

Memorandum

MD&A

March 31, 2023

To: Members of the Board

From: Robin M. Gilliam, Assistant Director

Thru: Monica R. Valentine, Executive Director

Subject: **MD&A Exposure Draft** (Topic C.1)

INTRODUCTION

Staff presents the Management's Discussions and Analysis (MD&A) draft exposure draft for a pre-ballot. The attached draft includes multiple edits received from members during a preliminary review after the February 2023 meeting.

Prior to the Board's April meeting, please review the attached in preparation for the pre-ballot.

For additional information, questions, or suggestions, please contact us as early as possible at gilliamr@fasab.gov with a cc to Monica Valentine at valentinem@fasab.gov. Staff is also available to meet individually with members to discuss any questions.

NEXT STEPS

Ballot the MD&A exposure draft and send to stakeholders for 90 day comment period.

ATTACHMENTS

1. MD&A Exposure Draft – **clean version**
2. **Track Changes** version from draft MD&A exposure draft sent for preliminary review March 9, 2023.

Clean Version

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESCINDING AND REPLACING SFFAS 15, MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

1
2 The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB),
3 and the Comptroller General of the United States established the Federal Accounting Standards
4 Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for
5 promulgating accounting standards for the United States government. These standards are
6 recognized as generally accepted accounting principles (GAAP) for the federal government.
7

8 Accounting standards are typically formulated initially as a proposal after considering the
9 financial and budgetary information needs of citizens (including the news media, state and local
10 legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives,
11 federal program managers, and other users of federal financial information. FASAB publishes
12 the proposed standards in an exposure draft for public comment. In some cases, FASAB
13 publishes a discussion memorandum, invitation for comment, or preliminary views document on
14 a specific topic before an exposure draft. A public hearing is sometimes held to receive oral
15 comments in addition to written comments. The Board considers comments and decides
16 whether to adopt the proposed standards with or without modification. After review by the three
17 officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal
18 Financial Accounting Standards. The Board follows a similar process for Statements of Federal
19 Financial Accounting Concepts, which guide the Board in developing accounting standards and
20 formulating the framework for federal accounting and reporting.
21

22 Additional background information and other items of interest are available at www.fasab.gov:
23

- 24 • ["Memorandum of Understanding among the Government Accountability Office, the](#)
25 [Department of the Treasury, and the Office of Management and Budget, on Federal](#)
26 [Government Accounting Standards and a Federal Accounting Standards Advisory Board."](#)
 - 27 • ["Mission Statement: Federal Accounting Standards Advisory Board", exposure drafts,](#)
28 [Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters,](#)
29 [and other items of interest are posted on FASAB's website at: www.fasab.gov.](#)
- 30

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ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Management’s Discussion and Analysis: Rescinding and Replacing SFFAS 15, Management’s Discussion and Analysis*. Specific questions for your consideration appear on **page 6**, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by **DUE DATE**.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to respond by email, please contact us at (202) 512-7350. We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

George A. Scott
Chair

WHAT IS THE BOARD PROPOSING?

The Board is proposing to update the guidance for Management's Discussion and Analysis (MD&A). This proposal would provide a comprehensive set of standards to guide management in how to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity's organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable¹ laws and regulations.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

The Board first published conceptual guidance and standards for management to prepare MD&A content in 1999, in Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion, and Analysis*, and in Statement of Federal Financial Accountant Standards (SFFAS) 15, *Management's Discussion and Analysis*.

The Board intended management to refer to both SFFAC 3 and SFFAS 15 to prepare MD&A because together they contained complete guidance pertaining to both form (how to report information) and content (what information to report). However, reporting entities predominantly referred only to SFFAS 15 because concepts (SFFAC 3) are not authoritative.² This resulted in segregating information into sections that often resulted in duplicating content throughout MD&A, and was, therefore, difficult for users to follow and understand.

The Board proposes these standards to provide a principles-based approach that merges and updates relevant content from SFFAC 3 and SFFAS 15 and is consistent with FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls. This proposal will provide more flexibility for reporting MD&A, will reduce preparer burden and redundancy, and will enhance transparency to present an MD&A that is balanced, integrated, concise, and understandable.

¹ Applicable laws may include; Federal Managers Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA).

² See basis for conclusions, paragraphs A1-A4, for complete history.

TABLE OF CONTENTS

Executive Summary	4
Questions for Respondents	6
Proposed Standards	8
SCOPE	8
RESCISSION AND REPLACEMENT OF SFFAS 15.....	8
PURPOSE OF MD&A	9
PRESENTING INFORMATION IN MD&A	9
INFORMATION DISCUSSED AND ANALYZED IN MD&A	10
EFFECTIVE DATE.....	11
Appendix A: Basis for Conclusions	12
PROJECT HISTORY	12
DEVELOPMENT OF PROPOSED MD&A STANDARDS	13
PROPOSED MD&A STANDARDS	14
PRESENTING INFORMATION IN MD&A	15
INFORMATION DISCUSSED AND ANALYZED IN MD&A	17
RESCISSION AND REPLACEMENT OF SFFAS 15.....	21
Appendix B: MD&A objectives.....	22
Appendix C: DRAFT MD&a VISION FRAMEWORK	31
Appendix D: Abbreviations	32

QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available to answer in an on-line survey at [add link](#). Specific instructions for providing your responses to this exposure draft are available once you enter the survey. If you have any issues with the survey, please contact us at fasab@fasab.gov or (202) 512-7350.

All responses are requested by [\[insert date\]](#).

Q1. The Board proposes a comprehensive set of standards to guide management in how to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity’s organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. [Please refer paragraphs 8-13.](#)

Do you agree, partially agree, or disagree that the proposed standards will provide adequate guidance for management to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity’s organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations? Please provide the rationale for your answer.

Q2. The Board believes this proposal will reduce preparer costs and burden over the long-term.

Do you agree, partially agree, or disagree that the proposed standards will reduce preparer cost and burden over the long-term? Please provide the rationale for your answer.

1
2 Q3. The Board explains **how** management should present information in MD&A in
3 *Presenting Information in MD&A*. Please refer to paragraphs 8-11.

4 **Do you agree, partially agree, or disagree that the proposed standards in**
5 **paragraphs 8-11 provide adequate guidance on how management should**
6 **present information in MD&A? Please provide the rationale for your**
7 **answer.**

8
9 Q4. The Board explains **what** information management should include in MD&A in
10 *Information Discussed and Analyzed in MD&A*. Please refer to paragraphs 12-13.

11 **Do you agree, partially agree, or disagree that the proposed standards in**
12 **paragraphs 12-13 provide adequate guidance on what information**
13 **management should include in MD&A? Please provide the rationale for**
14 **your answer.**

15
16 Q5. **Are there any other aspects of this proposal that you wish to provide**
17 **comments on? Please provide the rationale for your answer.**

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. A GPFFR in conformance with federal accounting principles should include a management's discussion and analysis (MD&A) of the financial statements and related information.
3. MD&A is required supplementary information (RSI).³

RESCISSION AND REPLACEMENT OF SFFAS 15

4. This Statement proposes to rescind SFFAS 15, Management's Discussion and Analysis.
5. This Statement proposes to replace SFFAS 15 with the proposed Management's Discussion and Analysis (MD&A) standards in this Statement.⁴

³ See SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information* paragraph 73 for concepts about required supplemental information (RSI).

⁴ The Omnibus Concepts Amendments 202X proposes to rescind SFFAC 3 given that the relevant content from SFFAC 3 has been adapted in this proposal and only another SFFAC can rescind an existing SFFAC. In addition, this Statement does not eliminate or otherwise affect SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

PURPOSE OF MD&A

6. The purpose of MD&A is to increase the understandability and usefulness of a reporting entity's general purpose federal financial report (GPFFR) by summarizing management's insights about its organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. This proposed statement presents guidance in two categories: 1) *Presenting Information in MD&A*, and 2) *Information Discussed and Analyzed in MD&A*.
7. *Presenting Information in MD&A* explains **how** management should present a balanced, integrated, concise, and understandable MD&A. *Information Discussed and Analyzed in MD&A* explains **what** types of information management should include in MD&A.

PRESENTING INFORMATION IN MD&A

8. To achieve a **balanced MD&A**, management should include information about events, conditions, trends, or a combination of the three that had or might have a significant positive or negative effect on the reporting entity's financial position, financial condition, or operating performance.
9. To achieve a **concise MD&A**, management should summarize information that is sufficient to meet the needs of its users by
- a. emphasizing the vital few matters related to the information required in paragraphs 12 and 13;
 - b. summarizing and referring to relevant detailed information from other areas of the GPFFR, and indicating the availability of additional information, such as from other audited documents, or unaudited federal government documents;⁵ and
 - c. limiting the use of boilerplate language by only presenting information that is relevant to the reporting entity's current financial report.

⁵ Management should provide a note that explains when referenced information is unaudited.

1 10. To achieve an **integrated MD&A**, management should combine financial and
2 non-financial information, and qualitative and quantitative information to present
3 a comprehensive and unified discussion and analysis.

4 11. To achieve an **understandable MD&A**, management should present content in
5 plain language, organize information by related content, and as appropriate
6 include charts, tables, graphs, or any combination thereof to enhance the
7 understanding of the MD&A for those who may not have an extensive
8 knowledge of U.S. Government operations or an extensive financial or
9 accounting background.

11 INFORMATION DISCUSSED AND ANALYZED IN MD&A

12
13 12. MD&A should discuss and analyze the following information about the reporting
14 entity:

15 a. the organization and mission;

16 b. the causes of significant changes and trends in

17 i. financial position as explained by the composition or balances of
18 assets, liabilities, net position; costs, revenues, budgetary
19 resources, and financing sources; and

20 ii. financial condition as explained by

21 1. business-type activity, social insurance, long-term fiscal
22 projections; and

23 2. other relevant required supplementary information⁶;

24 c. the key performance⁷ results⁸, and the associated costs;

25 d. the significant opportunities⁹ identified by management to enhance
26 performance results, plans to leverage such opportunities, and the

⁶ GAAP includes reporting of required supplementary information for items such as, heritage assets or federal oil and gas resources yet may change periodically.

⁷ Key "Performance results" refers to both performance accomplishments and performance challenges. Management uses judgement in identifying what performance results are **key** to the reporting entity.

⁸ The Financial Report of the U.S. Government is not required to provide an analysis of consolidated governmentwide performance results but may refer to the availability of performance information in agency financial reports.

⁹ "Significant opportunities" for the purposes of MD&A, is anything that may have a significant positive affect on a reporting entity's ability to achieve its performance results. Management should use judgement in determining significant opportunities.

potential impact on financial and budgetary results of carrying out those plans¹⁰;

- e. the significant risks¹¹ identified by management that have a potentially negative effect on performance results, plans to mitigate such risks, and the potential impact on financial and budgetary results of carrying out those plans.

13. MD&A should provide management's summary assessment of

- a. the effectiveness of the reporting entity's internal controls and financial management systems, and
- b. the reporting entity's compliance with applicable laws¹², regulations, contracts, and grant agreements that are relevant to financial reporting.
- c. Such reporting should address internal control weaknesses, systems deficiencies, and instances of non-compliance that have a significant effect on the reporting entity's financial and performance reporting; and its plans to address them.

EFFECTIVE DATE

14. The requirements of this Statement are effective for reporting periods beginning after **September 30, 202X**. Early implementation is permitted.

¹⁰ Plans are actions the reporting entity expects to execute during the current reporting period (short-term) and into the future (long-term).

¹¹ "Significant risks" for the purposes of MD&A, is the effect of significant uncertainty on a reporting entity's ability to achieve its performance results. Management should use judgement in determining significant risks.

¹² Applicable laws may include; Federal Managers Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA).

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

- A1. **On June 8, 1999**, FASAB published SFFAC 3, *Management's Discussion and Analysis*. Although SFFAC 3 was a concept statement, it included standards-like content¹³ to guide reporting entities on what to report in MD&A, along with concepts to guide the Board on developing standards for MD&A. However, SFFACs are non-authoritative and therefore not required by GAAP. To require MD&A in the GPFFR, the Board needed authoritative guidance in an SFFAS.
- A2. **On August 12, 1999**, FASAB published SFFAS 15, *Management's Discussion and Analysis*, which was merely an outline of SFFAC 3 standard-based content, to require MD&A as part of the GPFFR. The expectation was that preparers would use both SFFAC 3 and SFFAS 15 to prepare the reporting entity's MD&A. However, given that the concept statements are *non-authoritative other accounting information* as noted in the GAAP hierarchy¹⁴, agencies relied primarily on SFFAS 15 to prepare MD&As.
- A3. **During 2017 and 2018**, staff conducted roundtables for the *Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments*

¹³ According to the Handbook *Forward*: ...concepts should be more general than statements and do not contain authoritative requirements for federal agencies. According to the Handbook *Preamble to Statements of Federal Financial Accounting Concepts*, concepts provide guiding principles for the Board to develop accounting standards. Many of the concepts in SFFAC 3 are standards-like because the language is not general and contains authoritative requirements for federal agencies, with wording such as: *MD&A should address; MD&A should inform, and MD&A should concisely explain...*

1 *Improvements* projects¹⁵. Roundtable feedback informed the Board that
2 financial statement users (users) found federal entity MD&As to be dense,
3 duplicative, and complex. Roundtable participants wanted to understand the
4 financial performance in the context of the reporting entity's financial position
5 and condition. The MD&A included dense statistical information repeated
6 from the GPRA-MA¹⁶ reporting that did not provide the financial information
7 about performance that users wanted.

8
9 A4. **In June 2019**, the Board added the MD&A project to its agenda to merge
10 work completed by the *Risk Reporting and Reporting Model-Phase I: MD&A*
11 *and Stewardship Investments Improvements* projects. The goals of the
12 MD&A project are to

- 13
14 a. consolidate standards-like content from SFFAC 3 and standards from
15 SFFAS 15 into one SFFAS for preparing the MD&A;
- 16
17 b. reduce preparer burden by streamlining the MD&A;
- 18
19 c. require information about a reporting entity's financial position and
20 condition for a financial focus instead of a statistical focus based on
21 GPRA-MA reporting; and
- 22
23 d. update guidance to discuss and analyze risk plans and mitigation to
24 explain how the reporting entity will respond to opportunities and
25 uncertainties.

26 27 28 **DEVELOPMENT OF PROPOSED MD&A STANDARDS**

29
30 A5. The Board developed the proposed MD&A standards, by first identifying
31 objectives for what it believes management should report in MD&A.

32
33 A6. The Board identified the MD&A objectives by analyzing the four reporting
34 objectives (1) budgetary integrity, (2) operating performance, (3)
35 stewardship, and (4) systems and controls from SFFAC 1, *Objectives of*
36 *Federal Financial Reporting* and SFFAC 3 for each of the reporting
37 objectives to develop the MD&A objectives. See Appendix B: *MD&A*
38 *Objectives*.

¹⁵ Both the Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments Improvements projects received the same feedback while conducting their own roundtables in 2018.

¹⁶ Government Performance and Results Act of 1993 (GPRA) Modernization Act of 2010 (MA) (GPRA-MA)

- 1 A7. The Board then drafted an **MD&A vision framework**. See Appendix C:
2 *MD&A Draft Vision Framework*.
3
- 4 A8. The Board requested a pilot to test the MD&A objectives and MD&A draft
5 vision framework.
6
- 7 A9. Staff conducted the pilot from January through March 2021 with
8 a. Seventeen pilot agencies that created sample streamlined MD&As based
9 on the MD&A objectives and framework; and
10 b. Sixteen users who each reviewed four sample MD&As to determine if the
11 sample MD&As were streamlined and easy to read and understand.
- 12 A10. In April 2021 Agency pilots and user reviewers recommended that a
13 streamlined MD&A could be accomplished by
14 a. providing a comprehensive connection between performance, non-
15 financial and financial information, and systems information while
16 avoiding a silo effect of putting information in separate sections;
17 b. focusing on key drivers (e.g. COVID-19) that impacted performance
18 goals, significant changes in financial statement lines, and management's
19 decisions during the reporting period;
20 c. providing concise and tangible examples about the magnitude of risks
21 and current and planned actions to address them;
22 d. including high-level performance goals that support the current leadership
23 agenda instead of low-level metrics;
24 e. including well labeled trend graphs that integrate performance, financial,
25 and budgetary resource information, and written summaries; and
26 f. including more hyperlinks to detailed performance data and other
27 important documents.
- 28 A11. The Board determined the MD&A pilot was successful and that the
29 objectives and MD&A draft vision framework were sufficient for developing
30 the MD&A proposed standards.
31
32

33 PROPOSED MD&A STANDARDS

- 34 A12. The Board identified two categories: 1) *Presenting Information in MD&A*, and
35 2) *Information Discussed and Analyzed in MD&A* to facilitate preparation of
36 MD&A that reflects the reporting and project objectives presented in this
37 proposal.

1 A13. *Presenting Information in MD&A* explains how management should present
2 a balanced, integrated, concise, and understandable MD&A. *Information*
3 *Discussed and Analyzed* in MD&A identifies what information management
4 should present in MD&A to explain how and why the organization's mission,
5 opportunities and risks, and systems, internal controls, and compliance
6 significantly contributed to the improvement or deterioration of the reporting
7 entity's financial position, financial condition, and key performance results.

9 PRESENTING INFORMATION IN MD&A

10
11 A14. The Board believes that a **balanced** MD&A explains both positive and
12 negative effects to help users understand the important reasons for changes
13 to the reporting entity's financial position, financial condition, and operating
14 performance.

- 15
- 16 a. A balanced MD&A also includes trend information over multiple prior
17 reporting periods to help users understand possible positive or negative
18 future effects on amounts reported in the financial statements or
19 supplementary information.
 - 20
 - 21 b. For example, management may discuss and analyze performance results
22 during the current reporting period, or over multiple reporting periods that
23 had a significant (1) positive effect (e.g., accomplishments that resulted in
24 reduced costs); or (2) negative effect (e.g., challenges that resulted in
25 increased costs) on financial position and financial condition.
 - 26

1
2 A15. The Board believes that to achieve a **concise** MD&A management
3 emphasizes the vital few matters for information required in paragraphs 12
4 and 13, summarizes detailed information found outside of MD&A with
5 references to that information, and limits boilerplate language and only
6 presenting information current to the reporting entity.

7
8 a. For example:

- 9
10 i. MD&A summarizes information necessary to understand the
11 reason(s) for significant changes in net cost.
12
13 ii. MD&A provides a brief discussion about the reporting entity's
14 operating performance with reference to the additional detailed
15 information found within the GPFFR or in another Federal
16 government document.
17

18 A16. The Board believes an **integrated** MD&A incorporates quantitative,
19 qualitative, financial, and non-financial information across various elements.
20 For example, MD&A includes the interrelationship of budgetary, financial, and
21 operating performance results for each "major" program, as defined by the
22 reporting entity's Statement of Net Cost, .
23

24 A17. The Board's intent is that an MD&A is **understandable** to any user who may
25 not have an extensive knowledge of U.S. Government operations or an
26 extensive financial or accounting background.

- 27 a. MD&A is understandable when written in plain language to explain
28 management's insights about its financial position, financial condition,
29 operating performance, opportunities, risks, and systems, internal
30 controls, and compliance.
31
32 b. To achieve an understandable MD&A, management has the flexibility to
33 combine different methods of presenting information that appeal to a
34 variety of users. For example, an understandable MD&A may need to
35 include organizational tools, such as headers, sub-headers, bullet-points,
36 or crosswalks to financial reports; and visual aids, such as charts, tables,
37 or graphs to help explain quantitative information.
38
39

1 INFORMATION DISCUSSED AND ANALYZED IN MD&A

2 A18. The Board's intent is for MD&A to provide a brief description of the reporting
3 entity's organization and mission **to explain** key organizational components,
4 key results each expected to achieve, and the funding needed during the
5 reporting period to achieve those results.

6 a. Management has the flexibility to determine how much information to
7 include about the mission(s) and organizational structure in relation to the
8 size and complexity of the reporting entity.

9 b. For example, a large reporting entity could briefly summarize the
10 reporting entity as a whole as well as each significant component/agency
11 entity, while a small reporting entity could focus on the entity as a whole.

12
13 A19. The Board's intent is for MD&A to explain what caused significant changes in
14 a reporting entity's **financial position and condition**.

15 a. Financial position is typically the account status of an entity's assets,
16 liabilities, and equity positions as reflected on its financial statement.
17 However, for the MD&A, the Board believes that users will better
18 understand the reporting entity's financial position through
19 management's explanations about significant changes in the
20 composition or the balances of assets, liabilities, net position; as well as
21 costs, revenues, budgetary resources, and financing sources. This
22 would better address users' interest in the use of the reporting entity's
23 budget and other revenue sources to support the accomplishment of its
24 mission(s).

25
26 b. Appropriate examples include language such as:

27
28 i. "Support of pandemic-related relief efforts led to a significant
29 decrease of stockpile materials of vaccines by \$\$\$" would be
30 consistent with the Board's intent, where as "inventory decreased
31 because of a decrease in stockpile materials" would not.

32
33 ii. "Disaster recovery efforts from natural disasters in X area of the
34 country during 202X significantly increased the cost of X by \$\$\$"
35 would be consistent with the Board's intent, where as "an unexpected
36 increase in costs deteriorated the financial position" would not.

c. Financial condition is broader and more forward-looking than financial position.¹⁷ The Board believes that users will best understand the financial condition of reporting entities through management's explanation about significant changes in business-type activity, social insurance, long-term projections, and other relevant requirement supplementary information.

A20. The Board believes that MD&A explains what **performance results** are key to the reporting entity and the associated cost.

- a. MD&A focuses on what it costs the agency to pursue or to accomplish key performance results, as well as whether the accomplishment of key performance results resulted in cost savings for the agency.
- b. For example, MD&A explains how key performance accomplishments and challenges affected budgetary or financing resources during the reporting period.
- c. However, the reporting of consolidated governmentwide key performance results is not required in the MD&A of the Financial Report of the U.S. Government based on the following:

- i. Paragraph 6 of SFFAC 4, which states: *the Financial Report of the U.S. Government [CFR] is a general purpose report that is aggregated from agency reports and tells users where to find information in other formats both aggregated and disaggregated formats, such as individual agency reports, agency websites, or the President's Budget.*
- ii. The *Appendix on Reporting Entities* in the Financial Report of the U.S. Government which provides references to websites where users can review a reporting entity's MD&A discussion of key performance results and challenges.

A21. The Board's intent is for MD&A to explain significant **opportunities** the reporting entity is managing in relation to performance accomplishments and challenges. For example, what is the reporting entity implementing or what does it plan to implement to leverage opportunities that may enhance key performance or financial results?

A22. The Board's intent is for MD&A to explain significant **risks** the reporting entity is managing in relation to performance accomplishments and challenges. For example, what is the reporting entity implementing or what does it plan to

¹⁷ SFFAC 1, paragraph 180.

1 implement to address a significant risk that may have a negative effect on
2 key performance or financial results?

3
4 **A23. Systems, Internal Controls, and Compliance**

- 5 a. The Board believes that MD&A provides an assessment of the reliability
6 of the reporting entity's financial information by explaining significant
7 weaknesses in the financial management system, related systems,
8 internal controls, or non-compliance with applicable laws.
- 9 b. MD&A should explain whether the reporting entity executed and recorded
10 transactions in accordance with budgetary and financial laws and Federal
11 accounting standards to prepare the agency financial report.

1
2
3 **A24. Stewardship Investments**

- 4 a. On June 11, 1996, the Board published SFFAS 8, *Supplementary*
5 *Stewardship Reporting* that included a requirement to report "required
6 supplemental stewardship information" (RSSI).
- 7 b. On September 27, 2019, the Board published SFFAS 57, *Omnibus*
8 *Amendments 2019*, which rescinded the remaining RSSI requirements of
9 SFFAS 8¹⁸, eliminating the requirement for reporting RSSI.
- 10 c. In the SFFAS 57 basis for conclusions, paragraphs A7 – A10, the Board
11 discussed the comments from the 11 respondents. The majority of those
12 responders agreed with eliminating RSSI because users did not rely upon
13 that information. The minority of respondents who wanted to continue
14 including RSSI in a separate category believed that distinguishing
15 stewardship information informed users on the extent of investments that
16 provided long-term benefits for the nation.
- 17 d. SFFAS 57 basis for conclusions, paragraph A11¹⁹ indicated that the
18 Board would also consider whether to report stewardship investments in
19 MD&A.
- 20 e. This project considered the SFFAS 57 responses by reviewing agency
21 financial reports. The Board found that practice indicates that most
22 reporting entities have concluded that information about stewardship
23 investment is not significant enough to warrant inclusion in the MD&A.
24 Therefore, the Board chose not to add the requirement that reporting
25 entities should include stewardship investments in MD&A.
- 26
27 f. This decision does not preclude preparers from reporting stewardship
28 investment information in MD&A if management believes this information
29 is relevant or significant to explaining the reporting entity's financial
30 position or condition.
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¹⁸ SFFAS 57, paragraph 2

¹⁹ SFFAS 57, basis for conclusions, paragraph A11.

1 RESCISSION AND REPLACEMENT OF SFFAS 15

2
3 A25. The Board is proposing to rescind SFFAS 15 because all relevant standards
4 have been adapted into these proposed MD&A standards.

5
6 A26. The Board believes that this proposal has adapted all relevant standards-like
7 content from SFFAC 3. Therefore, *Omnibus Concepts Amendments 202X* will
8 propose to rescind SFFAC 3

9
10 A27. The Board does not intend for this proposal to affect other statements that
11 require information in MD&A, such as, SFFAS 37, *Social Insurance:*
12 *Additional Requirements for Management's Discussion and Analysis and*
13 *Basic Financial Statements*. The Board believes including the SFFAS 37
14 MD&A requirements in this proposal would cause duplication of information
15 already required in MD&A.

APPENDIX B: MD&A OBJECTIVES

The Board developed the proposed MD&A standards, by first identifying objectives for what it believes management should report in MD&A. The Board identified eleven MD&A objectives by analyzing the following concepts for the four reporting objectives (1) budgetary integrity, (2) operating performance, (3) stewardship, and (4) systems, controls, and compliance found in SFFAC 1, *Objectives of Federal Financial Reporting*, and SFFAC 3.

The first objective was general and did not relate to any specific reporting objective.

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.

REPORTING BUDGET INTEGRITY IN MD&A

After analysis of the below budget integrity concepts found in SFFAC 1 and SFFAC 3, the Board agreed on these objectives for MD&A.

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

Budget Integrity Reporting Objective Concepts from SFFAC 1	Budget Integrity Reporting Objective Concepts from SFFAC 3
<p>Pg. 6, paragraph 13: 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 how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization, the status of budgetary resources, and 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.</p> <p>Background and Rationale</p> <p>Pg. 5, paragraph 11: Questions this objective should</p>	<p>Pg. 13, paragraph 28: MD&A should concisely explain how budgetary resources have been obtained and used, instances in which their acquisition and use were not in accordance with legal authorization, the status of budgetary resources, and how information on the use of budgetary resources relates to information on the cost of program operations.</p> <p>MD&A should explain when major support for cost of a program or activity is provided outside the reporting entity's budget and when the entity's budget supports a program primarily reported by another entity.</p> <p>The discussion should describe major financing arrangements, guarantees, and lines of credit, including those not recognized in the basic financial statements.</p> <p>Pg. 14, paragraph 29: MD&A should explain</p>

Budget Integrity Reporting Objective Concepts from SFFAC 1	Budget Integrity Reporting Objective Concepts from SFFAC 3
<p>address: What legal authority was provided for financing government activities and for spending the monies?</p> <p>Were the financing and spending in accordance with these authorities?</p> <p>Needs of Users of Federal Financial Reports</p> <p>Pg. 23, paragraph 89: All user groups need information about the budget... for assurance that their elected and appointed representatives have fulfilled their most basic fiduciary responsibility...</p> <p>Pg. 23, paragraph 91: ...They [users] need periodic information about the status of budgetary resources, that is, the extent to which the resources have been used or remain available.</p> <p>They also want to know whether budgetary resources are available to be used for other purposes through reprogramming.</p> <p>Pg. 27, between paragraphs 115 and 116:</p> <p>Federal financial reporting should provide information that helps the reader to determine:</p> <p>Pg. 27, paragraph 116: Sub-Objective 1A. How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.</p> <p>Pg. 28, paragraph 118: Sub-Objective 1B. The status of budgetary resources.</p>	<p>major changes during the period to the budget originally approved, major failures to comply with finance-related laws, and other matters management believes necessary. These could include: unfunded liabilities that may require appropriations; assets that could be sold to augment future budgetary resources; amounts of payments that have not been matched with obligations; anticipated increases in the cost to complete long-term projects in progress that may require additional obligations or appropriations.</p>

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2 REPORTING OPERATING PERFORMANCE IN MD&A

3 After analysis of the below operating performance concepts found in SFFAC

4 1 and SFFAC 3, the Board agreed on these objectives for MD&A.

5 4. MD&A should concisely explain if significant costs contributed to agency
6 performance.

7 5. MD&A should concisely explain reasons for significant changes in net cost
8 from the prior year and any significant cost trends over multiple years.

- 1 6. MD&A should provide an integrated discussion and analysis of the entity's
2 mission, organization, budget, cost, and performance, for the entity's
3 significant major program investments and the entity as a whole, including
4 what types of resources the entity used and what the entity achieved during
5 the reporting period.
- 6 7. MD&A should provide a concise/balanced discussion/summary of significant
7 financial and non-financial operating performance information, including
8 electronic references to legislative performance framework documents, such
9 as GPRAMA reporting, for the entity's major program investments and the
10 entity as a whole.

Operating Performance Reporting Objective Concepts from SFFAC 1	Operating Performance Reporting Objective Concepts from SFFAC 3
<p>Page 6, par. 14: 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</p> <p>Sub-Objective 2A; Page 29, par. 126: The costs of providing specific programs and activities and the composition of, and changes in, these costs.</p> <p>SFFAC 1, Sub-Objective 2B;</p> <p>Page 29, par 128: The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.</p>	<p>Page 18, par. 43: MD&A should objectively discuss the entity's program results and indicate the extent to which its programs are achieving their intended objectives.</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>Information about effectiveness is often combined with cost information to help assess "cost effectiveness."</p> <p>SFFAC 3, Page 18, par. 44: The entity's financial performance should be summarized to provide significant indicators of its financial operations for the reporting period.</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 financial and nonfinancial performance relevant to the program or other reporting entity.</u></p> <p>SFFAC 3, Page 18, par. 45: ...The summary discussion of performance in MD&A should: discuss the strategies and resources the agency uses to achieve its performance goals...</p> <p>SFFAC 3, Page 19, par. 47: To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what they plan to do to improve program performance.</p> <p>...Explanatory information helps report users understand reported indicators, assess the reporting entity's performance, and evaluate the significance of</p>

Operating Performance Reporting Objective Concepts from SFFAC 1	Operating Performance Reporting Objective Concepts from SFFAC 3
	<p>underlying factors that may have affected the reported performance.</p> <p>SFFAC 3, Page 19, par. 49: Explanatory information may include, for example, information about factors substantially outside the entity's control, as well as information about factors over which the entity has significant control.</p>

1

2 REPORTING STEWARDSHIP IN MD&A

3 After analysis of the below stewardship concepts found in SFFAC 1 and
4 SFFAC 3, the Board agreed on these objectives for MD&A.

5 8. MD&A should concisely explain reasons for significant changes in assets,
6 liabilities, costs, and/or revenues from the prior year and any significant
7 trends.

8 9. MD&A should concisely describe planned agency actions to address current
9 and prospective mission-related issues, challenges, and/or risks that could
10 significantly affect assets, liabilities, costs, revenues, and budgetary
11 resources.

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>SFFAC 1, Objectives of Federal Financial Reporting</p> <p>Pg. 7, paragraph 15: 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 <u>financial conditions have changed and may change in the future</u>.</p> <p>Pg. 7, paragraph 16: Federal financial reporting should provide information that helps the reader to determine whether the government's financial position improved or deteriorated over the period.</p> <p>future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and government operations have contributed to the nation's current and future well-being.</p> <p>SFFAC 1, Background and Rationale Pg. 5, paragraph 11: Questions this objective should</p>	<p>SFFAC 3, Background</p> <p>Pg. 9, paragraph 14: Regarding the financial statements, MD&A should answer questions such as the following, to the extent that they are relevant and important for the entity: what is the entity's financial position? What is its financial condition?⁵ How did this Come about?</p> <p>What were the significant variations: from prior years? from the budget?⁶ from performance plans, long-term plans, or other relevant plans in addition to the budget?</p> <p>What is the potential effect of these factors, of changed circumstances, and of expected future trends? In other words, to the extent that it is feasible to project the effects of these factors, will future financial position, condition, and results, as reflected in future financial statements, probably be different from this year's and, if yes, why? (Any such discussion should acknowledge that the future is unpredictable and will be influenced</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>address: Did the government's financial condition improve or deteriorate? What provision was made for the future?</p> <p>SFFAC 1, <i>The Needs of Users of Federal Financial Reports</i></p> <p>Pg. 24, paragraph 99: Citizens, Congress, executives, and program managers need information to assess the <u>effect of the government's activities on its financial condition</u> and that of the nation.</p> <p>Information is needed about the financial outlook for both the short and the long term. <i>[Staff Notes: forward looking]</i></p> <p>Pg. 24, paragraph 100: Information is needed on the government's exposure and risks associated with deposit insurance, pension insurance, and flood insurance <i>[Staff Notes: Addressed in SFFAS 51]</i>.</p> <p>People need to know about <u>likely future expenditures</u> for [example] cleaning up nuclear weapons sites and military bases.</p> <p>They want information that will help them assess the likelihood and amount of future claims that might arise from government-sponsored enterprises <i>[Staff Notes: risks identified and profiled]</i>.</p> <p>Pg. 24, paragraph 102: Users also need trend information on spending on investments in physical and human capital versus spending on consumption.</p> <p>SFFAC1, <i>Stewardship; Objective 3</i></p> <p>Pg. 31, 135: This objective is based on the federal government's responsibility for the general welfare of the nation in perpetuity.</p> <p>It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions...</p> <p>Pg. 31, between paragraphs 135 and 136:</p> <p>Federal financial reporting should provide information that helps the reader to determine:</p> <p>Pg. 31, paragraph 136: Sub-Objective 3A. Whether the government's financial position improved or deteriorated over the period.</p> <p>Pg. 31, paragraph 137: Assessing whether the government's financial position improved or deteriorated over the period is important not only</p>	<p>by factors outside the reporting entity's control, including actions by Congress.)</p> <p>⁵The traditional concepts of "financial position" and "financial condition" are typically applicable to revolving funds, Government corporations, and other reporting entities that are intended to be self-financing. The concepts may be less relevant, or may require some qualification or modification, for other kinds of Federal reporting entities.</p> <p>⁶Management should use its judgment to decide what variances are relevant for MD&A. It will not always be essential or appropriate to discuss all variances.</p> <p>SFFAC 3, <i>DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS</i></p> <p>Pg. 13, paragraph 26: <u>Financial Results, Position and Condition</u>—MD&A should help those who read it to understand the entity's financial results and financial position and the entity's effect on the financial position and condition of the Government.</p> <p>It should give readers the benefit of management's understanding of the significance and potential effect from both a short- and a long-term perspective of: the variations discussed in paragraph 14 in terms of major changes in types or amounts of assets, liabilities, costs, revenues, obligations and outlays;</p> <p>particular balances and amounts shown in the basic financial statements, including the notes, such as those dealing with funds from dedicated collections, if relevant to important financial management issues and concerns; and the entity's required supplementary stewardship information (because RSSI describes economic conditions that cannot be expressed in the basic financial statements).</p> <p>Pg. 13, paragraph 27: Only those variations, balances and amounts, and stewardship matters of potential interest to readers who are not part of agency management should be discussed.</p> <p>Not all changes that are material to the GPFFR are sufficiently important to be included in MD&A. A line-by- line analysis of the financial</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>because it has financial implications but also because it has social and political implications.</p> <p>This is because <u>analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits.</u></p> <p>Pg. 31, paragraph 138: ... help to explain the issuance of new debt in relation to expenditures for activities with current benefits versus expenditures for investment-type activities that yield future benefits. <i>[Staff Notes: forward looking time horizons]</i></p> <p>Pg. 31, paragraph 139: sub-objective 3b. <u>Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.</u></p> <p>Pg. 32, paragraph 140: Information about the results of past government operations is useful in assessing the stewardship exercised by the government.</p> <p>Users of financial reports also want help in assessing the likelihood that the government will continue to provide the current level of benefits and services to constituent groups, such as farmers, retirees, and the poor.</p> <p>Pg. 32, paragraph 141: Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible. <i>[Staff Notes: risks that have a significant financial impact]</i></p> <p>Pg. 32, paragraph 143: sub-objective 3c. <u>Whether government operations have contributed to the nation's current and future well-being.</u></p> <p>Pg. 32, paragraph 144: Objective 3, sub-objective 3C, imply a concern with "financial condition," as well as "financial position."</p> <p>Financial condition is a broader and more forward-looking concept than that of financial position.</p> <p>Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself.</p> <p>For example, reports intended to help meet this objective might address users' needs for information about investments in (or expenditures for) research</p>	<p>statements is not generally appropriate.</p> <p>Instead, MD&A should summarize the most important items, explain the relevant causes and effects, and place them in context.</p> <p>Pg. 14, paragraph 31: <u>Current Demands, Risks, Uncertainties, Events, Conditions, and Trends</u></p> <p>MD&A should describe important existing, currently-known demands, risks, uncertainties, events, conditions and trends--both favorable and unfavorable--that affect The amounts reported in the financial statements and supplementary information.</p> <p>Pg. 14, paragraph 32: <u>Future Effects of Current Demands, Risks, Uncertainties, Events, Conditions and Trends</u></p> <p>The discussion of these current factors should go beyond a mere description of existing conditions, such as demographic characteristics, claims, deferred maintenance, commitments¹² undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors.</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>and development, military readiness, and education; changes in the service potential of infrastructure assets; spending for consumption relative to investments; opportunities for growth-stimulating activities; and the likelihood of future inflation.</p> <p>Pg. 32, paragraph 145: Indicators of financial <u>position</u>, measured on an accrual basis, are the starting point for reporting on financial <u>condition</u> ... Reports...might disclose, among other things, the contribution that the government is making to national wealth by financing assets that are not federally owned, such as research and development, education and training, and state-owned infrastructure.</p> <p>Information on trends in total national wealth and income is also important.</p>	

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2 REPORTING SYSTEMS, CONTROLS, AND COMPLIANCE IN MD&A

3 After analysis of the below systems, controls and legal compliance concepts
4 found in SFFAC 1 and SFFAC 3, the Board agreed on these objectives for
5 MD&A.

6 10. MD&A should concisely describe the conditions of data, systems, and
7 controls that affect the ability to produce reliable financial information.

8 11. MD&A should include a summary discussion about ongoing and planned
9 actions to address non-compliance and control weaknesses that may be
10 causing material weaknesses. This includes references to other sections that
11 have a more in depth discussion of those items.

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
<p>Pg. 7, paragraph 17: Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purpose authorized, and are recorded in accordance with federal accounting standards; assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.</p> <p><i>Pg. 5, paragraph 11: Questions this objective should</i></p>	<p>Pg. 10, paragraph 15: Regarding systems and controls, MD&A should tell the reader whether internal accounting and administrative controls (some authorities prefer the term “management controls”) are adequate to ensure that:</p> <p>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; assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and performance measurement information is adequately supported.</p>

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
<p>address: Does the government have cost-effective systems and controls to safeguard its assets? Is it able to detect likely problems? Is it correcting deficiencies when detected?</p> <p><i>The Needs of Users of Federal Financial Reports</i></p> <p>Pg. 25, paragraph 103: Users at all levels need information on internal controls and the adequacy of financial management systems.</p> <p>Citizens want assurances that systems and controls are in place to protect the resources [taxes] they supply to the government.</p> <p>They want to know that operating procedures and processes provide reasonable assurance that those resources are used economically and efficiently for the purposes intended.</p> <p>Congress, executives, and program managers need to demonstrate to those to whom they are accountable that they have, in fact, protected those resources and used them well.</p> <p>Users want to know, for example, that agency heads have determined that internal controls are adequate, that basic financial statements are auditable, and that high-risk areas have been identified and addressed.</p> <p>Pg. 33, paragraph 149: Sound controls over internal processes are essential both to safeguard assets and to ensure economy, efficiency, and effectiveness in many governmental programs.</p> <p>Pg. 33, paragraph 150: Information relevant to this objective helps financial report users to determine whether the entity has established reasonable, cost-effective programs to safeguard assets, prevent and detect waste and abuse, and reduce error rates. An example of information that would address this objective is management's assertion about the effectiveness of the internal accounting and operational control system.</p>	<p>Pg. 10, paragraph 16: Reporting information that helps people assess the condition of the entity's management systems and of the relevant internal controls is an important objective of Federal financial reporting.</p> <p>The relevant internal controls for this purpose are those that support reporting on financial and operating performance and reporting on compliance with applicable laws.</p> <p>Pg. 10, paragraph 17: An entity's ability to prepare auditable financial statements and other reliable reports for management from the entity's books and records is a positive signal about the finance-related systems and controls of that entity.</p> <p>By themselves, however, the financial statements of a governmental entity do not provide adequate information about the status of the entity's management systems and internal controls that support reporting on financial and operating performance and reporting on compliance with applicable laws.</p> <p>For these reasons, the GPFFR of a Federal reporting entity should include information about systems, internal controls, and legal compliance, in addition to the basic financial statements.</p> <p>This information—like the information on performance—is presented in a discrete section of the GPFFR; alternatively it may be incorporated in the GPFFR by reference to separate reports such as those required by the Integrity Act.</p> <p>MD&A should therefore address the most important facets of this information on systems, controls and legal compliance, as well as the financial statements, supplementary information, and performance information.</p> <p>SFFAC 3, <i>Discussion and Analysis of Systems, Controls and Legal Compliance</i></p> <p>Pg. 17, paragraph 41: ... Where relevant, management should describe the methods used to limit, detect, and recover improper payments; to assure that grantees and other nonfederal recipients of Federal funds use the funds as</p>

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
	intended; and to assure that Federal and nonfederal entities comply with finance- related laws and regulations. MD&A should include a concise description of any major problems in these areas and of the corrective action taken or planned.

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APPENDIX C: DRAFT MD&A VISION FRAMEWORK

The Board drafted the following **MD&A vision framework** based on the MD&A objectives discussed in Appendix B.

- MD&A should summarize information about the financial position and condition of the reporting entity by discussing the entity's mission, organization, and key financial and performance results to inform users of its financial health and sustainability of major programs.
- Therefore, MD&A should be an objective, concise, and easily readable summary analysis of
 - the essential few matters causing significant changes to the entity's (1) financial statement amounts during the current reporting period and (2) financial, budgetary and key performance trends over past reporting periods;
 - the current and planned actions that will address the essential few opportunities, challenges, and risks that could significantly affect financial statement amounts and key performance results in the future; and
 - the essential few conditions related to systems and controls that could affect the entity's ability to produce reliable financial information.
- MD&A may also include references to websites or other areas of the agency financial report that provide additional information when applicable.

APPENDIX D: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
MD&A	Management's Discussion and Analysis
OMB	Office of Management and Budget
RSI	Required Supplemental Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

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2
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TOPIC C.1 - MD&A

March 31, 2023

Attachment 2

Track Change Version

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESCINDING AND REPLACING SFFAS 15, MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

1
2 The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB),
3 and the Comptroller General of the United States established the Federal Accounting Standards
4 Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for
5 promulgating accounting standards for the United States government. These standards are
6 recognized as generally accepted accounting principles (GAAP) for the federal government.
7

8 Accounting standards are typically formulated initially as a proposal after considering the
9 financial and budgetary information needs of citizens (including the news media, state and local
10 legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives,
11 federal program managers, and other users of federal financial information. FASAB publishes
12 the proposed standards in an exposure draft for public comment. In some cases, FASAB
13 publishes a discussion memorandum, invitation for comment, or preliminary views document on
14 a specific topic before an exposure draft. A public hearing is sometimes held to receive oral
15 comments in addition to written comments. The Board considers comments and decides
16 whether to adopt the proposed standards with or without modification. After review by the three
17 officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal
18 Financial Accounting Standards. The Board follows a similar process for Statements of Federal
19 Financial Accounting Concepts, which guide the Board in developing accounting standards and
20 formulating the framework for federal accounting and reporting.
21

22 Additional background information and other items of interest are available at www.fasab.gov:
23

- 24 • ["Memorandum of Understanding among the Government Accountability Office, the](#)
25 [Department of the Treasury, and the Office of Management and Budget, on Federal](#)
26 [Government Accounting Standards and a Federal Accounting Standards Advisory Board."](#)
- 27 • ["Mission Statement: Federal Accounting Standards Advisory Board", exposure drafts,](#)
28 [Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters,](#)
29 [and other items of interest are posted on FASAB's website at: www.fasab.gov.](#)

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ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Management’s Discussion and Analysis: Rescinding and Replacing SFFAS 15, Management’s Discussion and Analysis*. Specific questions for your consideration appear on page 6, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by DUE DATE.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB’s website and will be included in the project’s public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to respond by email, please contact us at (202) 512-7350. We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

The Board’s rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

George A. Scott
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing to update the guidance for Management's Discussion and Analysis (MD&A). This proposal would provide a comprehensive set of standards to guide management in how to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity's organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable¹ laws and regulations.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

The Board first published conceptual guidance and standards for management to prepare MD&A content in 1999, in Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion, and Analysis*, and in Statement of Federal Financial Accountant Standards (SFFAS) 15, *Management's Discussion and Analysis*.

The Board intended management to refer to both SFFAC 3 and SFFAS 15 to prepare MD&A because together they contained complete guidance pertaining to both form (how to report information) and content (what information to report). However, reporting entities predominantly referred only to SFFAS 15 because concepts (SFFAC 3) are not authoritative.² This resulted in segregating information into sections that often resulted in duplicating content throughout MD&A, and was, therefore, difficult for users to follow and understand.

The Board proposes these standards to provide a principles-based approach that merges and updates relevant content from SFFAC 3 and SFFAS 15 and is consistent with FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls. This proposal will provide more flexibility for reporting MD&A, will reduce preparer burden and redundancy, and will enhance transparency to present an MD&A that is balanced, integrated, concise, and understandable.

¹ Applicable laws may include; Federal Managers Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA).

² See basis for conclusions, paragraphs A1-A4, for complete history.

TABLE OF CONTENTS

Executive Summary	<u>44</u>
Questions for Respondents	<u>66</u>
Proposed Standards	<u>88</u>
SCOPE	<u>88</u>
RESCISSION AND REPLACEMENT OF SFFAS 15	<u>88</u>
PURPOSE OF MD&A	<u>99</u>
PRESENTING INFORMATION IN MD&A	<u>99</u>
INFORMATION DISCUSSED AND ANALYZED IN MD&A	<u>1040</u>
EFFECTIVE DATE	<u>1141</u>
Appendix A: Basis for Conclusions	<u>1212</u>
PROJECT HISTORY	<u>1242</u>
DEVELOPMENT OF PROPOSED MD&A STANDARDS	<u>1343</u>
PROPOSED MD&A STANDARDS	<u>1444</u>
PRESENTING INFORMATION IN MD&A	<u>1545</u>
INFORMATION DISCUSSED AND ANALYZED IN MD&A	<u>1747</u>
RESCISSION AND REPLACEMENT OF SFFAS 15	<u>2020</u>
Appendix B: MD&A objectives	<u>2222</u>
Appendix C: DRAFT MD&a VISION FRAMEWORK	<u>3131</u>
Appendix D: Abbreviations	<u>3232</u>

QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available to answer in an on-line survey at [add link](#). Specific instructions for providing your responses to this exposure draft are available once you enter the survey. If you have any issues with the survey, please contact us at fasab@fasab.gov or (202) 512-7350.

All responses are requested by [\[insert date\]](#).

Q1. The Board proposes a comprehensive set of standards to guide management in how to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity’s organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. Please refer paragraphs 8-13.

Do you agree, partially agree, or disagree that the proposed standards will provide adequate guidance for management to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity’s organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations? Please provide the rationale for your answer.

Q2. The Board believes this proposal will reduce preparer costs and burden over the long-term.

Do you agree, partially agree, or disagree that the proposed standards will reduce preparer cost and burden over the long-term? Please provide the rationale for your answer.

Commented [GR1]: Updated to refer to link to new Survey vehicle for collecting comments.

Commented [GR2]: Updated questions to make replies more survey friendly.

- 1
- 2 Q3. The Board explains **how** management should present information in MD&A in
- 3 *Presenting Information in MD&A*. Please refer to paragraphs 8-11.
- 4 **Do you agree, partially agree, or disagree that the proposed standards in**
- 5 **paragraphs 8-11 provide adequate guidance on how management should**
- 6 **present information in MD&A? Please provide the rationale for your**
- 7 **answer.**
- 8
- 9 Q4. The Board explains **what** information management should include in MD&A in
- 10 *Information Discussed and Analyzed in MD&A*. Please refer to paragraphs 12-13.
- 11 **Do you agree, partially agree, or disagree that the proposed standards in**
- 12 **paragraphs 12-13 provide adequate guidance on what information**
- 13 **management should include in MD&A? Please provide the rationale for**
- 14 **your answer.**
- 15
- 16 Q5. **Are there any other aspects of this proposal that you wish to provide**
- 17 **comments on? Please provide the rationale for your answer.**

PROPOSED STANDARDS

Commented [GR3]: Track changes from preliminary member reviews [draft MD&A exposure draft sent March 9, 2023]

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. A GPFFR in conformance with federal accounting principles should include a management's discussion and analysis (MD&A) of the financial statements and related information.
3. MD&A is required supplementary information (RSI).³

RESCISSION AND REPLACEMENT OF SFFAS 15

4. This Statement proposes to rescind SFFAS 15, Management's Discussion and Analysis.
5. This Statement proposes to replace SFFAS 15 with the proposed Management's Discussion and Analysis (MD&A) standards in this Statement.⁴

³ See SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information* paragraph 73 for concepts about required supplemental information (RSI).

⁴ The Omnibus Concepts Amendments 202X proposes to rescind SFFAC 3 given that the relevant content from SFFAC 3 has been adapted in this proposal and only another SFFAC can rescind an existing SFFAC. In addition, this Statement does not eliminate or otherwise affect SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

PURPOSE OF MD&A

6. The purpose of MD&A is to increase the understandability and usefulness of a reporting entity's general purpose federal financial report (GPFFR) by summarizing management's insights about its organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. This proposed statement presents guidance in two categories: 1) *Presenting Information in MD&A*, and 2) *Information Discussed and Analyzed in MD&A*.
7. *Presenting Information in MD&A* explains **how** management should present a balanced, integrated, concise, and understandable MD&A. *Information Discussed and Analyzed in MD&A* explains **what** types of information management should include in MD&A.

PRESENTING INFORMATION IN MD&A

8. To achieve a **balanced MD&A**, management should include information about events, conditions, trends, or a combination of the three that had or might have a significant positive or negative effect on the reporting entity's financial position, financial condition, or operating performance.
9. To achieve a **concise MD&A**, management should summarize information that is sufficient to meet the needs of its users by
- a. emphasizing the vital few matters related to the information required in **paragraphs 12 and 13**;
 - b. summarizing and referring to relevant detailed information from other areas of the GPFFR, and indicating the availability of additional information, such as from other audited documents, or unaudited federal government documents;⁵ and
 - c. limiting the use of boilerplate language by only presenting information that is relevant to the reporting entity's current financial report.

⁵ Management should provide a note that explains when referenced information is unaudited.

1 10. To achieve an **integrated MD&A**, management should combine financial and
2 non-financial information, and qualitative and quantitative information to present
3 a comprehensive and unified discussion and analysis.

Commented [GR4]: Updated per member suggestion;
example moved to BfC.

4 11. To achieve an **understandable MD&A**, management should present content in
5 plain language, organize information by related content, and as appropriate
6 include charts, tables, graphs, or any combination thereof to enhance the
7 understanding of the MD&A for those who may not have an extensive
8 knowledge of U.S. Government operations or an extensive financial or
9 accounting background.

10 11 INFORMATION DISCUSSED AND ANALYZED IN MD&A

12
13 12. MD&A should discuss and analyze the following information about the reporting
14 entity:

- 15 a. the organization and mission;
- 16 b. the causes of significant changes and trends in
 - 17 i. financial position as explained by the composition or balances of
 - 18 assets, liabilities, net position; costs, revenues, budgetary
 - 19 resources, and financing sources; and
 - 20 ii. financial condition as explained by
 - 21 1. business-type activity, social insurance, long-term fiscal
 - 22 projections; and
 - 23 2. other relevant required supplementary information⁶;
- 24 c. the key performance⁷ results⁸, and the associated costs;
- 25 d. the significant opportunities⁹ identified by management to enhance
- 26 performance results, plans to leverage such opportunities, and the

Commented [GR5]: Updated per member recommendation
to present a broader requirement. Example in A20.b includes
deleted more narrow content.

⁶ GAAP includes reporting of required supplementary information for items such as, heritage assets or federal oil and gas resources yet may change periodically.

⁷ Key "Performance results" refers to both performance accomplishments and performance challenges. Management uses judgement in identifying what performance results are **key** to the reporting entity.

⁸ The Financial Report of the U.S. Government is not required to provide an analysis of consolidated governmentwide performance results but may refer to the availability of performance information in agency financial reports.

⁹ "Significant opportunities" for the purposes of MD&A, is anything that may have a significant positive affect on a reporting entity's ability to achieve its performance results. Management should use judgement in determining significant opportunities.

potential impact on financial and budgetary results of carrying out those plans¹⁰;

- e. the significant risks¹¹ identified by management that have a potentially negative effect on performance results, plans to mitigate such risks, and the potential impact on financial and budgetary results of carrying out those plans.

13. MD&A should provide management's summary assessment of

- a. the effectiveness of the reporting entity's internal controls and financial management systems, and
- b. the reporting entity's compliance with applicable laws¹², regulations, contracts, and grant agreements that are relevant to financial reporting.
- c. Such reporting should address internal control weaknesses, systems deficiencies, and instances of non-compliance that have a significant effect on the reporting entity's financial and performance reporting; and its plans to address them.

EFFECTIVE DATE

14. The requirements of this Statement are effective for reporting periods beginning after **September 30, 202X**. Early implementation is permitted.

¹⁰ Plans are actions the reporting entity expects to execute during the current reporting period (short-term) and into the future (long-term).

¹¹ "Significant risks" for the purposes of MD&A, is the effect of significant uncertainty on a reporting entity's ability to achieve its performance results. Management should use judgement in determining significant risks.

¹² Applicable laws may include; Federal Managers Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA).

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

- A1. **On June 8, 1999**, FASAB published SFFAC 3, *Management's Discussion and Analysis*. Although SFFAC 3 was a concept statement, it included standards-like content¹³ to guide reporting entities on what to report in MD&A, along with concepts to guide the Board on developing standards for MD&A. However, SFFACs are non-authoritative and therefore not required by GAAP. To require MD&A in the GPFFR, the Board needed authoritative guidance in an SFFAS.
- A2. **On August 12, 1999**, FASAB published SFFAS 15, *Management's Discussion and Analysis*, which was merely an outline of SFFAC 3 standard-based content, to require MD&A as part of the GPFFR. The expectation was that preparers would use both SFFAC 3 and SFFAS 15 to prepare the reporting entity's MD&A. However, given that the concept statements are *non-authoritative other accounting information* as noted in the GAAP hierarchy¹⁴, agencies relied primarily on SFFAS 15 to prepare MD&As.
- A3. **During 2017 and 2018**, staff conducted roundtables for the *Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments*

¹³ According to the Handbook *Forward*: ...concepts should be more general than statements and do not contain authoritative requirements for federal agencies. According to the Handbook *Preamble to Statements of Federal Financial Accounting Concepts*, concepts provide guiding principles for the Board to develop accounting standards. Many of the concepts in SFFAC 3 are standards-like because the language is not general and contains authoritative requirements for federal agencies, with wording such as: *MD&A should address; MD&A should inform, and MD&A should concisely explain...*

1 *Improvements* projects¹⁵. Roundtable feedback informed the Board that
2 financial statement users (users) found federal entity MD&As to be dense,
3 duplicative, and complex. Roundtable participants wanted to understand the
4 financial performance in the context of the reporting entity's financial position
5 and condition. The MD&A included dense statistical information repeated
6 from the GPRA-MA¹⁶ reporting that did not provide the financial information
7 about performance that users wanted.

- 8
- 9 A4. **In June 2019**, the Board added the MD&A project to its agenda to merge
10 work completed by the *Risk Reporting and Reporting Model-Phase I: MD&A*
11 *and Stewardship Investments Improvements* projects. The goals of the
12 MD&A project are to
- 13 a. consolidate standards-like content from SFFAC 3 and standards from
14 SFFAS 15 into one SFFAS for preparing the MD&A;
 - 15 b. reduce preparer burden by streamlining the MD&A;
 - 16 c. require information about a reporting entity's financial position and
17 condition for a financial focus instead of a statistical focus based on
18 GPRA-MA reporting; and
 - 19 d. update guidance to discuss and analyze risk plans and mitigation to
20 explain how the reporting entity will respond to opportunities and
21 uncertainties.
- 22
- 23
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- 25
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28 DEVELOPMENT OF PROPOSED MD&A STANDARDS

- 29
- 30 A5. The Board developed the proposed MD&A standards, by first identifying
31 objectives for what it believes management should report in MD&A.
- 32
- 33 A6. The Board identified the MD&A objectives by analyzing the four reporting
34 objectives (1) budgetary integrity, (2) operating performance, (3)
35 stewardship, and (4) systems and controls from SFFAC 1, *Objectives of*
36 *Federal Financial Reporting* and SFFAC 3 for each of the reporting
37 objectives to develop the MD&A objectives. See Appendix B: *MD&A*
38 *Objectives*.

¹⁵ Both the Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments Improvements projects received the same feedback while conducting their own roundtables in 2018.

¹⁶ Government Performance and Results Act of 1993 (GPRA) Modernization Act of 2010 (MA) (GPRA-MA)

- 1 A7. The Board then drafted an **MD&A vision framework**. See Appendix C:
2 *MD&A Draft Vision Framework*.
3
- 4 A8. The Board requested a pilot to test the MD&A objectives and MD&A draft
5 vision framework.
6
- 7 A9. Staff conducted the pilot from January through March 2021 with
8 a. Seventeen pilot agencies that created sample streamlined MD&As based
9 on the MD&A objectives and framework; and
10 b. Sixteen users who each reviewed four sample MD&As to determine if the
11 sample MD&As were streamlined and easy to read and understand.
- 12 A10. In April 2021 Agency pilots and user reviewers recommended that a
13 streamlined MD&A could be accomplished by
14 a. providing a comprehensive connection between performance, non-
15 financial and financial information, and systems information while
16 avoiding a silo effect of putting information in separate sections;
17 b. focusing on key drivers (e.g. COVID-19) that impacted performance
18 goals, significant changes in financial statement lines, and management's
19 decisions during the reporting period;
20 c. providing concise and tangible examples about the magnitude of risks
21 and current and planned actions to address them;
22 d. including high-level performance goals that support the current leadership
23 agenda instead of low-level metrics;
24 e. including well labeled trend graphs that integrate performance, financial,
25 and budgetary resource information, and written summaries; and
26 f. including more hyperlinks to detailed performance data and other
27 important documents.
- 28 A11. The Board determined the MD&A pilot was successful and that the
29 objectives and MD&A draft vision framework were sufficient for developing
30 the MD&A proposed standards.
31
32

33 PROPOSED MD&A STANDARDS

- 34 A12. The Board identified two categories: 1) *Presenting Information in MD&A*, and
35 2) *Information Discussed and Analyzed in MD&A* to facilitate preparation of
36 MD&A that reflects the reporting and project objectives presented in this
37 proposal.

1 A13. *Presenting Information in MD&A* explains how management should present
2 a balanced, integrated, concise, and understandable MD&A. *Information*
3 *Discussed and Analyzed* in MD&A identifies what information management
4 should present in MD&A to explain how and why the organization's mission,
5 opportunities and risks, and systems, internal controls, and compliance
6 significantly contributed to the improvement or deterioration of the reporting
7 entity's financial position, financial condition, and key performance results.

8

9 PRESENTING INFORMATION IN MD&A

10

11 A14. The Board believes that a **balanced** MD&A explains both positive and
12 negative effects to help users understand the important reasons for changes
13 to the reporting entity's financial position, financial condition, and operating
14 performance.

15

16 a. A balanced MD&A also includes trend information over multiple prior
17 reporting periods to help users understand possible positive or negative
18 future effects on amounts reported in the financial statements or
19 supplementary information.

20

21 b. For example, management may discuss and analyze performance results
22 during the current reporting period, or over multiple reporting periods that
23 had a significant (1) positive effect (e.g., accomplishments that resulted in
24 reduced costs); or (2) negative effect (e.g., challenges that resulted in
25 increased costs) on financial position and financial condition.

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2 A15. The Board believes that to achieve a **concise** MD&A management
3 emphasizes the vital few matters for information required in paragraphs 12
4 and 13, summarizes detailed information found outside of MD&A with
5 references to that information, and limits boilerplate language and only
6 presenting information current to the reporting entity.

7
8 a. For example:

- 9
10 i. MD&A summarizes information necessary to understand the
11 reason(s) for significant changes in net cost.
12
13 ii. MD&A provides a brief discussion about the reporting entity's
14 operating performance with reference to the additional detailed
15 information found within the GPFFR or in another Federal
16 government document.
17

18 A16. The Board believes an **integrated** MD&A incorporates quantitative,
19 qualitative, financial, and non-financial information across various elements.
20 For example, MD&A includes the interrelationship of budgetary, financial, and
21 operating performance results for each "major" program, as defined by the
22 reporting entity's Statement of Net Cost, .
23

Commented [GR6]: Updated per a member's recommendation to remove "weaves" and instead use "integrated." Merged the examples into one, therefore the document did not need the two separate a. and b. examples

24 A17. The Board's intent is that an MD&A is **understandable** to any user who may
25 not have an extensive knowledge of U.S. Government operations or an
26 extensive financial or accounting background.

- 27 a. MD&A is understandable when written in plain language to explain
28 management's insights about its financial position, financial condition,
29 operating performance, opportunities, risks, and systems, internal
30 controls, and compliance.
31
32 b. To achieve an understandable MD&A, management has the flexibility to
33 combine different methods of presenting information that appeal to a
34 variety of users. For example, an understandable MD&A may need to
35 include organizational tools, such as headers, sub-headers, bullet-points,
36 or crosswalks to financial reports; and visual aids, such as charts, tables,
37 or graphs to help explain quantitative information.
38
39

1 INFORMATION DISCUSSED AND ANALYZED IN MD&A

2 A18. The Board's intent is for MD&A to provide a brief description of the reporting
3 entity's organization and mission **to explain** key organizational components,
4 key results each expected to achieve, and the funding needed during the
5 reporting period to achieve those results.

6 a. Management has the flexibility to determine how much information to
7 include about the mission(s) and organizational structure in relation to the
8 size and complexity of the reporting entity.

9 b. For example, a large reporting entity could briefly summarize the
10 reporting entity as a whole as well as each significant component/agency
11 entity, while a small reporting entity could focus on the entity as a whole.

12
13 A19. The Board's intent is for MD&A to explain what caused significant changes in
14 a reporting entity's **financial position and condition**.

15 a. Financial position is typically the account status of an entity's assets,
16 liabilities, and equity positions as reflected on its financial statement.
17 However, for the MD&A, the Board believes that users will better
18 understand the reporting entity's financial position through
19 management's explanations about significant changes in the
20 composition or the balances of assets, liabilities, net position; as well as
21 costs, revenues, budgetary resources, and financing sources. This
22 would better address users' interest in the use of the reporting entity's
23 budget and other revenue sources to support the accomplishment of its
24 mission(s).

25
26 b. Appropriate examples include language such as:

27
28 i. "Support of pandemic-related relief efforts led to a significant
29 decrease of stockpile materials of vaccines by \$\$\$" would be
30 consistent with the Board's intent, where as "inventory decreased
31 because of a decrease in stockpile materials" would not.

32
33 ii. "Disaster recovery efforts from natural disasters in X area of the
34 country during 202X significantly increased the cost of X by \$\$\$"
35 would be consistent with the Board's intent, where as "an unexpected
36 increase in costs deteriorated the financial position" would not.

37

c. Financial condition is broader and more forward-looking than financial position.¹⁷ The Board believes that users will best understand the financial condition of reporting entities through management's explanation about significant changes in business-type activity, social insurance, long-term projections, and other relevant requirement supplementary information.

A20. The Board believes that MD&A explains what **performance results** are key to the reporting entity and the associated cost.

- a. MD&A focuses on what it costs the agency to pursue or to accomplish key performance results, as well as whether the accomplishment of key performance results resulted in cost savings for the agency.
- b. For example, MD&A explains how key performance accomplishments and challenges affected budgetary or financing resources during the reporting period.
- c. However, the reporting of consolidated governmentwide key performance results is not required in the MD&A of the Financial Report of the U.S. Government based on the following:

- i. Paragraph 6 of SFFAC 4, which states: *the Financial Report of the U.S. Government [CFR] is a general purpose report that is aggregated from agency reports and tells users where to find information in other formats both aggregated and disaggregated formats, such as individual agency reports, agency websites, or the President's Budget.*
- ii. The *Appendix on Reporting Entities* in the Financial Report of the U.S. Government which provides references to websites where users can review a reporting entity's MD&A discussion of key performance results and challenges.

A21. The Board's intent is for MD&A to explain significant **opportunities** the reporting entity is managing in relation to performance accomplishments and challenges. For example, what is the reporting entity implementing or what does it plan to implement to leverage opportunities that may enhance key performance or financial results?

A22. The Board's intent is for MD&A to explain significant **risks** the reporting entity is managing in relation to performance accomplishments and challenges. For example, what is the reporting entity implementing or what does it plan to

¹⁷ SFFAC 1, paragraph 180.

1 implement to address a significant risk that may have a negative effect on
2 key performance or financial results?
3

4 **A23. Systems, Internal Controls, and Compliance**

- 5 a. The Board believes that MD&A provides an assessment of the reliability
6 of the reporting entity's financial information by explaining significant
7 weaknesses in the financial management system, related systems,
8 internal controls, or non-compliance with applicable laws.
- 9 b. MD&A should explain whether the reporting entity executed and recorded
10 transactions in accordance with budgetary and financial laws and Federal
11 accounting standards to prepare the agency financial report.
12

1
2
3 **A24. Stewardship Investments**

- 4 a. On June 11, 1996, the Board published SFFAS 8, *Supplementary*
5 *Stewardship Reporting* that included a requirement to report "required
6 supplemental stewardship information" (RSSI).
7 b. On September 27, 2019, the Board published SFFAS 57, *Omnibus*
8 *Amendments 2019*, which rescinded the remaining RSSI requirements of
9 SFFAS 8¹⁸, eliminating the requirement for reporting RSSI.
10 c. In the SFFAS 57 basis for conclusions, paragraphs A7 – A10, the Board
11 discussed the comments from the 11 respondents. The majority of those
12 responders agreed with eliminating RSSI because users did not rely upon
13 that information. The minority of respondents who wanted to continue
14 including RSSI in a separate category believed that distinguishing
15 stewardship information informed users on the extent of investments that
16 provided long-term benefits for the nation.
17 d. SFFAS 57 basis for conclusions, paragraph A11¹⁹ indicated that the
18 Board would also consider whether to report stewardship investments in
19 MD&A.
20 e. This project considered the SFFAS 57 responses by reviewing agency
21 financial reports. The Board found that practice indicates that most
22 reporting entities have concluded that information about stewardship
23 investment is not significant enough to warrant inclusion in the MD&A.
24 Therefore, the Board chose not to add the requirement that reporting
25 entities should include stewardship investments in MD&A.
26
27 f. This decision does not preclude preparers from reporting stewardship
28 investment information in MD&A if management believes this information
29 is relevant or significant to explaining the reporting entity's financial
30 position or condition.
31
32
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34
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36

Commented [GR7]: Per one member's comment, staff updated this paragraph to best explain the decision the Board made to not include SI in MD&A

RESCISSION AND REPLACEMENT OF SFFAS 15

¹⁸ SFFAS 57, paragraph 2

¹⁹ SFFAS 57, basis for conclusions, paragraph A11.

- 1
- 2 A25. The Board is proposing to rescind SFFAS 15 because all relevant standards
3 have been adapted into these proposed MD&A standards.
- 4
- 5 A26. The Board believes that this proposal has adapted all relevant standards-like
6 content from SFFAC 3. Therefore, *Omnibus Concepts Amendments 202X* will
7 propose to rescind SFFAC 3
- 8
- 9 A27. The Board does not intend for this proposal to affect other statements that
10 require information in MD&A, such as, SFFAS 37, *Social Insurance:*
11 *Additional Requirements for Management's Discussion and Analysis and*
12 *Basic Financial Statements*. The Board believes including the SFFAS 37
13 MD&A requirements in this proposal would cause duplication of information
14 already required in MD&A.
- 15

APPENDIX B: MD&A OBJECTIVES

The Board developed the proposed MD&A standards, by first identifying objectives for what it believes management should report in MD&A. The Board identified eleven MD&A objectives by analyzing the following concepts for the four reporting objectives (1) budgetary integrity, (2) operating performance, (3) stewardship, and (4) systems, controls, and compliance found in SFFAC 1, *Objectives of Federal Financial Reporting*, and SFFAC 3.

The first objective was general and did not relate to any specific reporting objective.

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.

REPORTING BUDGET INTEGRITY IN MD&A

After analysis of the below budget integrity concepts found in SFFAC 1 and SFFAC 3, the Board agreed on these objectives for MD&A.

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

Budget Integrity Reporting Objective Concepts from SFFAC 1	Budget Integrity Reporting Objective Concepts from SFFAC 3
<p>Pg. 6, paragraph 13: 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 how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization, the status of budgetary resources, and 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.</p> <p>Background and Rationale</p> <p>Pg. 5, paragraph 11: Questions this objective should</p>	<p>Pg. 13, paragraph 28: MD&A should concisely explain how budgetary resources have been obtained and used, instances in which their acquisition and use were not in accordance with legal authorization, the status of budgetary resources, and how information on the use of budgetary resources relates to information on the cost of program operations.</p> <p>MD&A should explain when major support for cost of a program or activity is provided outside the reporting entity's budget and when the entity's budget supports a program primarily reported by another entity.</p> <p>The discussion should describe major financing arrangements, guarantees, and lines of credit, including those not recognized in the basic financial statements.</p> <p>Pg. 14, paragraph 29: MD&A should explain</p>

Budget Integrity Reporting Objective Concepts from SFFAC 1	Budget Integrity Reporting Objective Concepts from SFFAC 3
<p>address: What legal authority was provided for financing government activities and for spending the monies?</p> <p>Were the financing and spending in accordance with these authorities?</p> <p>Needs of Users of Federal Financial Reports</p> <p>Pg. 23, paragraph 89: All user groups need information about the budget... for assurance that their elected and appointed representatives have fulfilled their most basic fiduciary responsibility...</p> <p>Pg. 23, paragraph 91: ...They [users] need periodic information about the status of budgetary resources, that is, the extent to which the resources have been used or remain available.</p> <p>They also want to know whether budgetary resources are available to be used for other purposes through reprogramming.</p> <p>Pg. 27, between paragraphs 115 and 116:</p> <p>Federal financial reporting should provide information that helps the reader to determine:</p> <p>Pg. 27, paragraph 116: Sub-Objective 1A. How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.</p> <p>Pg. 28, paragraph 118: Sub-Objective 1B. The status of budgetary resources.</p>	<p>major changes during the period to the budget originally approved, major failures to comply with finance-related laws, and other matters management believes necessary. These could include: unfunded liabilities that may require appropriations; assets that could be sold to augment future budgetary resources; amounts of payments that have not been matched with obligations; anticipated increases in the cost to complete long-term projects in progress that may require additional obligations or appropriations.</p>

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2 REPORTING OPERATING PERFORMANCE IN MD&A

3 After analysis of the below operating performance concepts found in SFFAC
4 1 and SFFAC 3, the Board agreed on these objectives for MD&A.

- 5 4. MD&A should concisely explain if significant costs contributed to agency
6 performance.
- 7 5. MD&A should concisely explain reasons for significant changes in net cost
8 from the prior year and any significant cost trends over multiple years.

- 1 6. MD&A should provide an integrated discussion and analysis of the entity's
2 mission, organization, budget, cost, and performance, for the entity's
3 significant major program investments and the entity as a whole, including
4 what types of resources the entity used and what the entity achieved during
5 the reporting period.
- 6 7. MD&A should provide a concise/balanced discussion/summary of significant
7 financial and non-financial operating performance information, including
8 electronic references to legislative performance framework documents, such
9 as GPRAMA reporting, for the entity's major program investments and the
10 entity as a whole.

Operating Performance Reporting Objective Concepts from SFFAC 1	Operating Performance Reporting Objective Concepts from SFFAC 3
<p>Page 6, par. 14: 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</p> <p>Sub-Objective 2A; Page 29, par. 126: The costs of providing specific programs and activities and the composition of, and changes in, these costs.</p> <p>SFFAC 1, Sub-Objective 2B;</p> <p>Page 29, par 128: The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.</p>	<p>Page 18, par. 43: MD&A should objectively discuss the entity's program results and indicate the extent to which its programs are achieving their intended objectives.</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>Information about effectiveness is often combined with cost information to help assess "cost effectiveness."</p> <p>SFFAC 3, Page 18, par. 44: The entity's financial performance should be summarized to provide significant indicators of its financial operations for the reporting period.</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 financial and nonfinancial performance relevant to the program or other reporting entity.</u></p> <p>SFFAC 3, Page 18, par. 45: ...The summary discussion of performance in MD&A should: discuss the strategies and resources the agency uses to achieve its performance goals...</p> <p>SFFAC 3, Page 19, par. 47: To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what they plan to do to improve program performance.</p> <p>...Explanatory information helps report users understand reported indicators, assess the reporting entity's performance, and evaluate the significance of</p>

Operating Performance Reporting Objective Concepts from SFFAC 1	Operating Performance Reporting Objective Concepts from SFFAC 3
	<p>underlying factors that may have affected the reported performance.</p> <p>SFFAC 3, Page 19, par. 49: Explanatory information may include, for example, information about factors substantially outside the entity's control, as well as information about factors over which the entity has significant control.</p>

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2 REPORTING STEWARDSHIP IN MD&A

3 After analysis of the below stewardship concepts found in SFFAC 1 and
4 SFFAC 3, the Board agreed on these objectives for MD&A.

- 5 8. MD&A should concisely explain reasons for significant changes in assets,
6 liabilities, costs, and/or revenues from the prior year and any significant
7 trends.
- 8 9. MD&A should concisely describe planned agency actions to address current
9 and prospective mission-related issues, challenges, and/or risks that could
10 significantly affect assets, liabilities, costs, revenues, and budgetary
11 resources.

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>SFFAC 1, Objectives of Federal Financial Reporting</p> <p>Pg. 7, paragraph 15: 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 <u>financial conditions have changed and may change in the future</u>.</p> <p>Pg. 7, paragraph 16: Federal financial reporting should provide information that helps the reader to determine whether the government's financial position improved or deteriorated over the period.</p> <p>future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and government operations have contributed to the nation's current and future well-being.</p> <p>SFFAC 1, Background and Rationale Pg. 5, paragraph 11: Questions this objective should</p>	<p>SFFAC 3, Background</p> <p>Pg. 9, paragraph 14: Regarding the financial statements, MD&A should answer questions such as the following, to the extent that they are relevant and important for the entity: what is the entity's financial position? What is its financial condition?⁵ How did this Come about?</p> <p>What were the significant variations: from prior years? from the budget?⁶ from performance plans, long-term plans, or other relevant plans in addition to the budget?</p> <p>What is the potential effect of these factors, of changed circumstances, and of expected future trends? In other words, to the extent that it is feasible to project the effects of these factors, will future financial position, condition, and results, as reflected in future financial statements, probably be different from this year's and, if yes, why? (Any such discussion should acknowledge that the future is unpredictable and will be influenced</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>address: Did the government's financial condition improve or deteriorate? What provision was made for the future?</p> <p>SFFAC 1, <i>The Needs of Users of Federal Financial Reports</i></p> <p>Pg. 24, paragraph 99: Citizens, Congress, executives, and program managers need information to assess the effect of the government's activities on its financial condition and that of the nation.</p> <p>Information is needed about the financial outlook for both the short and the long term. [Staff Notes: <i>forward looking</i>]</p> <p>Pg. 24, paragraph 100: Information is needed on the government's exposure and risks associated with deposit insurance, pension insurance, and flood insurance [Staff Notes: <i>Addressed in SFFAS 51</i>].</p> <p>People need to know about likely future expenditures for [example] cleaning up nuclear weapons sites and military bases.</p> <p>They want information that will help them assess the likelihood and amount of future claims that might arise from government-sponsored enterprises [Staff Notes: <i>risks identified and profiled</i>].</p> <p>Pg. 24, paragraph 102: Users also need trend information on spending on investments in physical and human capital versus spending on consumption.</p> <p>SFFAC1, <i>Stewardship; Objective 3</i></p> <p>Pg. 31, 135: This objective is based on the federal government's responsibility for the general welfare of the nation in perpetuity.</p> <p>It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions...</p> <p>Pg. 31, between paragraphs 135 and 136:</p> <p>Federal financial reporting should provide information that helps the reader to determine:</p> <p>Pg. 31, paragraph 136: Sub-Objective 3A. Whether the government's financial position improved or deteriorated over the period.</p> <p>Pg. 31, paragraph 137: Assessing whether the government's financial position improved or deteriorated over the period is important not only</p>	<p>by factors outside the reporting entity's control, including actions by Congress.)</p> <p>⁵The traditional concepts of "financial position" and "financial condition" are typically applicable to revolving funds, Government corporations, and other reporting entities that are intended to be self-financing. The concepts may be less relevant, or may require some qualification or modification, for other kinds of Federal reporting entities.</p> <p>⁶Management should use its judgment to decide what variances are relevant for MD&A. It will not always be essential or appropriate to discuss all variances.</p> <p>SFFAC 3, <i>DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS</i></p> <p>Pg. 13, paragraph 26: Financial Results, Position and Condition—MD&A should help those who read it to understand the entity's financial results and financial position and the entity's effect on the financial position and condition of the Government.</p> <p>It should give readers the benefit of management's understanding of the significance and potential effect from both a short- and a long-term perspective of: the variations discussed in paragraph 14 in terms of major changes in types or amounts of assets, liabilities, costs, revenues, obligations and outlays;</p> <p>particular balances and amounts shown in the basic financial statements, including the notes, such as those dealing with funds from dedicated collections, if relevant to important financial management issues and concerns; and the entity's required supplementary stewardship information (because RSSI describes economic conditions that cannot be expressed in the basic financial statements).</p> <p>Pg. 13, paragraph 27: Only those variations, balances and amounts, and stewardship matters of potential interest to readers who are not part of agency management should be discussed.</p> <p>Not all changes that are material to the GPFFR are sufficiently important to be included in MD&A. A line-by-line analysis of the financial</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>because it has financial implications but also because it has social and political implications.</p> <p>This is because <u>analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits.</u></p> <p>Pg. 31, paragraph 138: ... help to explain the issuance of new debt in relation to expenditures for activities with current benefits versus expenditures for investment-type activities that yield future benefits. <i>[Staff Notes: forward looking time horizons]</i></p> <p>Pg. 31, paragraph 139: sub-objective 3b. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.</p> <p>Pg. 32, paragraph 140: Information about the results of past government operations is useful in assessing the stewardship exercised by the government.</p> <p>Users of financial reports also want help in assessing the likelihood that the government will continue to provide the current level of benefits and services to constituent groups, such as farmers, retirees, and the poor.</p> <p>Pg. 32, paragraph 141: Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible. <i>[Staff Notes: risks that have a significant financial impact]</i></p> <p>Pg. 32, paragraph 143: sub-objective 3c. Whether government operations have contributed to the nation's current and future well-being.</p> <p>Pg. 32, paragraph 144: Objective 3, sub-objective 3C, imply a concern with "financial condition," as well as "financial position."</p> <p>Financial condition is a broader and more forward-looking concept than that of financial position.</p> <p>Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself.</p> <p>For example, reports intended to help meet this objective might address users' needs for information about investments in (or expenditures for) research</p>	<p>statements is not generally appropriate.</p> <p>Instead, MD&A should summarize the most important items, explain the relevant causes and effects, and place them in context.</p> <p>Pg. 14, paragraph 31: <u>Current Demands, Risks, Uncertainties, Events, Conditions, and Trends</u></p> <p>MD&A should describe important existing, currently-known demands, risks, uncertainties, events, conditions and trends--both favorable and unfavorable--that affect The amounts reported in the financial statements and supplementary information.</p> <p>Pg. 14, paragraph 32: <u>Future Effects of Current Demands, Risks, Uncertainties, Events, Conditions and Trends</u></p> <p>The discussion of these current factors should go beyond a mere description of existing conditions, such as demographic characteristics, claims, deferred maintenance, commitments¹² undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors.</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>and development, military readiness, and education; changes in the service potential of infrastructure assets; spending for consumption relative to investments; opportunities for growth-stimulating activities; and the likelihood of future inflation.</p> <p>Pg. 32, paragraph 145: Indicators of financial <u>position</u>, measured on an accrual basis, are the starting point for reporting on financial <u>condition</u> ... Reports...might disclose, among other things, the contribution that the government is making to national wealth by financing assets that are not federally owned, such as research and development, education and training, and state-owned infrastructure.</p> <p>Information on trends in total national wealth and income is also important.</p>	

REPORTING SYSTEMS, CONTROLS, AND COMPLIANCE IN MD&A

After analysis of the below systems, controls and legal compliance concepts found in SFFAC 1 and SFFAC 3, the Board agreed on these objectives for MD&A.

10. MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.
11. MD&A should 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.

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
<p>Pg. 7, paragraph 17: Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purpose authorized, and are recorded in accordance with federal accounting standards; assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.</p> <p>Pg. 5, paragraph 11: Questions this objective should</p>	<p>Pg. 10, paragraph 15: Regarding systems and controls, MD&A should tell the reader whether internal accounting and administrative controls (some authorities prefer the term "management controls") are adequate to ensure that:</p> <p>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; assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and performance measurement information is adequately supported.</p>

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
<p>address: Does the government have cost-effective systems and controls to safeguard its assets? Is it able to detect likely problems? Is it correcting deficiencies when detected?</p> <p><i>The Needs of Users of Federal Financial Reports</i></p> <p>Pg. 25, paragraph 103: Users at all levels need information on internal controls and the adequacy of financial management systems.</p> <p>Citizens want assurances that systems and controls are in place to protect the resources [taxes] they supply to the government.</p> <p>They want to know that operating procedures and processes provide reasonable assurance that those resources are used economically and efficiently for the purposes intended.</p> <p>Congress, executives, and program managers need to demonstrate to those to whom they are accountable that they have, in fact, protected those resources and used them well.</p> <p>Users want to know, for example, that agency heads have determined that internal controls are adequate, that basic financial statements are auditable, and that high-risk areas have been identified and addressed.</p> <p>Pg. 33, paragraph 149: Sound controls over internal processes are essential both to safeguard assets and to ensure economy, efficiency, and effectiveness in many governmental programs.</p> <p>Pg. 33, paragraph 150: Information relevant to this objective helps financial report users to determine whether the entity has established reasonable, cost-effective programs to safeguard assets, prevent and detect waste and abuse, and reduce error rates. An example of information that would address this objective is management's assertion about the effectiveness of the internal accounting and operational control system.</p>	<p>Pg. 10, paragraph 16: Reporting information that helps people assess the condition of the entity's management systems and of the relevant internal controls is an important objective of Federal financial reporting.</p> <p>The relevant internal controls for this purpose are those that support reporting on financial and operating performance and reporting on compliance with applicable laws.</p> <p>Pg. 10, paragraph 17: An entity's ability to prepare auditable financial statements and other reliable reports for management from the entity's books and records is a positive signal about the finance-related systems and controls of that entity.</p> <p>By themselves, however, the financial statements of a governmental entity do not provide adequate information about the status of the entity's management systems and internal controls that support reporting on financial and operating performance and reporting on compliance with applicable laws.</p> <p>For these reasons, the GPFFR of a Federal reporting entity should include information about systems, internal controls, and legal compliance, in addition to the basic financial statements.</p> <p>This information—like the information on performance—is presented in a discrete section of the GPFFR; alternatively it may be incorporated in the GPFFR by reference to separate reports such as those required by the Integrity Act.</p> <p>MD&A should therefore address the most important facets of this information on systems, controls and legal compliance, as well as the financial statements, supplementary information, and performance information.</p> <p>SFFAC 3, <i>Discussion and Analysis of Systems, Controls and Legal Compliance</i></p> <p>Pg. 17, paragraph 41: ... Where relevant, management should describe the methods used to limit, detect, and recover improper payments; to assure that grantees and other nonfederal recipients of Federal funds use the funds as</p>

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
	intended; and to assure that Federal and nonfederal entities comply with finance- related laws and regulations. MD&A should include a concise description of any major problems in these areas and of the corrective action taken or planned.

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APPENDIX C: DRAFT MD&A VISION FRAMEWORK

The Board drafted the following **MD&A vision framework** based on the MD&A objectives discussed in Appendix B.

- MD&A should summarize information about the financial position and condition of the reporting entity by discussing the entity's mission, organization, and key financial and performance results to inform users of its financial health and sustainability of major programs.
- Therefore, MD&A should be an objective, concise, and easily readable summary analysis of
 - the essential few matters causing significant changes to the entity's (1) financial statement amounts during the current reporting period and (2) financial, budgetary and key performance trends over past reporting periods;
 - the current and planned actions that will address the essential few opportunities, challenges, and risks that could significantly affect financial statement amounts and key performance results in the future; and
 - the essential few conditions related to systems and controls that could affect the entity's ability to produce reliable financial information.
- MD&A may also include references to websites or other areas of the agency financial report that provide additional information when applicable.

APPENDIX D: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
MD&A	Management's Discussion and Analysis
OMB	Office of Management and Budget
RSI	Required Supplemental Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

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