

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### Characteristics of Information and Whether Information Should be Verified

Leaders note that timeliness and accuracy are key characteristics of the information they use. For example, respondents noted

*If you wait -- particularly in dealing with constructed assets. If you wait four months or a year to see, you know -- again, it's about that performance -- you know, there's a lot of water under the bridge, and you can't really take -- make corrective action.*

*In our system, we strive very hard for timeliness and accuracy, and I would say that timeliness is the most important issue in project development, and that is the function of electronic databases that are, of course, accurate and that they're on schedule.*

Also, the respondents generally believed that they should not have to verify the information before they use it. They should be able to use the information right away. Taking steps to verify the information appears to add an additional burden. One respondent noted,

*I think the information should be reliable based upon the manager receiving it. You know, that would be another burden for the manager to have to verify the information. I would -- I would hope that whoever is relaying the information to the manager that it's their responsibility to make sure that the information is accurate.*

### Benefits of Financial Statements

The respondents noted several benefits of agency financial statements and reports. Primarily, they noted that the documents help demonstrate accountability to the public and provide historical trends. For example, respondents noted,

*The benefit of financial statements is accountability to the public at large that the funds are being spent appropriately for the purposes for which they were appropriated.*

*I do think that there should be accrual-based financial statements produced. I think they should be produced on an annual basis. I think they should have comparatives in there, but I think also there should be departmental reports, which comes down to the individual programs or programmatic reports with costs.*

## Enhancements Needed

When asked about the shortcomings of financial statements and how they can be enhanced respondents noted a number of matters for consideration. They discussed the challenges associated with understanding financial information, the availability of needed information, and the distribution and level of detail provided in agency financial statements. Respondents also indicated that they use systems other than the financial system to obtain the information they need and discussed the need for training to help understand financial information.

### Understandability of Financial Information

Leaders we interviewed noted that financial statements and reports are somewhat difficult to understand and not timely to be useful. Some noted that financial reports are designed for those with financial expertise but that they really need the information in “layman” terms. For example, one respondent noted,

*And so, for something to be usable and valuable to me, it has to be, in a way, sometimes dumbed down, so it's giving me the right information, and it shouldn't be -- it shouldn't require a CPA to be able to -- or have to read those because we're expected to understand the information and be able to use it in a way that's valuable for us to make decisions with.*

*The benefit, you know, obviously the need to have this information to give you a perspective of how an agency or program might be performing. So I think this is critical information.*

*The biggest flaw, if you will, is that the people reading the information may not be financial experts themselves or may not have had financial training. So the interpretation of this information or ensuring that a person that wasn't trained in finance can actually understand those numbers, I think is critical.*

One respondent referred to a need to have financial managers work with program managers to help design reports in a more useful format for monitoring performance, efficiency, and outcomes. This suggestion is consistent with best practices for

implementing financial systems which note that involvement by users is one of the key characteristics of successful implementation.<sup>6</sup>

#### Availability of Information May Need Improvement

Also, some respondents noted that there is a time lag in the information provided in financial reports because all the necessary data has not been recorded, and financial statements themselves are issued months after the information is needed. In addition to reviewing financial information monthly, some leaders expressed that as year-end approaches they may need to review the information more timely to ensure that they do not exceed their budget. Further, there may be critical times when they need information to ensure that the project remains on schedule. However, financial statements issued annually do not address this need for flexibility. Respondents noted,

*The financial statements definitely serve a purpose. I agree, however, that financial statements often do not contain the information that would most assist us and/or information in a timely way that would assist the program and its fiscal sort of calendars and fiscal time.*

*So what I think we need are financial statements that are timely, that are designed to be management tools for the job we have in the Federal Government to manage the public funds that we're given, and trying to jam them into private sector pigeonholes is probably not the best way to produce tools that are useful to government managers, but we certainly need to know that monies that are coming in to us for which we're responsible, the monies that we're spending -- and we need to have periodic statements about how we're spending them, what's going on with the money, and whether it's being spent the way it's planned to be spending -- every grant or contract has an objective and has a time frame and has an amount of money, and being a steward over that, figuring out the money is being allocated as it's supposed to be and how it's being spent along the way is part of the appropriate Federal stewardship of programs and the money associated with them.*

Additionally, respondents indicated that accounting systems provide information to help ensure statutory compliance; however, they need additional or more detailed information for their specific purposes. For example, accounting systems track object classes such as personnel compensation and supplies and the appropriate fiscal year in which the expenditure relates, but they need to know what costs relate

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<sup>6</sup> GAO, Financial Management: Sustained Efforts Needed to Achieve FFMA Accountability, GAO-03-1062, (Washington, D.C.:2003).

to their project or program. Also, managers may use metrics unique to their responsibilities but the accounting system does not provide the metrics, such as net revenue per employee. One respondent noted that they access multiple reports for information, but would prefer a consolidated view.

*... it's scattered throughout many reports. It would be great if I had a consolidated view into all of this information. You know, there should be one spot that has how many -- how much funds are obligated, what they've been obligated and spent on. It should be a one-shop stop.*

#### Use of Systems other than Financial Systems

To help overcome challenges in obtaining the timely information they need, including basic budgetary information, 13 of the 35 leaders noted that they access multiple systems or develop and use their own standalone systems independent of the financial system. They use invoices and other documents to record the needed information and in some cases reconcile their reports to the financial system. A respondent noted,

*For example, if I'm working with a contract, I keep track of when the invoices are billed, so I know exactly what's outstanding. Whereas, the accounting system may be significantly behind because the invoices haven't been submitted yet. So, for me, it has to be correct and to the penny, and the only way to do that is keep the records myself.*

In addition, respondents noted that as part of the systems, they have access to resources that can develop the reports that they need.

The respondents' views appear to indicate that some of the concerns regarding agency financial systems may remain. In 2008, the GAO noted that Chief Financial Officer (CFO) Act agency financial systems were not able to routinely provide reliable, useful, timely financial information for day-to-day management and these shortcomings hinder managers' access to adequate financial data.<sup>7</sup>

Moreover, the federal Inspectors General (IG) community has noted that data integrity in financial reporting could be improved. For example, in the FY2008 progress report to the President, the IG community noted that improvements were needed in several areas of internal control over financial reporting, including oversight, data integrity, reconciliations, updating of policies and procedures, and

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<sup>7</sup> GAO, Financial Management: Persistent Financial Management Systems Issues Remain for Many CFO Act Agencies, GAO-08-1018 (Washington, D.C.: 2008).

training.<sup>8</sup> The report also noted that financial management and performance is a top management and performance challenge facing our nation and stated that,

*Federal agencies continue to face challenges providing timely, accurate, and useful financial information and managing for results. Better budget and performance integration has become even more critical for results-oriented management and efficient allocation of scarce resources among competing needs.*

### Training

The leaders noted that training in financial management would be helpful. Training could help address the need to better understand financial statements and reports and improve systems.

### Distribution of Agency Financial Statements

Eight of the 35 respondents noted that they had not seen their agency financial statements and one respondent noted that the agency financial report could be better distributed. The respondent noted,

*Well, I think wider distribution of that information, which is I don't know if it really occurs. But I think this information often stays within the realm of [the] individual that deals specifically with finances for an agency or a department, that there's an option or it may stay within the hands of maybe senior managers or the senior executive level. Others, you know, that are technical managers that run programs may not always get access to this information. So they may be operating, you know, not with all the information that they could have which could benefit them in terms of assessing their program or making plans for the future.*

This appears consistent with our other user needs study regarding citizens. We noted that citizens in both our focus group discussions in Boston and Dallas were not aware that the federal government made financial reports available to the general public. Appendix C: Suggestions for Improving Financial Statements, provides a list of the leader's suggestions for improving financial statements.

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<sup>8</sup> Council of the Inspectors General on Integrity and Efficiency, A Progress Report to the President: FY 2008. Accessed at <http://www.ignet.gov/randp/rpts1.html#2010> April 12, 2010.



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## Other Matters

Some respondents noted that the costs that they control should be distinguished from those they cannot. One survey respondent noted that the resources used to administer the program were not material in relation to total program dollars; therefore, their focus must be on the cost of the program.

*So the key factors of that is I'm responsible for the cost of the program and the cost performance of the program, and so a key factor is how do I know that the company is on track for their spend plans and that they're making appropriate progress.*

Leaders also expressed an interest in being able to make comparisons with other programs and departments. However, as leaders are permitted to access data and develop their own reports, comparability may be limited. One respondent noted that auditors often obtain reports from different agency departments and become concerned because the reports contain different figures. A set of definitions may be needed to reduce the risks presented by customization capabilities.

## Next Steps

Staff plans to use the results of this study to compile a user needs inventory and determine the need for improvements in financial reports. In addition to the executives and managers study results, the inventory will consist of user needs information from our other studies involving citizens and the Congress. Based on comparing the examples of the information that executives and managers need to the existing reporting objectives, staff noted that the objectives are broad enough to encompass those needs. Accordingly, staff will consider ways to better achieve the reporting objectives, given users' financial information needs.

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**Appendix A: Purpose, Scope, and Methodology**

The purpose of the study was to learn about the financial information needs of federal managers and executives. To conduct the study, we obtained the name, position, mailing address, telephone number and email addresses of executives and managers listed in the Leadership Directory as of January 15, 2010, and engaged Kelly, Anderson & Associates to schedule and conduct interviews with at least 30. During the period February 23, 2010 to March 5, 2010, Kelly, Anderson & Associates sent emails to all 2,248 interview candidates that had email addresses inviting their participation in the study. Also, on March 1, 2010, March 2, 2010, and March 9, 2010, staff sent follow-up emails to 202, 550, and 363 candidates respectively. Consequently, interviews were conducted with 35 federal leaders from 19 different agencies. Each interviewee was asked to discuss the following:

Currently, there are many sources of information for estimating and monitoring program costs and for consideration in routine management decisions. When making judgments about what sources should be used to obtain financial information, a number of factors may be considered, such as the reputation of the source or their previous experiences with the source. Also, the timeliness of the information or whether it has been independently verified or subjected to audit tests may be considered.

1. In your view, what type(s) of financial information would be most useful to a manager (e.g. available budget authority, funds obligated, funds expended (salaries and invoices paid), net costs (including depreciation of assets and facilities, contributions to retirement, etc.), government outlays) *and* why?
2. Based on your knowledge, how do managers currently obtain this information (e.g. manually calculated from various sources, automated project management systems, reports provided by the comptroller's office, etc.).
3. How readily should this information be provided (updated day-to-day, month-to-month, etc.) and why?
4. How should the information be provided (e.g. via intranet, hardcopy report, etc.)?

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5. In your opinion, what should be the key factors to consider when deciding whether to use an item of information for managing a program or organization and why?
  6. Yes or no, in your opinion, should a manager need to do anything to verify information before it is used in their work?
  7. (If “Yes” to 6) What additional steps do you believe should be taken to verify information and why?

Some believe that financial statements are not useful for managing federal programs or organizations. They note that financial statements are too aggregated and not timely. Also, they believe that financial statements are designed for entities engaged in buying and selling products or attempting to make a profit, which is not the mission of federal agencies. However, others have noted that financial statements provide historical information, and a series of financial statements can be used to identify trends such as changes in resources and obligations.

8. In your opinion, what are some benefits *and* shortcomings of financial statements offered today, if any?
9. In your opinion, how should financial statements be improved to assist managers in accomplishing their goals and objectives?

Do you have any additional information you would like to provide to the FASAB?

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**Appendix B: Examples of Information Considered Most Useful****Examples of Information Considered Most Useful**

- The original appropriation broken down by object costs (key categories of expenditure), projected burn rate, what was spent, and what remained. Also, show lapses, such as when there is staff turnover, to help in reallocating resources between object cost categories.
- Amount of discretionary funds available to spend
- Funds available to spend out of the program budget
- Budget authority, funds obligated, and funds expended, revenues generated, bad debts, and true costs
- Available budget authority
- Performance information on recipients of federal funds
- Life cycle costs and performance information such as what activities were conducted with the funds and what was accomplished
- Information on contractor labor cost, equipment cost, overhead cost, and general and administrative costs
- Expenditures compared to budgeted amounts
- Cost information
- Cost, scope, and schedule are the basic types of information needed to manage the program. Also, burn rate (how fast funds are being expended against the schedule), trends, performance, and what is being billed and actual amounts.
- Information to assess processes and the cost of each process step to track task-specific information and look at where backlogs occur. Also, status of funds, obligations, expenditures, and salaries.
- Information on project scope, schedule, and budget. Need to be able to track progress and monitor those costs for the project. Also, need information on economic trends to understand how costs compare with other similar activities.
- Overall program budget showing disaggregated categories of program areas and operations of the organization itself – the cost to provide programs. This information would be useful for planning, making projections, historical references and meeting actual program needs defined by the program.

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**Appendix C: Suggestions for Improving Financial Statements****Suggestions for Improving Financial Statements**

- Use accrual basis, improve timeliness of information
- Better flow of timely information
- Better tracking of forward funding
- Show program level
- Need cost data
- Provide database functionality
- Disseminate more frequently
- Distribute widely
- Improve distribution and timeliness
- Provide a project view
- Make more user friendly like bank records
- Make more relevant to managers
- Make more specific to audience, put online
- Trends, previous program data
- Issue in shorter time frame
- Summary information at program level
- Targeted to managers
- Targeted & tailored for program needs
- Improve timeliness, simplicity, consistency
- Provide training

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**Appendix D: Abbreviations**

CFO	Chief Financial Officer
FASAB	Federal Accounting Standards Advisory Board
FGRS	Federal Government Reporting Study
GAO	Government Accountability Office

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**Appendix E: Reporting Objectives****Objective 1--Budgetary Integrity**

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:*

1A. How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.

1B. The status of budgetary resources.

1C. 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.

**Objective 2--Operating Performance**

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:*

2A. The costs of providing specific programs and activities and the composition of, and changes in, these costs.

2B. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.

2C. The efficiency and effectiveness of the government's management of its assets and liabilities.

**Objective 3--Stewardship**

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

3A. Whether the government's financial position improved or deteriorated over the period.

3B. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

3C. Whether government operations have contributed to the nation's current and future well-being.

**Objective 4--Systems and Control**

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

4A. Transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards;

4B. Assets are properly safeguarded to deter fraud, waste, and abuse; and

4C. Performance measurement information is adequately supported.