



August 13, 2020

Memorandum

To: Members of the Board
From: Robin M. Gilliam, Assistant Director
Through: Monica R. Valentine, Executive Director
Subject: MD&A – **TAB F**¹

MEMBER ACTIONS REQUESTED:
Please review the materials and answer
the questions by **August 20, 2020**

MEETING OBJECTIVE

In support of the reporting model initiative, the Management’s Discussion and Analysis (MD&A) meeting objective is to discuss the MD&A vision framework in preparation for the MD&A pilot.

BRIEFING MATERIALS

The briefing materials include this memorandum and the following:

Appendix A: MD&A: Project History and Milestones

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

¹ 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.

DEVELOPMENT PHASE

The MD&A project is in the development phase where the Board deliberates to develop an exposure draft to improve management’s discussion and analysis (MD&A) reporting.

BACKGROUND

The objective of this project is to improve MD&A reporting by providing an integrated, holistic story about a reporting entity’s mission, budget, cost, performance, and financial position and condition.

At the June 2019 Board meeting, in preparation for developing an exposure draft, members requested that staff develop MD&A objectives. The MD&A objectives are based on the four reporting model objectives: budgetary integrity, operating performance, stewardship, and systems and control.²

The Board worked from August 2019 – June 2020 using the Reporting Objective Analysis Documents (ROAD) for each reporting objective. Each ROAD included existing concepts from the Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, and SFFAC 3, *Management’s Discussion and Analysis*. Staff walked members through each ROAD to help identify what MD&A objectives would provide the most helpful information to users.

The Board identified 11 MD&A objectives, as noted in the following table.

CATALOG OF MEMBER IDENTIFIED MD&A OBJECTIVES			
#	Code	MD&A Objective	Mtg
	Key:	G - General BI - Budgetary integrity OP – Operating performance ST – Stewardship S&C – Systems & controls	
1	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.	Aug 2019
2	BI-1	MD&A should concisely explain financing resources and the sources and status of budgetary resources.	Aug 2019

² Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, paragraphs 105-150.

CATALOG OF MEMBER IDENTIFIED MD&A OBJECTIVES

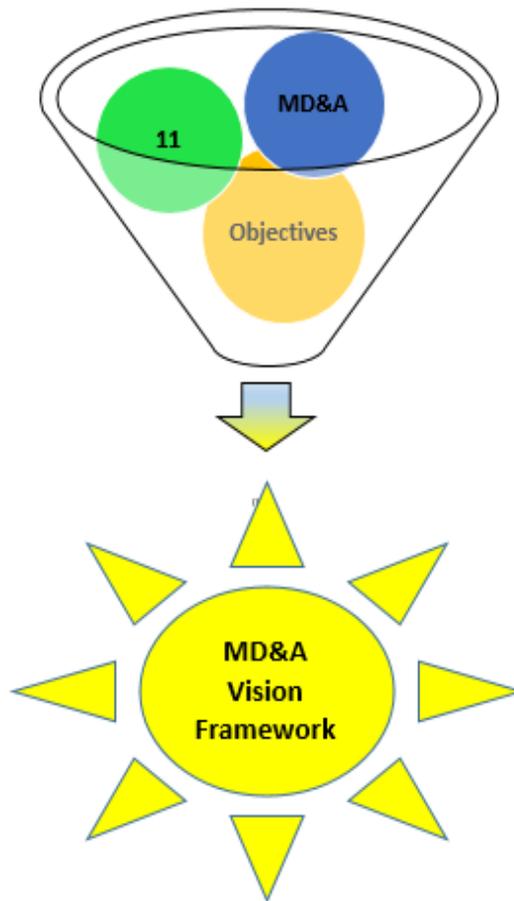
#	Code	MD&A Objective	Mtg
3	BI-2	MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.	Aug 2019
4	OP-1	MD&A should concisely explain if significant costs contributed to agency performance.	Oct 2019
5	OP-2	MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant cost trends over multiple years.	Oct 2019
6	OP-3	MD&A should provide an integrated discussion and analysis of the entity's mission, organization, budget, cost, and performance, for the entity's significant major program investments and the entity as a whole, including what types of resources the entity used and what the entity achieved during the reporting period.	Feb 2020
7	OP-4	MD&A should provide a concise/balanced discussion/summary of significant financial and non-financial operating performance information, including electronic references to legislative performance framework documents, such as GPRAMA reporting, for the entity's major program investments and the entity as a whole.	Feb 2020
8	ST-1	MD&A should concisely explain reasons for significant changes in assets, liabilities, costs, and/or revenues from the prior year and any significant trends.	June 2020
9	ST-2	MD&A should concisely describe planned agency actions to address current and prospective mission-related issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and budgetary resources.	June 2020
10	S&C-1	MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.	June 2020
11	S&C-NOTE	<p>A number of members recommended that MD&A should also include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material weaknesses. This includes references to other sections that have a more in depth discussion of those items.</p> <p>Members did not have time to agree upon the wording. Therefore, staff will include these draft objectives in the MD&A vision framework for discussion at a future meeting.</p>	June 2020

STAFF ANALYSIS & RECOMMENDATIONS

The goal for this meeting is to review, edit, and approve the **MD&A vision framework (MVF)** in preparation for the MD&A pilot and development of standards. The MVF consolidates the 11 MD&A objectives by removing any duplicated context.

The following reviews 1) how staff mapped the MD&A objectives to the MVF; and 2) how staff recommends using the MD&A Vision Framework in the pilot and for developing standards.

I. Mapping from 11 MD&A Objectives to the MD&A Vision Framework



The following explains how staff consolidated the 11 MD&A objectives into the MD&A vision framework to reduce duplication of context.

1. The first column is the key code, noted in the *Catalog of Member Identified MD&A Objectives* in the background section above.
2. The second column is the MD&A objective used for the mapping. Staff highlighted duplicated context consolidated into the MD&A vision framework.
3. The third column is the MD&A vision framework section or sentence that consolidates the MD&A objectives.
4. The fourth column explains any notes important for consolidating the MD&A objectives into the MD&A vision framework.

Note: The completed draft MD&A vision framework is on page 12 of 14.

Chart Mapping MD&A Objectives to MD&A Vision Framework

Code	Objective	MD&A Vision Framework Section/Sentence	Consolidation Notes
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.	MD&A should provide a concise, integrated, and balanced financial and non-financial summary of the mission, organization, budget, cost, performance, major program investments, and financial position and condition by:	Consolidating: G-1; OP-3; OP-4 & S&C-NOTE NOTE: most of the other objectives state “ <u>MD&A should concisely...</u> ” The other objectives are not repeated here, but the content is underlined. Introduction to the MD&A vision framework.
OP-3	MD&A should provide an integrated discussion and analysis of the entity’s mission, organization, budget, cost, and performance , for the entity’s significant major program investments and the entity as a whole, including what types of resources the entity used and what the entity achieved during the reporting period.		
OP-4	MD&A should provide a concise/balanced discussion/summary of significant financial and non-financial operating performance information, including electronic references to legislative performance framework documents, such as GPRAMA reporting, for the entity’s major program investments and the entity as a whole.		
S&C-NOTE	A number of members recommended that MD&A should also include a summary discussion about ongoing and planned actions to address non-compliance and		

Chart Mapping MD&A Objectives to MD&A Vision Framework

Code	Objective	MD&A Vision Framework Section/Sentence	Consolidation Notes
	<p>control weaknesses that may be causing material weaknesses. This includes references to other sections that have a more in depth discussion of those items.</p> <p>Members did not have time to agree on the wording. Therefore, staff will include these draft objectives in the MD&A vision framework for discussion at a future meeting.</p>		
OP-2	MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant cost trends over multiple years.	I. by discussing and analyzing reasons for	Consolidating: OP-2 & ST-1 Information provided to help users understand reasons behind significant financial changes.
ST-1	MD&A should concisely explain reasons for significant changes in assets, liabilities, costs, and/or revenues from the prior year and any significant trends.		
OP-2	MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant trends cost over multiple years.	I.a. significant changes during the reporting period in	Consolidating: OP-2 & ST-1 Information to help users understand that changes should be significant and have occurred during the reporting period.
ST-1	MD&A should concisely explain reasons for significant changes in assets, liabilities, costs, and/or revenues from the prior year and any significant trends.		

Chart Mapping MD&A Objectives to MD&A Vision Framework

Code	Objective	MD&A Vision Framework Section/Sentence	Consolidation Notes
OP-1	MD&A should concisely explain if significant costs contributed to agency performance.	I.a.i. assets, liabilities, costs, cost trends, and/or revenues;	Consolidating: OP-1; OP-2; & ST-1 Information to help users understand what financial statement elements experienced significant changes during the reporting period and why.
OP-2	MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant trends cost over multiple years.		
ST-1	MD&A should concisely explain reasons for significant changes in assets, liabilities, costs, and/or revenues from the prior year and any significant trends .		
BI-1	MD&A should concisely explain financing resources and the sources and status of budgetary resources .		Consolidating: BI-1; BI-2; ST-2; & OP-3 Information to help users understand what types of resources were used, and what was achieved by the reporting entity.
BI-2	MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.		
ST-2	MD&A should concisely describe planned agency actions to address current and prospective mission-related issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and budgetary resources .		

Chart Mapping MD&A Objectives to MD&A Vision Framework

Code	Objective	MD&A Vision Framework Section/Sentence	Consolidation Notes
OP-3	MD&A should provide an integrated discussion and analysis of the entity's mission, organization, budget, cost, and performance, for the entity's significant major program investments and the entity as a whole, including what types of resources the entity used and what the entity achieved during the reporting period.	I.a.ii. budgetary and/or financing resources used and what was achieved.	
ST-2	MD&A should concisely describe planned agency actions to address current and prospective mission-related issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and budgetary resources.	I.b. current and planned actions to address	Consolidating: ST-2 & S&C-NOTE Information provided to help users understand what actions the reporting entity has planned.
S&C-NOTE	A number of members recommended that MD&A should also include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material weaknesses. This includes references to other sections that have a more in depth discussion of those items. Members did not have time to agree on the wording. Therefore, staff will include these draft objectives in the MD&A vision		

Chart Mapping MD&A Objectives to MD&A Vision Framework

Code	Objective	MD&A Vision Framework Section/Sentence	Consolidation Notes
	framework for discussion at a future meeting.		
ST-2	MD&A should concisely describe planned agency actions to address current and prospective mission-related issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and budgetary resources.	I.b.i. current and prospective issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and budgetary resources in the future; and	Information provided to help users understand what may impact the reporting entity's financial condition going forward.
S&C-1	MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.	I.b.ii. conditions of data, systems, and controls that affect the ability to produce reliable financial information; and	Information provided to help users understand what conditions may exist with data, systems, and controls.
S&C-Note	<p>A number of members recommended that MD&A should also include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material weaknesses. This includes references to other sections that have a more in depth discussion of those items.</p> <p>Members did not have time to agree on the wording. Therefore, staff will include these draft objectives in the MD&A Vision Framework for discussion at a future meeting.</p>	I.b.iii. non-compliance and control weaknesses that may be causing material weaknesses; and	Information provided to help users understand if the reporting entity should address any non-compliant or control weaknesses that may address correcting material weaknesses.

Chart Mapping MD&A Objectives to MD&A Vision Framework

Code	Objective	MD&A Vision Framework Section/Sentence	Consolidation Notes
OP-4	<p>MD&A should provide a concise/balanced discussion/summary of significant financial and non-financial operating performance information, including electronic references to legislative performance framework documents, such as the Government Performance and Results Act (GPRA) Modernization Act (GPRAMA); reporting, for the entity’s major program investments and the entity as a whole.</p>	<p>II. by including digital references (links) to</p> <p>II.a. source materials, for example, organizational charts and legislative performance framework documents, such as the Government Performance and Results Act (GPRA) Modernization Act (GPRAMA); and</p>	<p>Use of links to help prevent duplicating information [reduce preparer burden] and provide less dense, more concise information to users.</p>
S&C-Note	<p>A number of members recommended that MD&A should also include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material weaknesses. This includes references to other sections that have a more in depth discussion of those items.</p> <p>Members did not have time to agree on the wording. Therefore, staff will include these draft objectives in the MD&A vision framework for discussion at a future meeting.</p>	<p>II.b. other sections of the financial report with in-depth discussions.</p>	

The following is the draft MD&A vision framework mapped from the 11 MD&A objectives.

DRAFT MD&A VISION FRAMEWORK

MD&A should provide a concise, integrated, and balanced financial and non-financial summary of the mission, organization, budget, cost, performance, major program investments, and financial position and condition:

I. by discussing and analyzing reasons for

a. significant changes during the reporting period in

- i. assets, liabilities, costs, cost trends, and/or revenues; and
- ii. budgetary and/or financing resources used and what was achieved; and

b. current and planned actions to address

- i. current and prospective issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and/or budgetary resources in the future;
- ii. conditions of data, systems, and controls that could affect the ability to produce reliable financial information; and
- iii. non-compliance and control weaknesses that may be causing material weaknesses; and

II. by including digital references (links) to

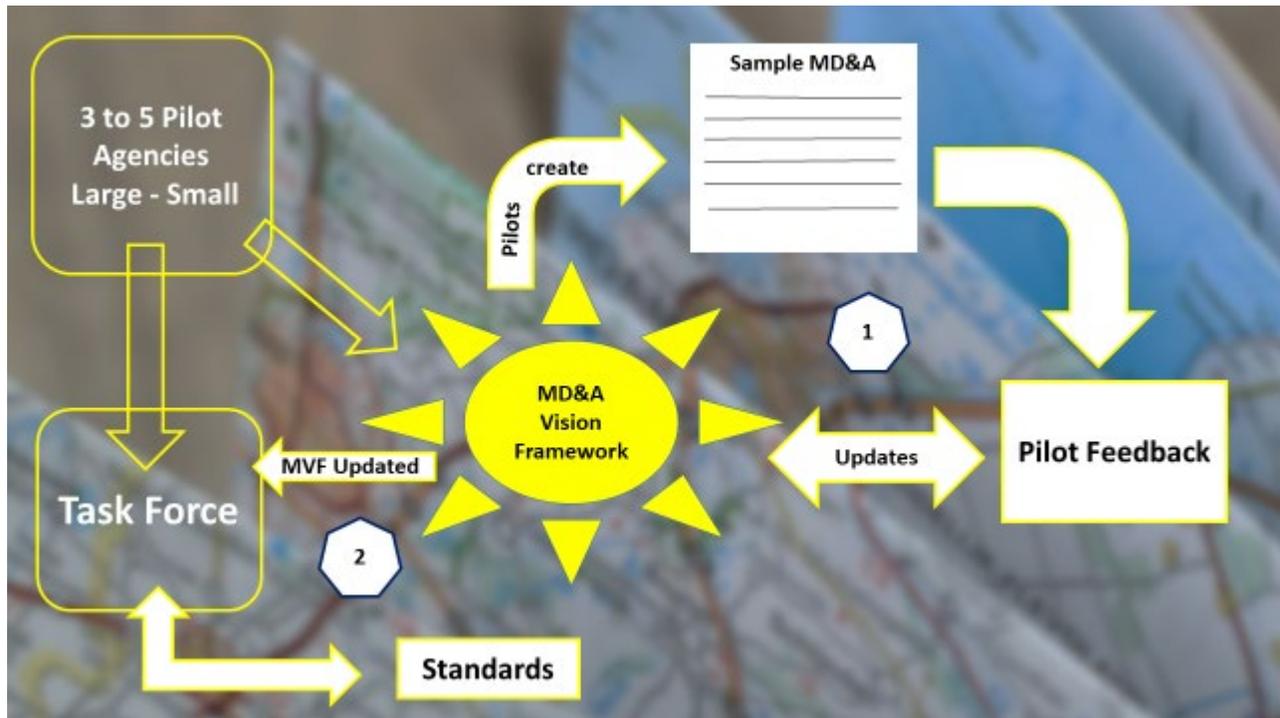
- a. source materials, for example, organizational charts and legislative performance framework documents, such as the Government Performance and Results Act (GPRA) Modernization Act (GPRAMA); and
- b. other sections of the financial report with in-depth discussions.

QUESTION 1: Do members agree that the draft MD&A vision framework incorporates and consolidates all main points from the MD&A objectives?

QUESTION 2: Do members recommend any edits to the MD&A vision framework?

II. MD&A Vision Framework – the Focal Point for Implementing the Pilot Roadmap & Developing Standards

The following picture illustrates staff’s recommendation for how the MD&A vision framework will be used as the focal point (1) in the roadmap for implementing the pilot, and (2) ultimately to develop the new MD&A standards.



The MD&A Pilot – Developing Sample MD&As

Pilot agencies will use the MD&A vision framework to develop sample MD&As to present to the Board. This will give the Board an opportunity to see if the sample MD&As accomplish their vision. Staff, members, and pilot agencies will continue to work together to update the MD&A vision framework until it produces the Board’s vision for the MD&A—a *concise, integrated, and balanced financial and non-financial summary of the mission, organization, budget, cost, performance, major program investments, and financial position and condition*.

Developing MD&A Standards

The task force, to include pilot agencies, will help to develop the updated MD&A standards from the completed MD&A vision framework. This will also include any terms that need definitions and/or descriptions.

QUESTION 3: Do members have any questions about the MD&A vision framework’s role in the MD&A pilot or development of new MD&A standards?

BOARD QUESTIONS:

1. Do members agree that the draft MD&A vision framework incorporates and consolidates all main points from the MD&A objectives?
2. Do members recommend any edits to the MD&A vision framework?
3. Do members have any questions about the MD&A vision framework's role in the MD&A pilot or development of new MD&A standards?

NEXT STEPS: Staff plans to develop the MD&A pilot.

MEMBER FEEDBACK:

If you have any questions, comments, or wish to schedule a teleconference meeting to discuss, please contact Ms. Gilliam by email at gilliamr@fasab.gov, with a cc to Ms. Valentine at valentinem@fasab.gov, by August 20, 2020.

TAB F

MD&A

APPENDIX A

Project History and Milestones

DEVELOPMENT PHASE JUNE 2019 - CURRENT

RESEARCH PHASE: OCTOBER 2016 – APRIL 2019

AUGUST 2020

DEVELOPMENT PHASE: JUNE 2019 - CURRENT

Reporting Model Phase I & RISK REPORTING MERGED INTO

MD&A 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 2019, 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.

OCTOBER 23-24, 2019

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.

Members will continue identifying additional operating objectives at future meetings.

December 17-18 2019

During the December 17, 2019, meeting, the Board agreed to continue conducting the reporting model phase II (budgetary information), note disclosure, and MD&A projects concurrently. Members determined that more progress could be made using this approach.

February 26-27, 2020

At the February 2020 meeting, members approved the technical plan with one change—to implement a task force earlier to help develop MD&A standards and the pilot. Task force members will be selected in the next six months. If you are interested, please contact Ms. Gilliam at the contact information below.

To support developing updated MD&A standards, members completed identifying the MD&A objectives for operating performance and tentatively agreed on preliminary language.

Staff plans to address the stewardship and systems and control objectives during the April 2020 meeting. Upon identification of all objectives, staff will curate a conceptual framework to help the Board develop updated MD&A standards.

June 24 - 25, 2020

At the June 2020 Board meeting, members completed work on identifying MD&A objectives according to the reporting objectives framework in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. This exercise helped them to determine what information to include in an MD&A proposal.

To complete this exercise, the Board reviewed three objectives at the June 2020 meeting: two stewardship objectives (one for financial position and one for financial condition) and one system and controls objective.

The following catalogs the MD&A objectives the Board has identified as general (G) or for the reporting objectives: budgetary integrity (BI), operating performance (OP), stewardship (ST), and systems and control (S&C).

Code	MD&A Objective	Mtg 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.	Aug 2019
BI-1	MD&A should concisely explain financing resources and the sources and status of budgetary resources.	Aug 2019
BI-2	MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.	Aug 2019
OP-1	MD&A should concisely explain if significant costs contributed to agency performance.	Oct 2019
OP-2	MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant trends cost over multiple years.	Oct 2019
OP-3	MD&A should provide an integrated discussion and analysis of the entity’s mission, organization, budget, cost, and performance, for the entity’s significant major program investments and the entity as a whole, including what types of resources the entity used and what the entity achieved during the reporting period.	Feb 2020
OP-4	MD&A should provide a concise/balanced discussion/summary of significant financial and non-financial operating performance information, including electronic references to legislative performance framework documents, such as GPRAMA reporting, for the entity’s major program investments and the entity as a whole.	Feb 2020
ST-1	MD&A should concisely explain reasons for significant changes in assets, liabilities, costs, and/or revenues from the prior year and any significant trends.	June 2020
ST-2	MD&A should concisely describe planned agency actions to address current and prospective mission-related issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and budgetary resources.	June 2020
S&C-1	MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.	June 2020

<p>S&C NOTE</p>	<p>A number of members recommended that MD&A should also include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material weaknesses. This includes references to other sections that have a more in depth discussion of those items. Members did not have time to agree on the wording. Therefore, staff will include these draft objectives in the MD&A vision framework for discussion at a future meeting.</p>	<p>June 2020</p>
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Next steps are for staff to consolidate these objectives into an MD&A vision framework in preparation for the agency pilot. The pilot will determine how well agencies understand and can produce an updated MD&A according to the MD&A vision framework. The pilot will then help members to develop the proposed standards and determine what terms to define.

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

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