



Federal Accounting Standards Advisory Board

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**October 8, 2019**

Memorandum

To: Members of the Board  
From: Robin M. Gilliam, Assistant Director  
Through: Monica R. Valentine, Executive Director  
Subject: Management's Discussion and Analysis Amendments – **TAB G<sup>1</sup>**

**MEMBER ACTIONS REQUESTED:**

Please review the materials and answer the questions by **October 17, 2019**

**MEETING OBJECTIVE**

The meeting objective is to develop MD&A operating performance objectives.

**BRIEFING MATERIALS**

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

The briefing materials include this memorandum and the following:

**Attachment 1:** Catalog of Member Identified MD&A Objectives

**Attachment 2:** Operating Performance Reporting Objective Analysis Document (ROAD)

**Appendix A:** MD&A Amendments: Project History and Milestones

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<sup>1</sup> 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

At the August 28<sup>th</sup>, 2019, Board meeting, members approved the proposed project plan for the MD&A Amendments project.

The Board then began developing objectives for MD&A based on the four reporting objectives described in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*: budgetary integrity, operating performance, stewardship, and systems and control.

Members agreed on the following MD&A objectives for budgetary integrity (BI):

BI-1: MD&A should concisely explain financing resources and the sources and status of budgetary resources; and

BI-2: MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.

In addition, members added a general objective (G) to encourage a more concise and readable MD&A.

G-1: MD&A should concisely explain—in plain language—any budget and financial terms used, such as but not limited to, unfunded, unobligated, and net cost of operations.

Please see Attachment 1: *Catalog of Member Identified MD&A Objectives*

## DEVELOPMENT PHASE:

The MD&A Amendments project is now in the **development phase** where the Board deliberates to develop the exposure draft (ED).

In preparation for developing the ED, members are first identifying MD&A Objectives according to the reporting objective framework laid out in SFFAC 1.

To help members develop MD&A objectives, staff developed the Reporting Objective Analysis Document (ROAD), which was approved at the August 2019 Board meeting.

The ROAD is set up as follows:

1. The first column includes reporting objective concepts from SFFAC 1.
2. The second column includes MD&A reporting concepts from SFFAC 3.
3. The third column includes proposed MD&A objectives for Board review/approval.

## STAFF ANALYSIS AND RECOMMENDATIONS

Staff developed the following seven proposed MD&A operating performance (OP) objectives after reviewing and analyzing the operating performance ROAD. [Please see Attachment 2] According to the following OMB reporting requirements and FASAB concepts, operating performance is reported in the content of a reporting entity's statement of net cost (SNC):

Per OMB A-136, section 11.3.3

The SNC is designed to show separately the components of the net cost of the reporting entity's operations for the reporting period. Net cost of operations is the cost incurred by the entire reporting entity less any exchange revenue earned. The SNC should include: (1) program costs, (2) related exchange revenue, (3) the excess of costs over exchange revenues (net program costs), (4) gain/loss on pension, ORB, or OPEB assumption changes, (5) any costs that cannot be assigned to specific programs or outputs, and (6) exchange revenues that cannot be attributed to specific programs and outputs.

Per SFFAC 7 (title), paragraph 30

...The statement of net cost captures the period-to-period changes in asset amounts (holding gains and losses) in the periods in which they occur and reports the resources consumed at current amounts, information that can help users assess stewardship and operating results each period.

Per, OMB A-136, section 11.2.5, *Performance Goals, Objectives, and Results*

The MD&A should include a brief description of key performance goals and results for the year and should, [bullet one states:]

- Provide a concise assessment of the entity's overall progress toward major program goals, linking goals to cost categories or responsibility segments in the SNC...

Per SFFAC 3, *Management's Discussion and Analysis* (SFFAC 3), Section: *Relationships to Other Reports*, paragraph 22

... value [is added] by putting the information about performance...in the context of audited financial statements. For example, the quality of information on the cost of outputs and outcomes of programs is enhanced by linking these indicators to the audited Statement of Net Cost.

By discussing and analyzing the content of the statement of net cost, MD&A can inform users about the efficiency and effectiveness of a reporting entity's operating performance.

**Proposed OP Objective #1:**

MD&A should concisely explain, for each responsibility segment, the results and corresponding costs from the statement of net cost.

**Staff Analysis:**

This objective should help preparers to include information for users to understand what results have been achieved at what cost to the federal government.

**QUESTION 1:** Do members want to include the following MD&A operating performance objective?

**MD&A should concisely explain, for each responsibility segment, the results and corresponding costs from the statement of net cost.**

**Proposed OP Objective #2:**

MD&A should concisely explain significant changes in costs from the prior year and the impact to net cost of operations.

**Staff Analysis:**

This objective should help preparers to include information for users to understand what costs have increased or decreased and why those costs caused a significant change in the net cost of operations.

**QUESTION 2:** Do members want to include the following MD&A operating performance objective?

**MD&A should concisely explain significant changes in costs from the prior year and the impact to net cost of operations.**

**Proposed OP Objective #3:**

MD&A should concisely explain what risks were mitigated, including any significant impact to net cost of operations.

**Staff Analysis:**

This objective should help preparers to include information for users to understand what risks are being monitored and mitigated to improve operating performance and efficient use of resources. Risk reporting in the MD&A should not be limited to financial risk, but should include any risk mitigated that had a significant impact on net cost of operations.

In addition, this objective should help reporting entities to learn how to discuss in the MD&A, the financial impact—positive or negative—of work being done through enterprise risk management (ERM). It should help to bridge agency ERM work with financial statement reporting.

**QUESTION 3:** Do members want to include the following MD&A operating performance objective?

**MD&A should concisely explain what risks were mitigated, including any significant impact to net cost of operations.**

**Proposed OP Objective #4:**

MD&A should concisely explain any forward-looking risks that could significantly impact net cost of operations.

**Staff Analysis:**

This objective should help preparers to include information for users to understand the risks that may have a future impact on the statement of net costs. It addresses a forward-looking, longer-term outlook.

**QUESTION 4:** Do members want to include the following MD&A operating performance objective?

**MD&A should concisely explain any forward-looking risks that could significantly impact net cost of operations.**

**Proposed OP Objective #5:**

MD&A should concisely explain planned actions to address known concerns to improve net cost of operations.

**Staff Analysis:**

This objective should help preparers to include information for users to understand what issues have been identified by reviewers, such as, GAO, inspector general, and/or auditors, and what actions are planned to improve net cost of operations. It addresses actions scheduled within the next reporting cycle, a short-term outlook.

**QUESTION 5:** Do members want to include the following MD&A operating performance objective?

**MD&A should concisely explain planned actions to address known concerns to improve net cost of operations.**

**Proposed OP Objective #6:**

MD&A should concisely explain any significant changes to assets and liabilities and the impact to net cost of operations.

**Staff Analysis:**

This objective should help preparers to include information for users to understand what assets and liabilities significantly changed and why, and the impact to net cost of operations.

*FYI - this objective may overlap with Stewardship objectives.*

**QUESTION 6:** Do members want to include the following MD&A operating performance objective?

**MD&A should concisely explain any significant changes to assets and liabilities and the impact to net cost operations.**

**Proposed OP Objective #7:**

MD&A should concisely explain the relationship between budgetary resources and the net cost of operations. [#1 from August 2019 parked item – please see Attachment 1]

**Staff Analysis:**

This objective should help preparers to include information for users to understand how budgetary outlays finance the net cost of operations and affect assets and liabilities of the reporting entity.

This objective could also help users understand what resources were planned and what resources were actually used to achieve results.

*FYI - this objective may overlap with Stewardship objectives.*

**QUESTION 7:** Do members want to include the following MD&A operating performance objective?

**MD&A should concisely explain the relationship between budgetary resources and the net cost of operations.**

**QUESTION 8:** Do members want to include any additional MD&A operating performance objectives?

## **BOARD QUESTIONS:**

### **Questions 1 – 7: Do members want to include the following MD&A operating performance objectives?**

1. MD&A should concisely explain, for each responsibility segment, the results and corresponding costs from the statement of net cost.
2. MD&A should concisely explain significant changes in costs from the prior year and the impact to net cost of operations.
3. MD&A should concisely explain what risks were mitigated including any significant impact to net cost of operations.
4. MD&A should concisely explain any forward-looking risks that could significantly impact the net cost of operations.
5. MD&A should concisely explain planned actions to address known concerns to improve net cost of operations.
6. MD&A should concisely explain any significant changes to assets and liabilities and the impact to net cost operations.
7. MD&A should concisely explain the relationship between the budgetary resources and the net cost of operations. (from June 2019 parking lot)

### **Question 8: Do members want to add any additional MD&A operating performance objectives?**

## **NEXT STEPS**

The next steps are to continue identifying MD&A objectives in preparation for developing the exposure draft.

## **MEMBER FEEDBACK**

If you have any questions or comments, please contact Ms. Gilliam by telephone at (202) 512-7356 or by email at [gilliamr@fasab.gov](mailto:gilliamr@fasab.gov), with a cc to Ms. Valentine at [valentinem@fasab.gov](mailto:valentinem@fasab.gov), by **October 17, 2019**.

CATALOG OF MEMBER IDENTIFIED MD&A OBJECTIVES

Code KEY:

G – general objectives [readability, understandability, conciseness]

BI – budgetary integrity objectives

OP – operating performance objectives

ST – stewardship objectives

S&C – systems and control objectives

Code	Objective	Date Identified
G-1	MD&A should concisely explain—in plain language—any budget and financial terms used, such as but not limited to, unfunded, unobligated, and net cost of operations.	August 28, 2019
BI-1	MD&A should concisely explain financing resources and the sources and status of budgetary resources; and	August 28, 2019
BI-2	MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.	August 28, 2019
Parking Lot	MD&A should concisely explain the relationships: (1) between the reported use of budgetary resources and the net cost of operations; and (2) between the status of budgetary resources and financial information, including assets and liabilities.  <b>[NOTE: Hold for Operating Performance &amp; Stewardship (financial condition/position) discussion]</b>	August 28, 2019

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<b>OPERATING PERFORMANCE REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)</b>		
Reporting Objectives Concepts from Concept 1	MD&A Concepts on Reporting Objectives from Concept 3	Proposed MD&A Objectives <i>What does the Board want to achieve for reporting Operating Performance in MD&amp;A</i>
<p>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. (Pg. 6, par 14)</p> <p><b>The costs of providing specific programs and activities and the composition of, and changes in, these costs.</b> (Sub-Objective 2A; Pg. 29, par 126)</p> <p><b>The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.</b> (Sub-Objective 2B; Pg. 29, par 128)</p> <p><b>The efficiency and effectiveness of the government’s management of its assets and liabilities.</b> (Sub-Objective 2C; Pg. 30, par 130)</p>	<p><b>SFFAC 3, Discussion and Analysis of Performance</b></p> <p>Pg. 18, paragraph 43: The actual outcomes, accomplishments, or degree to which predetermined objectives are met provide indicators or measures of some aspects of <b>effectiveness</b>.<sup>15</sup></p> <p>MD&amp;A should objectively discuss the entity’s program results and indicate the extent to which its programs are achieving their intended objectives.<sup>16</sup></p> <p>Efficiency and effectiveness are important elements of performance measurement, and measuring cost is an integral part of assessing the efficiency and effectiveness of programs.</p> <p>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.</p> <p>Information about effectiveness is often</p>	<ol style="list-style-type: none"> <li><b>1. MD&amp;A should concisely explain, for each responsibility segment, the results and corresponding costs from the statement of net cost.</b></li> <li><b>2. MD&amp;A should concisely explain significant changes in costs from the prior year and the impact to net cost of operations.</b></li> <li><b>3. MD&amp;A should concisely explain what risks were mitigated including any significant impact to net cost of operations.</b></li> <li><b>4. MD&amp;A should concisely explain any forward-looking risks that could significantly impact the net cost of operations.</b></li> </ol>

<b>OPERATING PERFORMANCE REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)</b>		
Reporting Objectives Concepts from Concept 1	MD&A Concepts on Reporting Objectives from Concept 3	Proposed MD&A Objectives  <i>What does the Board want to achieve for reporting Operating Performance in MD&amp;A</i>
	<p>combined with cost information to help assess “cost effectiveness.”</p> <p><sup>15</sup>SFFAC 1, paragraph 206 notes that, to the extent feasible and practical, effectiveness evaluation should focus on program results or effects in the sense of “impacts,” i.e., the difference between what actually occurred and what would have occurred in the absence of the program. Assessing impacts of Governmental action in this sense typically requires program evaluations or other techniques that transcend annual performance reporting, although these techniques often will avail of information in the annual performance reports. Valid and reliable evaluations of program impacts are not feasible for some programs. When they are conducted, they often require several years of data, are expensive, and typically are not performed on an annual basis for a given program.</p> <p><sup>16</sup>Paragraphs 106-111 and Appendix 1-F of Statement Federal Financial Accounting Concepts 2, <i>Entity and Display</i>, discuss and illustrate reporting on performance in the GPFFR.</p> <p>Pg. 18, paragraph 44: The entity’s financial performance should be summarized to provide significant indicators of its financial operations for the reporting period.</p>	<ol style="list-style-type: none"> <li>5. <b>MD&amp;A should concisely explain planned actions to address known concerns to improve net cost of operations.</b></li> <li>6. <b>MD&amp;A should concisely explain any significant changes to assets and liabilities and the impact to net cost operations.</b></li> <li>7. <b>MD&amp;A should concisely explain the relationship between the budgetary resources and the net cost of operations.</b> (from Aug 2019 parking lot)</li> </ol>

<b>OPERATING PERFORMANCE REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)</b>		
Reporting Objectives Concepts from Concept 1	MD&A Concepts on Reporting Objectives from Concept 3	Proposed MD&A Objectives  <i>What does the Board want to achieve for reporting Operating Performance in MD&amp;A</i>
	<p>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.</p> <p>Financial performance is only one aspect of performance for governmental entities. Financial performance should be discussed to the extent relevant for the entity, <u>in a way that appropriately balances the discussion of <b>financial and nonfinancial performance</b></u> relevant to the program or other reporting entity.</p> <p>Pg. 18, paragraph 45: It should explain what key performance indicators say about program performance. The <b>summary discussion</b> of performance in MD&amp;A should:</p> <ul style="list-style-type: none"> <li>• discuss the strategies and resources the agency uses to achieve its performance goals;</li> <li>• provide a clear picture of actual and planned performance across the agency;</li> </ul>	

<b>OPERATING PERFORMANCE REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)</b>		
Reporting Objectives Concepts from Concept 1	MD&A Concepts on Reporting Objectives from Concept 3	Proposed MD&A Objectives  <i>What does the Board want to achieve for reporting Operating Performance in MD&amp;A</i>
	<p>and</p> <ul style="list-style-type: none"> <li>• explain the procedures that management has designed and followed to provide reasonable assurance that the reported performance information is relevant and reliable.</li> </ul> <p>Pgs. 18-19, paragraph 46: The discussion of performance should:</p> <ul style="list-style-type: none"> <li>• include both positive and negative results;</li> <li>• present historical and future trends, if relevant ...</li> <li>• be illustrated with charts and graphs, whenever helpful, for easy identification of trends;</li> <li>• explain the significance of the trends;</li> <li>• provide comparison of actual results to goals or benchmarks;</li> <li>• explain variations from goals and plans;</li> </ul> <p>and</p> <ul style="list-style-type: none"> <li>• provide other explanatory information that management believes readers will need to understand the significance of the indicators, the results, and any</li> </ul>	

<b>OPERATING PERFORMANCE REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)</b>		
<b>Reporting Objectives Concepts from Concept 1</b>	<b>MD&amp;A Concepts on Reporting Objectives from Concept 3</b>	<b>Proposed MD&amp;A Objectives</b>  <i>What does the Board want to achieve for reporting Operating Performance in MD&amp;A</i>
	<p>variations from goals or plans.</p> <p>Pg. 19, paragraph 47: To further enhance the usefulness of the information, agencies should include an explanation of what <b>needs to be done</b> and <b>what they plan to do to improve program performance</b>. <i>[Staff Notes: forward looking]</i></p> <p>Pg. 19, paragraph 49. ...Explanatory information helps report users understand reported indicators, assess the reporting entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance.</p> <p>Explanatory information may include, for example, information about <b>factors substantially outside the entity's control, as well as information about factors over which the entity has significant control</b>.</p>	

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TAB G

MD&A AMENDMENTS

APPENDIX A

## **Project History and Milestones**

DEVELOPMENT PHASE JUNE 2019 - CURRENT

RESEARCH PHASE: OCTOBER 2016 – APRIL 2019

OCTOBER 2019

## **DEVELOPMENT PHASE: JUNE 2019 - CURRENT**

### **Reporting Model Phase I & RISK REPORTING MERGED INTO MD&A AMENDMENTS PROJECT**

#### **June 26 – 27, 2019**

At the June 2019 Board meeting, staff introduced the new project, MD&A Amendments which is a consolidation of work done to date from the Risk Reporting and Reporting Model Phase I: MD&A and Stewardship Improvements Projects. Research from those projects identified that the Statement of Federal Financial Accounting Concepts (SFFAC) 3, Management's Discussion and Analysis, includes most of the standards-based language that staff will use to amend Statement of Federal Financial Accounting Standards (SFFAS) 15., Management's Discussions and Analysis.

Members were curious to know about the future of SFFAC 3. Staff explained the initial analysis of SFFAC 3—presented in TAB G, Attachment 2—was only to present proposed amendments to SFFAS 15. Decisions about what to relocate or rescind from SFFAC 3 and information included in other concepts about MD&A will be presented at a future Board meeting. Members agreed noting that SFFAS 15 amendments should provide clarity and focus to help manage and reduce any additional burdens currently placed on preparers.

The following items were discussed in relation to amending SFFAS 15.

Members agreed that materiality is applied differently to MD&A than basic information. While the financial statements include material quantitative information, management should apply more judgement to what qualitative information to include in MD&A. For example, management should understand issues that are trending to determine what citizens are getting for their money and what qualitative information will be useful for those interest groups. Management could also include a qualitative discussion in MD&A to explain why a financial statement balance is growing, the risk of why it might continue to grow, and potential impact on operations.

Members agreed NOT to include the materiality boilerplate as an amendment to SFFAS 15 to ensure inclusion of important information. Instead the Board wants to include a discussion about the concept/definition of materiality and how it is applied to MD&A.

The following administrative amendments were approved for SFFAS 15 to conform to current SFFAS formats: change the header title from "Statement of Standards" to "Standards," and adding a scope and definition section. Items to be defined will be added at future meetings, which may include financial condition and financial position.

Members requested staff to develop well defined objectives for the MD&A before continuing to develop standards. Objectives should stand on their own to help preparers understand what should be achieved in MD&A and to prevent a check-list compliant exercise.

### **August 28 – 29, 2019**

At the August 28 meeting, members approved the proposed project plan for the management's discussion and analysis (MD&A) amendments project.

The Board then began developing objectives for MD&A based on the standards in SFFAC 1, *Objectives of Federal Financial Reporting*: budgetary integrity, operating performance, stewardship, and systems and control.

Members agreed on the following MD&A objectives for budgetary integrity:

- MD&A should concisely explain financing resources and the sources and status of budgetary resources.
- MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.

In addition, members added a general objective to encourage a more concise and readable MD&A.

- MD&A should concisely explain—in plain language—any budget and financial terms used, such as but not limited to unfunded, unobligated, and net cost of operations.

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## **RESEARCH PHASE: OCTOBER 2016 – APRIL 2019**

Please see August 2019 TAB C MDA Combined Board Document for research phase history at [https://files.fasab.gov/pdf/19\\_8\\_TAB\\_C\\_MDA\\_Combined.pdf](https://files.fasab.gov/pdf/19_8_TAB_C_MDA_Combined.pdf)

**NOTE:** Research conducted by reporting Model Phase I: MD&A and Stewardship Investments Improvements and Risk Assumed/Reporting Projects.