



Federal Accounting Standards Advisory Board

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**December 6, 2019**

Memorandum

**MEMBER ACTIONS REQUESTED:**

Please review the materials and answer the questions on page 19 by **December 13, 2019**

To: Members of the Board  
From: Assistant Directors Ross Simms, Grace Wu, and Robin M. Gilliam  
Through: Monica R. Valentine, Executive Director  
Subject: Reporting Model Phase II, Note Disclosures, and MD&A Amendments Project Collaboration – **TAB F**<sup>1</sup>

**MEETING OBJECTIVE**

The meeting objective is to conduct an education session to discuss 1) the interrelationships among the current reporting model phase II, note disclosures, and management's discussion and analysis (MD&A) amendments projects 2) common objectives, and 3) next steps.

**BRIEFING MATERIALS**

The briefing materials include this memorandum and the following attachment:

Attachment I: Reporting Objectives describes each of the four federal financial reporting objectives.

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

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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

The reporting model project began in 2003 as part of the Board's conceptual framework initiative. After several years of progress in federal financial reporting, FASAB decided to revisit its conceptual framework with a focus on ensuring accounting standards are based on a sound and comprehensive framework of reporting objectives and concepts. At that time, Board members were concerned the reporting objectives were broad, and some members sought to better define the role of generally accepted accounting principles (GAAP)-based financial statements in achieving them. Also, some preparers were concerned about the need for certain financial statements, such as the component reporting entity balance sheet.

Accordingly, the Board began the conceptual framework initiative by revisiting the reporting objectives. FASAB staff conducted a series of roundtable discussions to determine whether the reporting objectives remained valid and appropriate and to help define the role of the Board in achieving these objectives. Roundtable participants believed the reporting objectives remained valid, and they noted the objectives could be accomplished by reports and similar materials other than financial statements. Consequently, in November 2006, the Board agreed to retain the broad objectives and issued its report titled *Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting*<sup>2</sup>. The report discusses the Board's primary and secondary focuses relative to the reporting objectives. The Board also subsequently published concepts to define elements and identify measurement attributes<sup>3</sup>, and distinguish between basic information and RSI.<sup>4</sup>

Next, the Board began discussing the need for conceptual guidance that describes the reporting models for the government-wide and component reporting entities and how the models relate to the reporting objectives. The concepts would guide the Board in determining the financial statements that contribute to the achievement of the reporting objectives. Staff (1) researched the diverse needs of users and how they access information; (2) surveyed other countries and their reporting models; and (3) conducted discussions with preparers, citizen intermediaries, Congressional staff, program managers, executives, auditors, state and local government planners and analysts, and experts in federal financial reporting.

The Board also organized a reporting model task force to consider the user needs and reporting community research results to provide suggestions for the reporting model. In December 2010<sup>5</sup>, the task force completed its work and presented the following

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<sup>2</sup> Please see <http://files.fasab.gov/pdf/Strategic-Directions.pdf> for the full report.

<sup>3</sup> SFFAC 5, *Definitions of Elements and Basis Recognition of Criteria for Accrual Based Financial Statements*, December 6, 2007, [http://files.fasab.gov/pdf/handbook\\_sffac\\_5.pdf](http://files.fasab.gov/pdf/handbook_sffac_5.pdf)  
[http://files.fasab.gov/pdf/handbook\\_sffac\\_6.pdf](http://files.fasab.gov/pdf/handbook_sffac_6.pdf)

<sup>4</sup> SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information and Other Accompanying Information*, December 4, 2009.

<sup>5</sup> Please see [http://files.fasab.gov/pdf/2010dec22\\_financial\\_reporting\\_model\\_task\\_force.pdf](http://files.fasab.gov/pdf/2010dec22_financial_reporting_model_task_force.pdf) for the full report

recommendations to enhance the reporting models (1) the adoption of a centralized, web-based method of reporting financial and performance information, (2) changes to particular financial statements, and (3) additional disclosures. Task force members believed the success of these recommendations required raising public awareness of federal financial reporting. In February 2011, the Board discussed the task force recommendations and determined many of the recommendations could be adopted voluntarily by preparers; however, Board members did note the conceptual framework to guide accounting standards remained incomplete and out of date.

Later in 2011, the Board discussed the report, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General (CFO Act Report)*.<sup>6</sup> The report recommended Congress consider directing FASAB, the Office of Management and Budget (OMB), and the Government Accountability Office to evolve the financial reporting model. The Board organized task forces to study improving cost, performance, and budgetary reporting and, in 2012, the task forces recommended the Board revisit Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*. They believed adequate cost guidance was necessary to support users of budget and performance information and provide cost information that met expectations. Upon reviewing the task force recommendations, the Board determined the project would involve matters outside of the Board's domain and would require coordination with the Department of the Treasury and OMB. Also, members raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.

Subsequently, the Board engaged with the National Academy of Public Administration (NAPA) to learn about executives, managers, and preparers' needs for resources to guide financial information development. The NAPA team conducted interviews with federal executives and senior managers with operating responsibility for agencies, bureaus, offices, divisions, or comparable organizational units. The research<sup>7</sup> informed the Board that Chief Financial Officers (CFO) Act organizations will increasingly need to offer valuable decision-making support to executives and senior managers, including sophisticated cost and performance analysis. In addition, federal agencies face challenges in analyzing and transforming data into readily understood, actionable information for executive decision making—especially the linking of budget, costs, and performance.

In 2014, FASAB members discussed their views of ideal reporting models for the government-wide and component reporting entities and decided to develop a concepts statement to guide development of the reporting models. The concepts statement would focus on information required by GAAP; financial statements, note disclosures, MD&A, and required supplementary information (RSI).

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<sup>6</sup> Please see <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/financial/cfo-act-report.pdf> for the full report.

<sup>7</sup> Please see [https://files.fasab.gov/pdf/files/14\\_4\\_NAPA\\_REPORT.pdf](https://files.fasab.gov/pdf/files/14_4_NAPA_REPORT.pdf) for the full report.

On September 22, 2017, the Board issued Statement of Federal Financial Accounting Concepts (SFFAC) 8, *Federal Financial Reporting*, which discusses (1) the content and presentation of financial statements and RSI for government-wide and component reporting entities; (2) the presentation of budgetary information in component reporting entity financial statements and RSI; (3) the presentation of performance information in financial statements and RSI; and (4) the summary-level information relating to financial statements and RSI.

### **A Two-Phased Reporting Model Approach**

While completing SFFAC 8, Board members reviewed financial reports and FASAB staff conducted more roundtable discussions to determine potential areas for improving financial reports. As a result, staff noted several areas for improvement, including MD&A, required supplementary stewardship investments (RSSI), and the overall reporting models. Concerns regarding MD&A, RSSI, and the overall models were as follows:

- MD&A -The presentation is intended to be concise; however, Board members and others noted that MD&A is often broad and may overwhelm readers. Also, performance information in MD&A was not always complete because the information was not available until after the reporting period.
- RSSI -The information was not being used. Users had been accessing the government's investment information from the OMB public reports rather than component reporting entity financial reports.
- Overall Reporting Models - Board members noted that reporting entity resources are increasingly being constrained and financial reports have grown in size. The increased volume contributes to complexity in reporting information. Roundtable participants questioned whether financial statements offered the best construct for communicating the information users seek about component reporting entities. The government-wide reporting entity could provide financial statements and component reporting entities provide access to data.

The Board decided to use the following two-phased approach for reviewing the reporting models:

- Phase I - Focus on MD&A and RSSI because these areas could be addressed in the near term.
- Phase II - Consider areas for improving the overall financial reporting over the long term.

The Board proceeded to implement the following actions to conclude phase I

- initiated the MD&A Amendments project (MD&A project) to improve existing MD&A guidance and develop risk reporting guidance; and
- rescinded SFFAS 8, *Supplementary Stewardship Reporting*, and the requirement to present the RSSI category<sup>8</sup>.

## CURRENT PROJECTS

### Reporting Model Phase II

For phase II of the reporting model project, the Board began considering a reporting model for the future. The Board observed demonstrations of interactive data visualizations, MD&As, and financial statements. The interactive presentations considered the needs of users and were designed to help users understand financial information. The interactive MD&A included tips to help users understand technical terms, a Sankey diagram<sup>9</sup> of budgetary resources, a radar chart comparing the net cost for five programs over multiple periods, and a geospatial heat map of net cost by state with drill-down capability enabling users to view amounts by congressional district. The interactive financial statements also provided drill-down capability. The drill-down feature enabled users to learn more about the details of financial statement line item balances.

The Board later reviewed another presentation that demonstrated the benefits of electronic reporting versus a physical construct. The Board reviewed website wireframes or blueprints that included a list of questions that users may wish to have answered. The user would click on the question and immediately go to information that answers the question. The presentation also included mouse overs to explain technical matters, data visualizations, and financial statements that allow the user to click on a line item and drill down to additional information.

The presentation also included ideas for additional tools to engage users such as a landing page designed to guide users with different levels of expertise, a search feature, and/or a chatbot that could assist users in answering questions, including those that may not be tied to traditional financial statements. A chatbot uses artificial intelligence to conduct a conversation with the user.

The Board determined that improving budgetary information reporting, performance reporting, electronic reporting, and data quality and integration were high priority areas of the reporting model. Board members noted that the format of reported budgetary information needs improvement, and there is a need for integrated budget and

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<sup>8</sup> The Board included the rescission in an omnibus to amend several standards and issued SFFAS 57, *Omnibus Amendments 2019* on September 27, 2019.

<sup>9</sup> Sankey diagrams are a type of flow diagram in which the width of the arrows is proportional to the flow rate. [https://en.wikipedia.org/wiki/Sankey\\_diagram](https://en.wikipedia.org/wiki/Sankey_diagram)

performance information. The Board noted that component reporting entities could be more creative and use interactive technology for presenting information.

### **Note Disclosures**

During the October 2010 meeting, FASAB considered a proposal for a comprehensive review of disclosures. The proposed objective of the review was to refine existing disclosure requirements by determining whether certain required information was no longer relevant or useful, whether it could be streamlined or improved, as well as whether additional information was needed. The scope of the project was intended to be comprehensive and would involve various task forces to review each disclosure or a cluster of disclosures. The project was subsequently put aside during the February 2011 Board meeting which ranked other projects as a higher priority.

From November 28, 2016, through January 30, 2017, staff conducted an online survey to help assess the most important priorities for the reporting model project. Over 50% of respondents noted concerns with the relevance and comparability of current note disclosures (ND) and the need for improvements. At the February 2017 Board meeting, members approved the ND project.

On August 31, 2017, staff initiated another online ND survey. The objective of the survey was to solicit ideas for improving ND and identify areas where FASAB's guidance could aid in streamlining the reporting of ND in financial reports. The respondents confirmed the need to improve ND. The feedback suggested that reporting entities are disclosing too much information that is not always tailored to the needs of its primary users. About 87% of the respondents agreed that the current ND are too detailed, complex, and are often used by preparers as a checklist to comply with legal and regulatory requirements. The respondents also stated that the current ND seem to lack consistency, standardization, and comparability among the reporting entities.

At the October 2017 Board meeting, the Board agreed that ND requirements had accumulated on a Statement-by-Statement basis over many years. An overall review would improve balance across the disclosures and enhance ND understandability to readers. As a result, the Board approved the following two-phase project plan:

- Phase I - Identify and develop a set of principles to be used by the Board to improve relevance and consistency in ND.
- Phase II - Use the principles developed in ND phase I to modify the existing ND requirements for component reporting entities to improve usefulness and effectiveness.

In order to identify and develop principles to be used by the Board and preparers, staff formed a working group that conducted the following: 1) analyzed FASAB, other regulatory bodies' ND publications and activities, 2) developed an understanding of the objectives and requirements of ND, 3) performed a ND analysis on two notes across the

24 CFO Act agencies and the Certificate of Excellence in Accountability Reporting (CEAR) award recipient agencies' FY 2016 financial reports, 4) assessed the results, and 5) formed initial recommendations.

Based on the research and analysis the working group recommended the following to the Board:

- Concentrate on the disclosure principles in phase I.
- Develop a list of decision questions that the Board could use when evaluating potential disclosures in the federal environment.

Subsequently, the Board agreed to the following topics for developing ND related principles:

- Note disclosures would have the same reporting objectives as financial statements and general purpose federal financial reports (GPFFR)
- Note disclosures purpose
- Note disclosures content
- Relevance and materiality
- Disclosure objectives for corresponding standards
- Other items to consider on disclosures
- List of decision questions that could be considered by the Board when establishing disclosure requirements

The ND working group presented the research results on the draft decision questions to the Board at the August 2019 meeting. The development of the principles and decision questions are on-going.

### **MD&A Amendments**

The MD&A amendments (MD&A) project began in 2017 as part of the reporting model phase I to address concerns raised during roundtable discussions. The concerns focused on how to streamline information in MD&A.

In 2018, the risk reporting project collaborated with the MD&A improvements project to determine how to update risk and forward-looking information in the MD&A.

During this collaboration the Board discovered that SFFAC 3, *Management's Discussion and Analysis*, included standards-based language that was not included in SFFAS 15, *Management's Discussions and Analysis*. As a result of the research conducted during the MD&A improvement and collaboration with the risk reporting project, the Board agreed to develop the following guidance to amend SFFAS 15:

- discuss stewardship investment information in MD&A—at management's discretion—because the RSSI category was eliminated;

- encourage more flexibility in integrating information to discuss the efficiency and effectiveness of achieving agency mission goals (in response to Board approving the removal of the requirement for sections and reduce non-financial performance focused reporting);
- discuss risk and forward-looking information to bridge information from agency enterprise risk management processes into financial reporting; and
- develop guidance for more financial focused analysis of significant changes in financial statements.

In June 2019, the Board recognized the research phase for streamlining and amending MD&A as complete. The Board then merged the MD&A improvement and risk reporting projects into the MD&A Amendments project. As a result the reporting model phase I was completed and the risk reporting project was put on hold until risk reporting in other financial reporting components were identified for analysis.

As the MD&A amendments project moved into the development phase, members requested staff to develop well defined objectives for the MD&A before continuing to develop standards. Members noted that objectives should stand on their own to help preparers understand what should be achieved for MD&A users and to prevent a check-list compliant exercise.

In August 2019, the Board approved the project plan and began developing objectives for MD&A based on the reporting objectives: budgetary integrity, operating performance, stewardship, and systems and control identified in SFFAC 1, *Objectives of Federal Financial Reporting*.<sup>10</sup> Members agreed on the following MD&A objectives:

- 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.
- 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.

At the October 2019 meeting, members began developing MD&A objectives for operating performance and agreed on the following:

- MD&A should concisely explain how significant costs contributed to agency performance.
- MD&A should concisely explain reasons for significant changes in components of net cost for the prior year, and any significant related trends and costs over multiple years.

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<sup>10</sup> See Attachment 1 for the definitions of the four reporting objectives.

Due to the holistic nature of risk, members will begin developing MD&A objectives for risk and forward-looking information once the MD&A objectives for budget integrity, operating performance, stewardship, and systems and control, are identified.

## **ANALYSIS**

The following analysis is separated into two subsections – (I.) Matrix and (II.) Electronic Reporting and Data Quality and Integration. The Matrix analysis identifies the scope and current state of the reporting model phase II, ND, and MD&A projects. It also presents the current interrelationships between the projects and options for next steps, including advantages and challenges. The electronic reporting and data quality and integration analysis discusses the background, the present state, the journey forward, and recommendations for moving forward in a constantly evolving and changing environment. Each subsection provides a comprehensive review to assist the Board determine the next steps on how to improve the financial reporting model.

### **I. Matrix**

To assist in discussing the existing relationships among the reporting model phase II, ND, and MD&A projects, staff developed Table 1: Matrix of Reporting Model Phase II and Related Projects (the matrix). The matrix highlights common aspects and differences among the projects. The following discussion should assist in understanding the structure of the matrix.

#### Matrix Columns

- Columns A, a-d - represent the reporting model phase II project and the financial report components addressed
- Column B - represents the note disclosures project
- Column C - represents the MD&A amendments project

#### Matrix Rows

1. User, preparer, and auditor concerns – identifies issues, based on roundtables and surveys, that the Board considered in initiating each project.
2. Project Objectives – identifies high level objectives for each project.
3. 3a-3d– identifies how each project is addressing the operating performance, stewardship, budgetary integrity and systems and control reporting objectives. See Attachment I: Reporting Objectives for a description of each objective.
4. Scope – identifies the financial reports that each project affects.
5. Electronic Reporting and Data Quality and Integration – identifies how Electronic Reporting and Data Quality and Integration impacts each project.

**Table 1: Matrix of Reporting Model Phase II and Related Projects**

	A				B	C
	Reporting Model – Phase II Project (Mr. Simms)				Note Disclosure Principles Project (Ms. Wu)	MD&A Amendments Project (Ms. Gilliam)
	a	b	c	d		
	Financial Statements	Note Disclosures	MD&A	RSI		
<b>1. User, preparer, and auditor concerns</b>	Component reporting entity (CRE) performance information not always complete because the information not available; budget information not understandable; cost, budget, and performance not integrated; and users have been accessing budget information from OMB and Treasury	Same as financial statements	Same as financial statements	Same as financial statements	Notes are voluminous, complex	MD&A is voluminous; analysis of financial statements does not discuss reason for significant changes; risks not always discussed
<b>2. Project Objectives</b>	Improve the effectiveness of general purpose federal financial reports (GPFRRs) in providing information for decision-making and accountability	Same as financial statements	Same as financial statements	Same as financial statements	Improve relevance, clarity, consistency, and comparability of note disclosures	Incorporate SFFAC 3 standards-based language into SFFAS 15; update forward looking and risk information; focus on analysis of financial statements
<b>3a. Reporting Objective – Operating Performance</b>	Determine the performance information that would be useful to a user of GPFRRs	Same as financial statements	Same as financial statements	Same as financial statements	Notes assist users of federal financial information in assessing the financial results of operating performance	Board identifying MD&A objectives for Operating Performance in preparation for developing ED
<b>3b. Reporting Objective -</b>	Not in the current scope of the	Same as financial	Same as financial	Same as financial	Stewardship objectives	Board identifying MD&A objectives

	A				B	C
	Reporting Model – Phase II Project (Mr. Simms)				Note Disclosure Principles Project (Ms. Wu)	MD&A Amendments Project (Ms. Gilliam)
	a	b	c	d		
	Financial Statements	Note Disclosures	MD&A	RSI		
<b>Stewardship</b>	project	statements	statements	statements	are achieved through all note disclosures.	for Stewardship in preparation for developing ED
<b>3c. Reporting Objective - Budgetary Integrity</b>	Determine the budgetary information that would be useful to a user of GPFFRs	Same as financial statements	Same as financial statements	Same as financial statements	Budgetary information is a part of note disclosure information.	Board identifying MD&A objectives for Budgetary Integrity in preparation for developing ED.
<b>3d. Reporting Objective - Systems and Control</b>	Addressed indirectly	Same as financial statements	Same as financial statements	Same as financial statements	Addressed indirectly	Board developing MD&A objectives for Systems and Control in preparation for developing ED.
<b>4. Scope</b>	Financial Report of the United States Government (FR) and Agency Financial Report (AFRs)	Same as financial statements	Same as financial statements	Same as financial statements	FR and AFRs	FR and AFRs
<b>5. Electronic Reporting and Data Quality and Integration</b>	Develop web-based reporting “.gov” model – central federal financial location drill down to reporting entities	Same as financial statements	Same as financial statements	Same as financial statements	May affect presentation but not content	May affect presentation but not content

## OPTIONS FOR NEXT STEPS

The current reporting model phase II, ND and MD&A projects are both interrelated and interdependent – they all directly affect the FR and AFRs and Board decisions on one project could affect the other projects. To improve the efficiency and effectiveness of these projects, staff developed the following three options for the Board to consider for the next steps.

### Option 1: Status Quo – Maintain All Three Projects Separately

Staff could continue developing the projects as three separate projects. While each project includes improving budgetary and performance information within its scope, each project is in a different due process phase.

The advantages to this option are as follows:

- 1) Staff will not need to reorganize their plans and can continue to build on the work the Board has already reviewed.
- 2) Staff will not need to wait for progress on another project and can avoid interruption or delay on the current timeline.

The challenges to this option are as follows:

- 1) The projects may not progress concurrently because they are presently in different due process phases. For example, reporting model phase II is in the research phase, while ND and MD&A projects are in the development phase.
- 2) The Board may develop different decisions regarding the common reporting objectives at different times because the projects are in different phases.

### **Option 2: Combine the Projects**

Staff could combine the components of the reporting model phase II project with the ND and MD&A projects. For example, the financial statements component would be conducted with the notes disclosures project as a combined financial statements and ND project. Because ND are an integral part of the financial statements, it makes sense to combine these two projects to reduce the likelihood of duplicate efforts. The MD&A and RSI components would be conducted with the MD&A amendments project as a combined RSI project. Combining the MD&A project with another project on RSI other than MD&A would help to streamline the process of determining where information should be presented within GPFFRs.

The advantages to this option are as follows:

- 1) Staff would be able to capitalize on past research from round tables, task forces, and the NAPA study to help develop a manageable scope for the new/existing projects.
- 2) Consistent and common goals across the combined projects would be highlighted.
- 3) The efficiency and effectiveness of the projects would be improved by avoiding redundant research on similar topics.

The challenges to this option are as follows:

- 1) Coordinating the performance and budgetary integrity topics across the new financial statement/note disclosures and MD&A/RSI projects could be difficult because of timing differences for when decisions are made for each project.

- 2) Defining a scope for the combined projects would likely require many Board meetings and additional research.

### **Option 3: Topical Approach**

Staff could implement a topical approach by focusing on improving budgetary and performance information. This approach would focus on the highest priority concerns rather than different components of the reporting model. During the Board's June 2019 meeting, members agreed that improving budgetary information and performance reporting were high priorities for reporting model phase II. Members noted that users access budgetary and performance information from other public sources and component reporting entity budgetary information is challenging for users to understand.

The advantage of this option is that studying users' interests regarding budgetary and performance information could help the Board determine whether financial statements, ND, MD&A, and/or RSI need improvement. The challenge of this option, however, is that, given the topical approach has been adopted in the past, extensive time and research could be utilized, yet no new results and changes to the reporting model may be derived.

### **Staff Recommendation**

Staff recommends that the Board adopt option 2 and combine the projects. Combining the projects would facilitate a "big picture" view for monitoring reporting model improvements. Viewing the big picture would facilitate a clearer vision of the end goal and help members understand how reporting model components and content support achieving that goal.

### **Board Questions for This Section**

1. Does the Board agree with the staff recommendation to combine the reporting model phase II, ND, and MD&A projects?
2. If the Board does not agree with the staff recommendation, how would the Board like to proceed with the reporting model phase II, ND, and MD&A projects?

## **II. Electronic Reporting and Data Quality and Integration**

### **Introduction**

The volume of data has accelerated over the years and innovative technologies have facilitated data gathering, analysis, and sharing capabilities for enhanced decision

making. Organizations are realizing that highly summarized reporting may not effectively present their activities and that data and automation enables them to consider multiple dimensions of the organization, such as segment or geographic activities. In this age of abundant data and automation, FASAB could play a role in improving data quality and the tools that could more effectively deliver information to citizens, Congress, managers, and executives.

## **Background**

During the Board's June 2019 meeting, members agreed that data quality and integration and electronic reporting were high priority areas of the reporting model project. To improve transparency and accountability, the federal government and other organizations are developing internet-based portals to facilitate open access to data. Users are able to access and share budget data and can develop multidimensional analyses. Data is being used to inform decision-making and improve services for the public.

Also, electronic reporting refers to an automated means of making data available to users. If they are aware of federal agency financial reporting, users can access financial reports from agency websites rather than receiving printed documents. Advances in automation could allow users to access and analyze more data with greater efficiency than the current approach and the Board has been monitoring this phenomenon. Given the development of automation, the Board is interested in how GAAP could help improve data quality and advance automation.

## **The Present State – Physical Constructs in a Digital Environment**

In addition to developing requirements for the content of reports, FASAB also considers and provides guidance for the reporting format. Early FASAB guidance appeared to primarily envision physical constructs for financial reporting and developed guidance accordingly. The guidance would address features such as report organization, means of information delivery, and size. For instance, the Board developed MD&A guidance in the age of physical documents and less automation. In SFFAC 3, the Board illustrated the structure of a financial report and discussed where MD&A should be located within the report, ideally before the financial statements. In addition, the related MD&A standards specify the structure of MD&A and where required information should be presented.<sup>11</sup>

Moreover, conceptual guidance recognizes that users of federal financial reports expect a wide range of information. Some may expect highly aggregated data to answer some fundamental questions, such as the cost of a program and its accomplishments, while others may expect data to perform analyses and answer multiple questions. The guidance, thus, includes references to the need for different "reports" to address the needs of these different audiences. The guidance also uses terms such as "narrative" rather than say, "voice" or "image" to guide how the information should be presented. For instance, in the discussion of the qualitative characteristic, understandability, the conceptual guidance notes that

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<sup>11</sup> SFFAS 15, *Management's Discussion and Analysis*.

...different reports may be necessary to provide information relevant to the needs of the expected report users, with suitable amounts of detail, explanation, and related narrative. <sup>12</sup>

In discussing its rationale for developing SFFAS 32, *Consolidated Financial Report of the United States*, the Board noted that the consolidated financial report of the US government had grown in size and complexity and that certain disclosure requirements should be rescinded.

In contrast to the physical construct previously envisioned, users are now expecting a digital presentation. According to the Pew Research Center, there is more data available than ever before and there are more effective tools for sharing it. <sup>13</sup> Also, Pew noted that 37% of adults used the internet or an app to get data about the federal government. <sup>14</sup> Recognizing the importance of data and technology, agencies across the federal government are using data in collaborative ways to develop ideas, solve issues, and improve user experiences <sup>15</sup> and other organizations throughout the world are also using data similarly. In addition, federal entities such as the National Archives and Records Administration are digitizing records to make them available to the public online. <sup>16</sup>

In terms of Google search trends, the topic, “data analysis”, has shown an increasing interest over the past few years. In fact, the topic is approaching the same level of interest as “financial statement.” Figure 1: Google Trends Comparison illustrates this trend.

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<sup>12</sup> Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*.

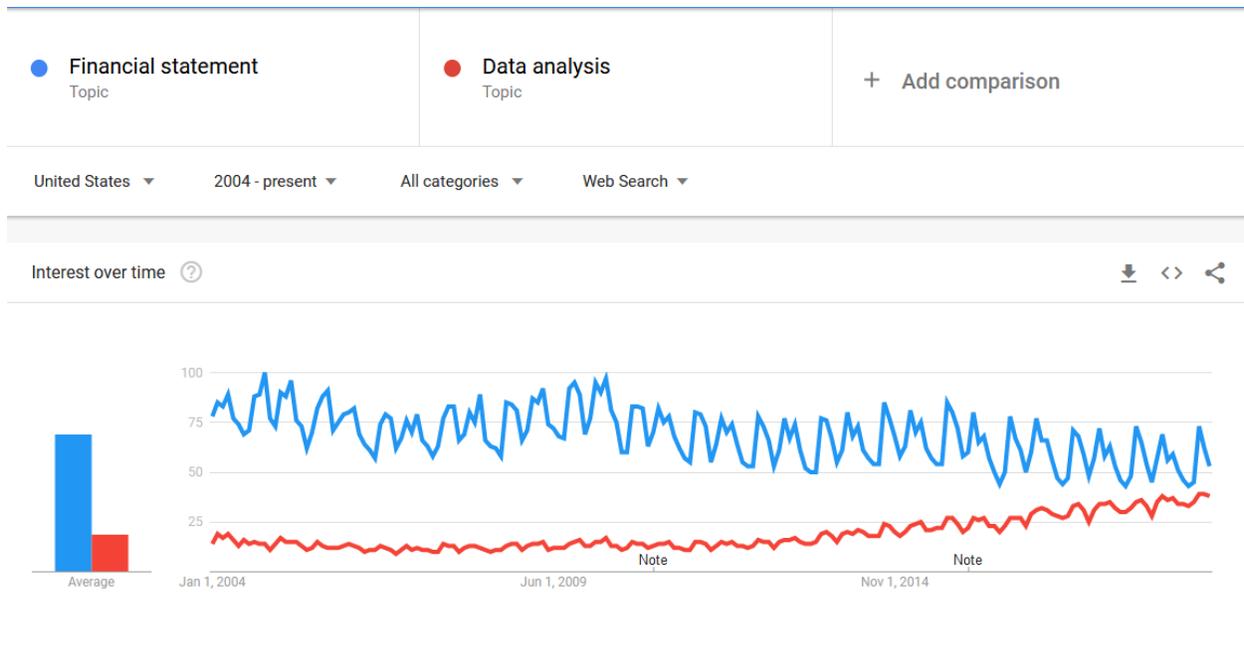
<sup>13</sup> Pew Research Center, April, 2015 “Americans’ Views on Data to Open Government”

Available at: <http://www.pewinternet.org/2015/04/21/open-government-data/>.

<sup>14</sup> Ibid.

<sup>15</sup> President’s Management Agenda Fall 2019 Update.

<sup>16</sup> National Archives and Records Administration 2018-2022 Strategic Plan



**Figure 1: Google Trends Comparison**

Annual financial statements presently produce a less dynamic presentation than what users are expecting today and will expect in the future. The financial reports are intended to address the common information needs of users and use portable document format. This approach, however, requires users from both ends of the data aggregation spectrum to know 1) the organizational structure of the federal government and 2) the names of the numerous federal agencies simply to begin locating the reports. Users are not necessarily able to access a single platform that links them to the various reports and additional detailed data. Also, because the reports are delivered annually, the data may not be timely

### **The Journey Forward - Digital**

In 2010, FASAB's reporting model task force observed how users preferred to access data and the need for multidimensional presentations. The task force accordingly proposed that the federal government adopt an electronic reporting model with drill-down capability.<sup>17</sup> Later, during the National Academy of Public Administration's research on federal executive and senior manager financial information needs, it was noted that federal executives and senior managers sought granular data to augment decision making. They, however, lacked the analyses and visualizations needed to use the data.<sup>18</sup>

<sup>17</sup> Reporting Model Task Force Report.

<sup>18</sup> National Academy of Public Administration, *Financial and Related Information for Decision-Making: Enhancing Management Information to Support Operational Effectiveness and Priority Goals*, April 2014.

FASAB has observed the diverse needs of users and noted the future possibility of digitized data in financial reporting rather than a variety of physical, unlinked, constructs. In Statement of Federal Financial Accounting Concepts 8, *Federal Financial Reporting*, FASAB stated

“...users may drill-down from the government-wide reporting entity’s financial statements to ORFNI [other reported financial and non-financial information] in schedules provided by a component reporting entity.”

While humans may be the ultimate user of the data, converting data to a form that can be consumed and analyzed by a machine is consistent with current trends. The reference to drill-down is a reference to technology that helps a user interact with software in a hierarchical database, accessing different levels of aggregated data in a more automated manner.

Improvements in automation are continuing to enhance the user’s experience in the digital data age. For instance, machine learning is being used to help anticipate the information users are seeking and inform discussions about the information that should be readily displayed. Also, federal reporting entities have multiple stakeholders and each may seek information for different purposes such as to determine the rate of resource usage or the cost of a program in a particular location versus the costs of the entire entity. In addition, stakeholders have different levels of knowledge regarding the federal government and financial matters. Automated tools could accordingly be designed to offer standard information and features to facilitate customization. For example, automation could provide:

- standard templates for viewing and analysis
- ability to create customized formats and analysis models
- automatic location and display of disclosures related to numeric items displayed (and vice versa).<sup>19</sup>

In addition, automation such as natural language generation could be used to enable users to ask questions and receive answers or be referred to sources for data. A digital rather than physical presentation could offer a variety of disclosures and levels of detail from a single platform such as a website with automated audio and visual disclosures. Other tools such as drop-down menus and hyperlinks inform the user that much more data is available than presented on a single webpage. Reducing the users’ time spent searching for and analyzing the abundance of data would free-up time to focus on decision-making, strategy development, relationship building, and leadership.

### **Recommendation for Moving Forward**

Staff suggests that the Board build on SFFAC 8 and adopt a data and technology strategy rather than initiating a distinct electronic reporting and data and integration project. Improvements in data use and technology are ongoing rather than one-time events and the improvements will continue to impact how users access, analyze, and

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<sup>19</sup> Joanne Locke, Andy Lymer & Alan Lowe, Digital reporting options for Europe: a study of interactive data from the perspective of non-professional investors, July 2010

share data. In addition, users are accessing different sources for detailed data as more data is being made available. This condition will also continue as alternative sources for information and more detailed data becomes available in shorter time intervals than annual reporting.

Given the need to continuously consider and prepare for data and technology changes, the following provides an approach the Board could consider:

1. Support development of a single platform for users to access financial information. A single platform would help reduce duplication and overlap in online reported data and minimize confusion about which source should be used. In addition, financial statements could show users how data could be used to understand entity activities.
2. Host, at least annually, sessions on data and technology trends, challenges, and practices in the federal government.
3. With each issuance of guidance, consider opportunities to encourage reporting disaggregated data and the use of available technology to deliver information. For instance, the Board could consider:
  - a. encouraging information to help users of the FR obtain additional data on the functions and sub-functions that comprise the unified budget deficit/surplus and the amount of mandatory versus discretionary spending.
  - b. refraining from language in standards that guides a physical structure and restricts type and size of presentation.
  - c. discussing, in the basis for conclusions, data and technology considerations made.

### **Board Questions for This Section**

1. Does the Board agree with the staff recommendation? If not, how would the Board like to address the evolution and impact of data and technology in financial reporting?

## **SUMMARY OF BOARD QUESTIONS**

1. Does the Board agree with the staff recommendation to combine the reporting model phase II, ND, and MD&A projects?
2. If the Board does not agree with the staff recommendation, how would the Board like to proceed with the reporting model phase II, ND, and MD&A projects?
3. Does the Board agree with the staff recommendation with respect to electronic reporting and data quality and integration? If not, how would the Board like to address the evolution and impact of data and technology in financial reporting?

## **NEXT STEPS**

The next steps depend on Board member feedback and answers to the staff questions.

## **MEMBER FEEDBACK**

If you have any questions or comments, please email Mr. Simms at [simmsr@fasab.gov](mailto:simmsr@fasab.gov); Ms. Grace Wu at [wug@fasab.gov](mailto:wug@fasab.gov) and Ms. Gilliam [gilliamr@fasab.gov](mailto:gilliamr@fasab.gov), with a cc to Ms. Valentine at [valentinem@fasab.gov](mailto:valentinem@fasab.gov), by December 13, 2019.

**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.