

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

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Please provide your name.

Name: Jeffrey Johnson

Please identify your organization, if applicable.

Organization: Department of State

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

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

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

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We generally agree with the proposed guidance and have a few suggestions.

Under a “balanced” MD&A:

- In paragraph 10, add a statement that significant financial and performance shortfalls should be clearly and candidly disclosed, including an explanation that gives the reader insight into the cause of the shortfall and the planned actions to remedy them.
- We observe that paragraph 11b could be confusing as it is not an example of a balanced statement (it does not identify any negative effects associated with this action, only positive).

Under an “understandable” MD&A:

- In paragraph 25, we recommend that the term “plain language” be briefly defined (e.g., add the text in bold so that it reads: “Management should present MD&A content in plain language **that a member of the public can readily understand.**”).
 - In paragraph 27, both examples (a and b) address design issues to aid understanding. We recommend that the guidance also include an example of writing for understanding. This should include the avoidance of unnecessary jargon, technical language, and acronyms.
 - We recommend that the guidance include a statement mentioning that a well-crafted MD&A involves a careful balance between being concise and being understandable (i.e., while the MD&A is concise, it is not sacrificing the necessary information that will ensure reader understanding).
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QFR 2 The proposed SIG 64.1 provides information about how reporting entities may discuss mission and organization in MD&A.

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

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We generally support the proposed guidance in this section.

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

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

We generally support the proposed guidance in this section.

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

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

We generally support the proposed guidance in this section.

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

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

We generally support the proposed guidance in this section. However, in paragraph 59, we observe that the guidance states “management should explain what significant risks the reporting entity is mitigating.” Of course, there may also be risks or management challenges that are not being mitigated by management, and these items should be included in the MD&A too. We suggest that the guidance be adjusted to ensure that the most serious risks, management and performance challenges are all identified and discussed in the MD&A, regardless of whether management is mitigating it.

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

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

We generally support the proposed guidance in this section. However, we observe that the guidance uses the term “significant weaknesses” in paragraphs 63 and 65. At the same time, in government auditing, the terms “material weaknesses” and “significant deficiencies” are used. The similarity of these terms to “significant weaknesses” in the guidance could be confusing to the reader and we suggest revising the guidance to ensure the language conforms to *Government Auditing Standards*.

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

Paragraph 62 (“SFFAS 64 does not require a systems, controls, and legal compliance section”) could be confusing to the reader. While SFFAS 64 might not require any additional disclosures, there are disclosures that are typically reported in the MD&A (e.g., *Federal Managers’ Financial Integrity Act of 1982*, *Federal Financial Management Improvement Act of 1996*, and *Federal Information Security Modernization Act of 2014*). As written, this distinction is not clear. Perhaps, the paragraph can be re-written to state that SFFAS 64 does not have a required format for reporting its systems, controls, and legal compliances?
