- **Strategic Planning**

Ms. Payne noted that the Board previously committed to an annual review of its strategic plan. In preparation for the discussion, the Board issued its three-year plan and informally invited input. Several responses were received. She asked if there were any question about the responses.

Mr. Allen noted that he was pleased with the level of feedback received and suggested that next year we consider whether to more formally request feedback.

Mr. Schumacher asked about the suggestion from one respondent that the Board reconsider the audit status of fiscal sustainability information. Mr. Dacey noted that he spoke with the respondent. The respondent indicated that he thought it was important to have fiscal sustainability information become basic information as soon as possible.

Mr. Allen noted that another respondent sought expansion of fiscal sustainability information to include intergovernmental dependency.

Ms. Payne noted that her summary also included some ideas that came from the roundtables on reporting model. She indicated that some participants raised particular line items on the balance sheet as problematic. That is, the cost of providing audited information for those line items outweighed the benefit in their view. She had not viewed concerns about individual line items as a reporting model issue; instead, the reporting model project focuses more broadly on the financial statements, understandability concerns, and concerns about alignment with the reporting objectives.

During roundtables, participants have sometimes identified historical cost depreciation of fixed assets and precise estimates of environmental liabilities as not cost-beneficial. Ms. Payne explained that historical cost depreciation is a controversial topic but one rarely finds strong majority support for another alternative. She also noted that she sought input from auditors about ways to adjust the cost associated with auditing these two items. No concrete ideas came from her discussions.

Mr. Allen also noted the comment about asset retirement obligations. He explained that the FASB standards are quite different from the FASAB standards. He expressed the view that the FASB approach was not aligned with the needs of a sovereign government.

Mr. Showalter said he was amazed by the comments from some that they don't see value in PP&E accounting but they do want cost accounting; demonstrating the lack of understanding of the connection between the two. Ms. Payne noted that cost was precisely the driver of the current standards requiring historical cost depreciation. The view was that operating performance objectives are not met if one expenses PP&E on acquisition. Some criticize that approach by saying historical cost depreciation is not a good measure of cost; some prefer replacement or market value approaches. For

example, some suggested imputing market rent for buildings but the effort would be too costly.

Mr. Dacey explained that the Department of Defense (DoD) has not challenged the current approach to general PP&E accounting other than military equipment. However, DoD does challenge the cost-benefit of historical cost depreciation for military equipment. Ms. Payne noted that, narrowing the discussion to military equipment, the debate centers on whether the information is relevant. That is, does anyone want to know the period cost of using military equipment? She believes it is clear that there is interest in the cost of military equipment as it is being acquired. It appears there is also some interest in how long the equipment will last.

Mr. Reger recalled that former OMB member, Debra Bond, had discussed the timing of DoD making its request to the Board. He noted that the discussion had been some time ago and an update on DoD and Department of Homeland Security progress and current thinking would be helpful.

Mr. Showalter suggested that alternative approaches actually may be more expensive than present standards. Mr. Allen noted the GASB experience regarding infrastructure including the engineers' perspectives on the issue. The option of demonstrating that the infrastructure was being maintained rather than being used up (depreciated) was provided. If infrastructure is maintained, depreciation is not required. He noted that accountants thought depreciation would be easier than the alternative. The engineers so strongly supported the alternative that GASB provided it. He agreed that sometimes alternatives to depreciation prove to be more expensive to implement.

Mr. Granof related the railroads' experience with betterment accounting.

Mr. Allen thought there could be better information but it is unlikely to require less effort.

Mr. McCall noted that he believes over 90% of Florida cities use historical cost depreciation rather than the alternative. Most noted that accountants tend to prefer that method because it is cheaper than alternative approaches. It is still possible to report what it costs to maintain the roads as well as the cost to restore unmaintained roads.

Mr. Steinberg noted that a past DoD proposal regarding military equipment included condition reporting. That option was considered sensitive information and ultimately DoD did not support disclosing condition information.

Ms. Payne noted that concerns were also expressed about the cost of supporting general PP&E valuation (for example, determining what costs should be capitalized as general PP&E is acquired) and estimation of environmental liabilities. She noted that she thought there would be general receptivity to ways to reduce the cost of preparing and auditing but that ideas that might reduce such costs have not been presented. She explained that the Accounting and Auditing Policy Committee is working on guidance regarding costs to be capitalized when an entity is constructing an item of PP&E. She

noted a great deal of diversity of view regarding what may constitute full cost among participants.

Mr. Allen asked if Ms. Payne recommended waiting for a specific DoD proposal before pursuing a project on military equipment. Ms. Payne felt we would learn a great deal from DoD's efforts to reach audit readiness. However, she noted the timeline presented in the Congressional Panel's report on DoD's efforts. The report indicated DoD planned to defer coming to the Board but in the meantime systems that would not capitalize military equipment are under development. In that case, significant investments would already be made before the request was made. If the Board did not support the proposal to expense military equipment costly systems changes may be needed. This may place the Board in a difficult position.

Mr. Allen felt that was a concern. Mr. Dacey noted that DoD is exploring how to demonstrate existence and completeness of military equipment. The effort may lead to alternatives to the DoD's initial decision. He felt the Board could explore the general concept of whether the Board expensing military equipment was a viable option.

Ms. Kearney noted that no staff is available for a new project. She suggested that she work with Mr. Reger to contact DoD and explore the timing issue. Mr. Reger agreed that such outreach would be helpful. He did not see a need for a project at the moment but thought DoD should be asked whether Board assistance would be helpful. Reminding DoD of the Board's timeline for a major project, which requires public deliberation and outreach, would be helpful given the importance of timely presentation of any DoD proposal to the Board.

Mr. Steinberg suggested we not start ahead of an explicit request from DoD. He thought DoD may come up with ideas as they work through the systems issues.

Mr. Allen noted that the standards ought to be based on the reporting objectives for a sovereign government. He thought exploring whether the current standards properly support such objectives would be interesting. However, in the absence of a specific proposal, he did not believe we should revisit the standards until DoD makes its request.

Ms. Payne noted that there appeared to be no consensus to take up the topic before an update on the DoD effort is provided by Mr. Reger and Ms. Kearney. They committed to an update on the timing of any new DOD request at the April meeting.

Ms. Payne asked members if they thought the input on the three-year plan would lead to deferring any current projects. Members did not offer any candidates for deferral.

Ms. Payne noted that staff was seeking a better sense of the next steps the Board desires in the reporting model project. She reminded the Board that the earlier discussion centered on three areas – the conceptual framework, performance reporting, and electronic reporting. She asked Mr. Simms to review the candidates from the earlier discussion that seemed to have the most support. Mr. Simms offered that performance

reporting held the most promise. An improved presentation of the statement of net cost as well as better performance information was desired by many members. He thought this more narrowly focused effort could be attained. For example, the management's discussion and analysis (MD&A) standards require performance information but do not offer much guidance on presentation of performance information. Other countries do present performance information in a standardized manner.

Mr. Simms noted that the citizen survey and other user needs work shows interest in performance information. He suggested that further review of performance information in the MD&A could identify areas for improvement through guidance.

Ms. Kearney noted that the Government Performance and Results Modernization Act required that all performance information be provided electronically. The Performance and Accountability Reports and Agency Financial Reports are printed documents which include performance information consistent with the Reports Streamlining Act. Reconciling these requirements may require some effort and the project could explore this.

Mr. Allen referred to the suggestion from the GWSCPA that we explore streamlining of the reports; a review of all disclosures and required information. He thought making reports more understandable would be a positive outcome of streamlining. He wondered if the project could explore ways to make the reports more understandable. MD&A, the statements, and the notes have an integral relationship. Looking at how to communicate through each part also should be an integrated effort.

Mr. Showalter agreed that many things could be considered under the umbrella of streamlining. He felt the basic statements were embedded in the conceptual framework and could be addressed through a project on the concepts. He expressed concern about adding the statement of spending; he felt it should be viewed as a part of the entire analysis of the required set of financial statements and its relationship to the entire set of financial statements should be explained. He also wondered if one should add something without considering what could be taken away. The addition of the statement could create confusion. He supported looking at a budgetary statement.

Mr. Allen agreed and thought that the suggestion from a respondent that we consider the general fund should also be addressed. He thought reporting on the general fund was important to understanding the whole. Looking at items in isolation is problematic.

Mr. Dacey noted he was troubled by the word "streamlining." He preferred to look at enhancing the usefulness and understandability of the information. A common concern has been how to tie the audited information back to the programs and to what matters to program managers. He wasn't sure how the Board could help people see the connection between the statements, transparency information, and performance information. He acknowledged that program managers were struggling to see how the audited financial statements relate to programs and help them. He noted that Labor has a system intended to serve all the information needs within the agency. The message

he took from many of the CFO Act review meetings was that participants wanted help in making the connections to program managers. He was not sure how the Board could be helpful in that effort. The relationship between strategic plans and cost may be an area the Board could help to explore.

Mr. Allen noted that the linkage between sustainability reporting and historic financial information might be an area to explore. It could be better linked.

Mr. Dacey noted that explaining in MD&A the risk to programs and future delivery of services was an area that might be explored through the reporting model project. He thought that the forward looking general risk was different than risk assumed (where we look at what has already happened).

Mr. Allen indicated that the risk assumed project would fit into the reporting model; rather than being in a separate new statement.

Mr. Steinberg mentioned that forward looking information in MD&A was improving. He gave an examples of the Agriculture report mentioning the risks of international travel to crops and livestock and Social Security Administration explaining the need for funding after the crossover point (where revenues are less than benefits). Otherwise, he believes the agencies have not done a good job on forward looking information. He thought the structure of the standards and concepts caused problems for preparers. Mr. Dacey agreed.

Mr. Steinberg agreed with the three areas Mr. Simms had identified. He did not see a need to change the conceptual framework but thought we would evaluate whether standards are living up to the concepts. He suggested that a standard for a component-level reporting model might address these things [note the following summary was provided by Mr. Steinberg following the meeting and is included to ensure clarity regarding his intent]:

1. The costs in the Statement of Net Costs should be classified according to the strategic goals in the agency's strategic plans. The GPRA and the GPRA Modernization Act require the agencies to identify their strategic goals as a basis for establishing programs. The Statement of Net Cost, therefore, should present the costs incurred to pursue/achieve each strategic goal. Agencies that believe it is still necessary or desire to present the costs for their funds (GSA, SSA), sub-organizations (HHS), or appropriations (DOD), can and should do so with a cross-walked footnote.

2. The costs for each strategic goal should be built up from the costs of the programs, which will fulfill for readers the frequently-stated desire to see (electronically or manually) the costs of the programs. This also would further the adoption of cost accounting.

3. The component's GPFFR should present key performance results for each strategic goal, either in a Statement of Program Performance, which is cited in SFFAC

2; or in the MD&A, but pursuant to a more explicit specification of what should be presented than is contained in SFFAS 15.

4. As either a replacement for the Statement of Budgetary Resources, or as an additional statement, there should be a budget to actual statement, perhaps containing four columns: final appropriation, obligation, outlay, accrual-based expenditure. The lines could be objects, programs, or some other cost center. This statement would fulfill the desire for a Statement of Spending, plus provide the budget to actual comparison, which the focus groups and other-government reviews indicated is a useful.

Ms. Payne was asked if she wanted members to prioritize at this stage. She suggested that staff develop a plan for the next stage of the reporting model project based on the member input received at the meeting. The plan would be presented at the April meeting and, in the meantime, staff would explore some of the ideas raised.

Mr. Allen reminded staff that several members raised the streamlining project suggested by the Greater Washington Society of CPAs. Mr. Dacey also suggested that reporting on intergovernmental dependencies also could be explored as a risk area addressed in MD&A.

Mr. Showalter raised budgetary reporting and the need to explore it further; noting that any effort should view the statements holistically.

Ms. Payne suggested that it might be helpful for the Board to have an educational session on budgetary reporting. Perhaps a short session regarding the key terms used in budgetary reporting and how the reports are structured would provide a better understanding of budgetary reporting.

Ms. Kearney asked how budgetary reporting fit with FASAB's mission; she thought budgetary standards could not be developed by FASAB. Ms. Payne indicated that she referred back to prior work as a frame of reference. While SFFAS 7 does not define terms or set recognition and measurement standards, it does require presentation of budgetary information as it is defined and measured by others such as OMB or Congress.

Mr. Steinberg recalled that it was OMB that requested a basic statement to present budgetary information and subject it to audit. Ms. Payne added that some from OMB had suggested, during earlier roundtables, that more detailed budget data by audited because the high level of aggregation means detailed information may not be as accurate as they desire.

Mr. Showalter clarified that he was earlier referring to the statements reconciling operating cost to the deficit and the deficit to change in cash. Mr. Granof asked if the government-wide reporting model task force made any recommendations on these statements. Ms. Payne noted they recommended that the first – cost to deficit – remain while the second – deficit to change in cash – could be moved to notes or RSI.

Mr. Reger recalled that Messrs. Showalter and Steinberg suggested that the component entity reports be structured to help program managers as well as to build the consolidated financial report. He asked if that information could be presented to support needs of program managers as well as support a consolidated financial report that is helpful to external users such as citizens and rating agency analysts.

Mr. Allen said it was no surprise to him that program managers do not use the financial statements. He felt the only use was that the audit improves the quality of day-to-day information. Program managers need more detailed information on a real time basis. The improved systems provide the benefit to internal users.

Mr. Reger asked if there was a way to sum the information up and combine it with other agencies' information so that a consolidated report can be produced. He asked if there was a way to encourage it.

Ms. Payne indicated that staff would provide a more detailed plan for consideration at the next meeting.

Mr. Allen asked members to consider if there were things we have on the three-year plan that should come off and whether some things not on the list should be added. He acknowledged that the active projects consume present resources. Ms. Payne thought we could revisit that in April. In particular, as the broader plan for the reporting model project is presented the members might consider whether they wish to reallocate resources from existing projects to support aspects of the reporting model plan. Staff will have updates on the new projects on investments and public-private partnerships at that time.

Mr. Allen suggested considering the internal use software project – he would simply expense it. Ms. Payne indicated that "quick hit" projects could be undertaken. She noted that SFFAS 35 on estimating historical cost was done in that manner. If there is consensus to expense internal use software, it could certainly be developed and exposed quickly.

Mr. Steinberg asked if preparers raised concerns about it. Ms. Payne noted that some had suggested changes. Her research showed that the current standards are not producing information anyone would use. The investment decisions and monitoring focus on all the costs of the projects rather than on the costs incurred after feasibility is proven as required under current standards. Further, she gave examples of two agencies that requested that the standards be changed to permit expensing.

Mr. Allen indicated that he saw merit in sun-setting something that isn't useful. With the speed of change in software, he thought capitalization was unnecessary. In response to a question about the timing of making such a proposal, Ms. Payne indicated that the Board usually looks at an exposure draft at least three times. Mr. Dacey asked if the useful life is really that uncertain; he did not find it to be.

Members generally did not support an effort to revisit the internal use software capitalization requirements.

Ms. Payne noted the need to have a better understanding of the issues emerging in the statement of spending pilots.

Ms. Kearney committed to report on progress at the April meeting.

> **Conclusions:** Staff will provide more detailed options for the reporting model project for discussion in April.
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> Mr. Reger and Ms. Kearney will provide feedback regarding the timing of a potential DoD military equipment proposal.
>
> Ms. Kearney will provide an update on the statement of spending.

Adjournment

The meeting adjourned at 10:30 AM.