

Exposure Draft SIG 64.1, Guidance for Implementing SFFAS 64:
Management’s Discussion and Analysis

#17 - SIKICH

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The proposed SIG 64.1 would assist reporting entities in implementing Statement of Federal Financial Accounting Standards (SFFAS) 64, *Management’s Discussion and Analysis*.

QFR 1 The proposed SIG 64.1 provides information on how to achieve a balanced, concise, integrated, and understandable MD&A.

Do you agree or disagree that the proposed SIG 64.1 provides information to implement a balanced, concise, integrated, and understandable MD&A? Please provide the rationale for your answer.

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We agree that the proposed SIG 64.1 provides the information needed to enable agencies to understand how to present their data in a balanced, concise, and understandable manner. The guidance clearly outlines key principles and considerations that support effective presentation of the Management's Discussion and Analysis (MD&A) section and provides examples, helping agencies communicate relevant financial and performance information in a way that is clear, focused, and meaningful to users.

However, when discussing how agencies can present their data in an integrated manner, the guidance does not provide meaningful examples that cover a variety of different agencies. Because integration is one of the more difficult concepts the guidance discusses, adding more specific and widely applicable examples could be beneficial for users.

QFR 2 The proposed SIG 64.1 provides information about how reporting entities may discuss mission and organization in MD&A.

Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss mission and organization in MD&A? Please provide the rationale for your answer.

We agree that the proposed SIG 64.1 provides reporting entities with the necessary information to enable them to understand how to discuss their mission and organization in the MD&A. Specially, the guidance clarifies that management has flexibility in determining the level of detail to include regarding the entity's mission(s) and organizational components, allowing agencies to tailor the discussion based on their size and complexity.

QFR 3 The proposed SIG 64.1 provides information about how reporting entities may discuss and analyze financial position and financial condition.

Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss and analyze financial position and condition in MD&A? Please provide the rationale for your answer.

Although we agree that the proposed SIG 64.1 provides useful guidance regarding how to discuss and analyze financial position and financial condition in the MD&A, FASAB could enhance the proposed SIG 64.1 to provide additional clarity in this area. For example, paragraphs #35 and #45 use the same wording, although paragraph #35 discusses financial position (which relates to the reporting period only) and

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paragraph #45 discusses financial condition (which relates to forward-looking information beyond the reporting period). If financial condition is meant to be forward-looking and reflect long-term results, restricting the trend analysis to current-year balances appears to be contrary to that objective. Additional guidance for agencies without business-type activities or social insurance programs could be helpful, given the similarity in the guidance related to financial position and financial condition.

Further, the term "beginning balances" only applies to accounts such as balance sheet accounts that carry forward to the next fiscal year. It does not apply to accounts such as income statement accounts, which are period specific. Calculating a trend in an account with a zero-dollar beginning balance would result in an error, as the denominator would include a zero.

QFR 4 The proposed SIG 64.1 provides information about how reporting entities may discuss and analyze key performance results and associated costs.

Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss and analyze key performance results and associated costs in MD&A? Please provide the rationale for your answer.

We agree that the proposed SIG 64.1 provides guidance on how to discuss and analyze key performance results and the associated costs in the MD&A. The guidance emphasizes the importance of agencies clearly presenting key performance results and explaining how those results relate to the agency's costs incurred or other budgetary and financing resources.

During one of our fiscal year (FY) 2025 audits, we issued a management letter comment noting that the agency's MD&A did not include key performance results, as required by SFFAS 64. Based on the guidance provided in the proposed SIG 64.1, we are comfortable directing a cost-heavy agency to SIG 64.1 as a resource in this area, as SIG 64.1 provides the information needed to enable agencies to understand the MD&A requirements and effectively present key performance results.

However, the guidance in SIG 64.1, paragraph #51, is geared toward cost-heavy agencies. We acknowledge that SFFAS 64 suggests that entities can organize key performance results based on the responsibility segments reported in their statements of net cost; however, we recommend that FASAB add guidance and examples for asset-heavy agencies, such as loan-making agencies, where balance sheet activity dwarfs statement of net cost activity. For example, the number of new loans executed during the reporting period could be a key performance result even if the estimated cost (or revenue) is not material.

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We also believe that it would be useful to add an example challenge to paragraph #53 related to the cost of inaction. For example, some federal agencies are having difficulty in collecting receivables due to staff shortages. Although the collection of receivables may not be viewed as a key performance result, an agency's inability to effectively collect receivables could be reported as a challenge.

QFR 5 The proposed SIG 64.1 provides information about how reporting entities may discuss and analyze significant opportunities and risks in MD&A.

**Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss and analyze significant opportunities and risks?
Please provide the rationale for your answer.**

We agree that the proposed SIG 64.1 provides guidance regarding how reporting entities should discuss and analyze significant opportunities and risks in their MD&A. The guidance clearly indicates that agencies should present significant opportunities and risks as they relate to key performance, financial, and budgetary results and explains that reporting entities should also disclose mitigation plans to address the identified risks.

However, we believe that this area of the proposed SIG 64.1 would benefit from including illustrative examples of discussions related to opportunities and risks.

QFR 6 The proposed SIG 64.1 provides information about how reporting entities may discuss and analyze management's assessment of the reliability of the reporting entity's financial information by explaining significant weaknesses in the financial management system, related systems, internal controls, or non-compliance with applicable laws.

**Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss and analyze management's assessment of the reliability of the reporting entity's financial information by explaining significant weaknesses in the financial management system, related systems, internal controls, or non-compliance with applicable laws?
Please provide the rationale for your answer.**

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We agree that the proposed SIG 64.1 provides guidance regarding how to discuss management's assessment of the reliability of financial information in the MD&A. The guidance clearly indicates that reporting entities should summarize significant internal control weaknesses, system deficiencies, and instances of non-compliance and disclose management's plans to address these issues.

However, given that many federal agencies continue to use antiquated systems despite plans to execute system modernizations, we believe that some illustrative language regarding this topic would be useful to preparers.

QFR 7 Do you wish to comment on any other aspects of this proposal?

Overall, we believe that the proposed guidance is clear and provides helpful examples that support both auditors' and reporting entities' understanding of the MD&A requirements. Where we had suggestions for improving the guidance, we noted these suggestions above in the answers to **QFRs 1 through 6**.

Sikich participated in the FASAB Public Meeting on the Review Draft of SIG 64.1 on September 4, 2025. This meeting was informative and addressed several questions raised during the session, including how agencies should determine what is "significant" for inclusion in the MD&A and how to present trend analyses when financial statements are no longer comparative. The exposure draft appropriately clarifies that the determination of significant matters is subject to professional judgment and that, regardless of comparative presentation, reporting entities should discuss and analyze their financial position in the MD&A based on trend analyses that compare period beginning balances to period ending balances. However, in **QFR 3** above, we noted that additional clarity regarding financial condition and how to calculate it could be useful, particularly for entities without business-type activities or social insurance programs.