

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
June 22-23, 2022
Zoom for Government

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For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by topic; references to these topics in the minutes are hyperlinked.

Wednesday, June 22, 2022

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Messrs. Scott (chair) and Bell, Ms. Bronner, Mr. Dacey, Mses. Harper and Johnson, and Messrs. McNamee, Patton, and Smith. The executive director, Ms. Valentine was present throughout the meeting. Mr. Kirwan, general counsel, was present except for brief absences when he was represented by Mr. Garay. Ms. Valentine conducted a verbal roll call of the members.

Administrative Matters

- **Approval of Minutes**

The Board approved the April meeting minutes prior to the meeting.

- **Updates and Clippings**

Mr. Scott asked the members if there were any comments on the clippings. One member commented that the Governmental Accounting Standards Board's (GASB) definition of "environmental matter" was helpful and well articulated. The member also complimented GASB on its environmental, social, and governance (ESG) chart.

Ms. Reese, GASB senior project manager, provided a brief overview of GASB's recent activities.

Ms. Reese noted that GASB was in the process of issuing several documents by the end of June. Those documents include concepts statement 7 on disclosures, Statement 101 on compensated absences, Statement 100 on accounting changes and error corrections, and an exposure draft (ED) on certain risk disclosures.

GASB is also working on a financial reporting model reexamination project and a revenue and expense recognition project.

Mr. Scott thanked Ms. Reese for keeping the Board informed of GASB's activities.

Mr. Scott noted the extensive outreach efforts in the past two months from both Board members and staff.

Agenda Topics

- **Software Technology**

Josh Williams, senior analyst, began [topic A](#) by explaining to the Board that the purpose of the education session was for members and staff to learn about cloud computing in the federal environment to develop informed financial reporting guidance. He introduced the following individuals from the General Services Administration (GSA) as presenters:

- Skip Jentsch, IT Cloud Products Manager, Federal Acquisition Service, GSA
- Edward Gramp, Acting Director, Financial Policy Division, GSA

Mr. Jentsch then presented a slide deck to the Board that can be found in attachment 1 of the minutes. He tailored his presentation to the particular audience and therefore skipped some slides while emphasizing others.

Mr. Jentsch began the presentation by describing the traditional, non-cloud way that an agency would increase computing power capacity by adding physical network servers on its premises. Typically, an agency would enter into a contract and have physical servers delivered to its location, install them on-site, connect them to the network, and configure them to an operating system. He compared that to a modern, cloud-based IT system in which an agency does not have to order, receive, and install physical servers

on-site but can access the services of cloud-based servers over the internet on an as needed basis without the time and cost associated with adding physical servers on-site.

Mr. Jentsch stated that the primary cloud benefit that agencies appreciate is the operating agility that cloud services provide. The ability to add and subtract computing and/or data storage capacity at a moment's notice over the internet allows agencies to adapt their operations quickly to meet current workload demands. He stated that some agencies also enjoy cost savings with cloud services, although they can take time to realize due to upfront implementation costs that are often necessary to use the cloud services.

Mr. Jentsch then described the National Institute of Standards and Technology cloud computing characteristics that GSA and other federal agencies use:

- On-demand self-service – Agencies can procure cloud services as needed through an online portal with little to no human interaction.
- Broad network access – Agencies can access cloud-based resources over the internet from any location.
- Resource pooling – Cloud service providers achieve economies of scale by sharing IT resources between customers from a single cloud. The provider could spread the resources across the world on one machine or multiple machines. The provider could even split a machine between multiple customers. Customers cannot see each other's data even though they are sharing space on servers and data centers. This is how providers can provide cloud services for pennies per minute, hours, or days.
- Rapid elasticity – Because of the pooled resources, cloud-service providers are able to quickly scale up and down the amount of IT resources provided based on what the customer needs in the moment. Providers can provide cloud access in seconds, minutes, or hours, not days, weeks, or months.
- Measured service – Agencies only pay for the cloud services used. Charges accrue while the customer is using the cloud capabilities, much like a taxi, water, or gas meter.

Next, Mr. Jentsch described the three primary cloud service models:

- Infrastructure as a service (IaaS) – An agency acquires cloud access to physical computing and storage resources, such as servers and central processing units.
- Platform as a service (PaaS) – An agency acquires cloud access to operating systems for which to develop and run software applications. Microsoft Windows and Linux are examples of computing platforms. This

is essentially IaaS with a few added features and there is not a clear line between IaaS and PaaS.

- Software as a service (SaaS) – An agency acquires cloud access to software applications without having to manage the underlying operating system or servers. Email software, such as Office 365 and Google Mail are examples of SaaS.

Mr. Jentsch then described four primary cloud deployment models:

- Private cloud – The agency has exclusive access to cloud-based resources and the provider does not pool the resources with other customers. A customer would choose this model for security reasons.
- Public cloud – The agency shares cloud-based resources with other customers from the public. Google mail is an example of public cloud as there are no restrictions on who can use that cloud service.
- Community cloud – The agency shares cloud-based resources with other customers based on shared interests, such as multiple agencies using a government community cloud.
- Hybrid cloud – A combination of the other three models.

Mr. Jentsch then expanded upon the three cloud-service models by using pizza as an analogy. He explained how there are different levels of cloud-service provider and customer responsibilities depending on the cloud model. For example, physical servers that are installed on-site, like a homemade pizza, are not considered cloud and are completely the customer's responsibility. Like a take and bake pizza, with IaaS the cloud-service provider has some management responsibilities, such as managing the data center and network infrastructure while the customer manages everything else. Similar to a pizza delivery service, with PaaS, the cloud-service provider has more management responsibilities, such as managing operating systems and implementing security patches while the customer still manages everything else, such as software applications, data, and account access. Like dining in a pizza shop, with SaaS, the cloud-service provider has even more management responsibilities, such as managing network security controls and software applications. Mr. Jentsch caveated that no matter the cloud model, the customers always manage their data and account rights.

Mr. Jentsch then discussed the different ways that the federal government procures cloud computing:

- By the minute, seconds, hours, or days – Much like a water or electricity utility service, agencies can pay for cloud services based on time of usage, often for cents on the dollar. It can be pennies per minute for an individual computer or pennies per gigabyte or megabytes of RAM.

- By a long-term agreement or reservation instance – Agencies receive price discounts for committing upfront to a specific cloud usage over a specified period. These types of arrangements typically apply more to IaaS and PaaS and can span multiple fiscal years with both upfront and monthly payments.
- By the application user seat – Agencies pay for cloud service usage per user account or seat by the day, month, or year. These types of arrangements often apply more to SaaS. Agencies often fix the number of user accounts/seats for an annual period to gain discounts. Other agencies prefer to pay a higher monthly fee per account/seat so that they retain the ability to increase and/or decrease the number of accounts/seats on a monthly basis.
- By the transaction – Agencies pay per user transaction, such as a query against a database.
- By bandwidth consumed – Agencies pay for the bandwidth used while consuming cloud services, as measured by the cloud provider. This often applies as a surcharge for IaaS and PaaS models.
- By percentage of spend – This is a consumption-based arrangement in which the agency pays for a percentage of the underlying cloud systems being used.

Mr. Jentsch stated that the term “license” is often misused in the cloud-computing context. He explained that in the traditional meaning of the term, software licenses allow the agency to download and possess the software code on its own hardware or IT systems. This made it possible for the customer to duplicate or alter the code on its system. Mr. Jentsch explained that cloud services rarely, if ever, provide the agency the ability to download and possess the underlying code on its own hardware or systems, so there is no need for a license agreement. The agency merely is accessing and using the underlying code remotely on a temporary basis.

Mr. Jentsch caveated that with some cloud-service arrangements, the agency could acquire a software license and download the code on its system through a third-party arrangement, but that is rare and would necessitate a separate transaction. He explained that people sometimes use the term “license” in the context of cloud services to denote the number of user accounts or seats with access to the cloud service but that is not a traditionally accurate use of the term.

Mr. Jentsch then discussed the conundrum of whether cloud computing was considered a product or service in the federal environment. He stated that the Small Business Administration (SBA) considers cloud computing a service. Additionally, the fact that cloud services do not typically include licenses of the underlying software also supports cloud computing as a service and not a product. However, Mr. Jentsch stated that resellers, not the cloud providers, frequently sell cloud services, much like a car

dealership selling cars. Therefore, GSA typically requires resellers to provide “Letters of Supply” to prove that they are an authorized reseller of cloud-based services, which typically denotes a product. In summary, GSA considers cloud computing a product for purposes of the GSA schedule while the SBA considers it a service for purposes of SBA set aside regulations.

Mr. Gramp then discussed some potential accounting and financial reporting challenges associated with cloud-service arrangements. He stated that there is certainly potential for both balance sheet and disclosure reporting for cloud-service arrangements. For example, there could potentially be opportunities to recognize an amortized asset and associated liability for long-term agreements or reserved instances in which there is a minimum guarantee of cloud usage. However, determining minimum useful life for these arrangements will be essential and challenging for determining reporting requirements.

Mr. Gramp stated that there are many different types of cloud arrangements and associated complexities. One particular complexity revolves around multi-component contracts that bundle cloud usage and labor service components together. The challenge would be how to accurately identify the cost of cloud usage and labor-service components if they are not clearly separated in the contracts.

Mr. Gramp discussed the level of control that a user would have over a cloud-based asset. He pointed out that the user would not have control over a physical asset but could have control over the benefits of an asset. When thinking about the types of cloud agreements in which a customer is paying for cloud usage by the minute or second, he stated it is difficult to envision any kind of meaningful control over future benefits. However, concerning reserved instances or upfront usage guarantee-type agreements, it was more likely that the user has control over future benefits. He caveated that even in those instances, it is likely that the agency only pays for what it uses, which could potentially lead to having to account for cancellation charges.

Mr. Williams then invited Board members and staff to ask both Mr. Jentsch and Mr. Gramp questions. One staff member asked if it was common for cloud-computing arrangements to include conveyance of either a license or contractual right to the underlying software. Mr. Jentsch responded that it was quite rare for a cloud-computing arrangement to convey a license or contractual right to the underlying software. He further stated that with cloud arrangements, the cloud provider does not deliver the underlying code to the customer. Typically, with commercial off the shelf software, the customer actually acquires the underlying software code when it purchases and downloads the software onto its system. The commercial software typically came with a license agreement that prohibited the customer from duplicating, tinkering, or redistributing the code. However, with cloud-service arrangements, it is not possible for the customers to do that because they are merely accessing the software remotely and do not possess it on their systems.

The staff member then asked if a customer of cloud services could identify and separate the different levels of cloud services in an agreement, such as PaaS and IaaS, or if it was too difficult to identify the individual products or services delivered. Mr. Jentsch

responded that there is an abundance of tools and accessories available when procuring cloud services and that a customer can typically choose a variety of cloud-service options separately. For example, a customer can start with IaaS and choose different add-ons and accessories to make it PaaS. Mr. Jentsch added that these separate cloud items would be priced separately in the agreements. However, sometimes a contract could bundle them all together under the guise of “managed services.”

The same staff member followed up the response by asking if agencies typically procure cloud-based services in many different ways or if they tend to enter into standardized arrangements. Mr. Jentsch stated that he sees all kinds of different arrangements in the federal environment. He further explained that in the early days of cloud computing, the first type of cloud service that agencies procured was email as a service and then started to use SaaS for many different applications because it required little management. Then, larger agencies that had large in-house IT shops started to enter into IaaS and PaaS arrangements with more freedom to pick and choose different tools and add-ons.

Mr. Gramp stated that GSA and just about every agency now uses cloud services in some way. The fact that cloud can be accessed anywhere over the internet and does not require customers to download software onto their systems improves access to applications and improves interoperability of IT resources. He provided examples of how GSA and other agencies use cloud services, such as Microsoft Office 365, accounting systems, data storage, and telecom and internet services through IaaS. He agreed with Mr. Jentsch that agencies with larger IT departments tend to have more complex cloud frameworks.

The staff member then asked Mr. Gramp if he had any thoughts regarding capitalization thresholds for cloud-service arrangements. Mr. Gramp stated that it should probably be at least a minimum of two years. He stated that, much like leases, it could become complicated with management having to determine whether contract option years are likely to be exercised. He added that if a customer is essentially reserving a block of cloud usage, it is important to determine the minimum agreement period and cautioned against trying to amortize an asset if it has a useful life of only one or two years. He urged the Board to try to be consistent with existing property, plant, and equipment and leasing guidance.

Mr. Gramp also mentioned that GSA is working to become a federal provider of cloud services to other federal agencies so that it can quickly access cloud resources without having to go through full procurement and certification efforts with private vendors. He suggested looking at the new Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, guidance as an example for accounting for intragovernmental agreements.

A Board member stated that he had been extolling the cloud-service arrangement project because it touches so many functions within an agency, such as finance, acquisition, and IT. The member asked if there were complexities between the

contracting and finance worlds that the Board should consider when developing accounting guidance. Mr. Jentsch replied that he did not foresee any noteworthy issues but stated that he did not know fully how contract types or cloud expenditure fund accounts could affect FASAB guidance. He explained that contracting officers would typically work with the finance departments for financial reporting but they primarily care about the type of contract and executing within the Federal Acquisition Regulations (FAR). He noted that a significant issue is that the FAR does not address cloud computing or consumption-based acquisitions in general. That coupled with the ambiguity on whether cloud computing is a product or service can make writing contracts tricky. He added that agencies tend to execute a time and materials or firm fixed price contract when procuring cloud services.

Mr. Gramp added that the lack of intangible asset reporting guidance necessitates that accounting and contracting departments communicate closely to determine if there is a financial reporting need for cloud arrangements, such as if reserved instances constitute minimum guarantees. He stated that there is some potential overlap with future cloud-reporting guidance and SFFAS 54. Concerning IaaS, there is inherently underlying physical equipment associated with the cloud service, which could be associated with an embedded lease. However, with SaaS, software is excluded from the scope of SFFAS 54 and does not appear to apply to internal use software because licenses are not typically associated with cloud services. It would therefore be helpful if the Board provided agencies clear and systematic guidance for reporting these types of arrangements so that there is consistency in reporting throughout the federal government.

The Board member followed up the responses by asking if the FAR being outdated regarding cloud-service arrangements was exacerbating the complexities. Mr. Jentsch replied that agencies are looking for clarity on the proper contract vehicle for cloud-service arrangements but that he did not think that issue affected financial reporting.

Another member asked if it were possible for the Board to determine management rights, deliverables, and associated obligations from various cloud-service arrangements, particularly when the agency consumes the benefits and incurs the obligations. Mr. Gramp replied that it would be complicated due to all of the types of cloud services and contract vehicles in the federal environment. He stated that it would require a decision matrix to determine the rights that an agency has for different types of cloud services, such as on premise, private, and public clouds. Mr. Gramp stated that even with reserved instance agreements the customer is guaranteeing it will buy services in the future, but that the customer still consumes the service minute by minute. The question then is if the cloud service justifies liability recognition even if it requires budgetary obligation upfront.

Mr. Gramp stated that it would be important for the Board to offer a simplified approach to determining when a cloud arrangement represents a future right to benefits. Otherwise, the implementation could be overly burdensome for the preparer community parsing the wording of each agreement. The question is whether a cloud arrangement is offering the customer a future right to the benefits of an asset or if the customer is just

locking into a long-term service contract. In other words, does the customer have a right to the future benefits of an asset or a right to future service?

Mr. Jentsch stated that an argument for expensing everything is that with cloud services, the customer is not acquiring a software asset but acquiring the ability to use that software asset. Even with IaaS, a customer is acquiring the ability to use the physical servers through the internet. Additionally, he stated that GSA's legal team recently issued a pronouncement in an acquisition letter that applies to specific cloud-contract procedures and said, "The procedures authorized by this acquisition letter cannot be used for the acquisition, maintenance, or modification of capital assets." Mr. Jentsch stated, however, that he did not know the reason or logic for the pronouncement.

Another Board member suggested that the challenge is to take these complex cloud-service arrangements and simplify the accounting for them so that it is cost-beneficial for preparers to report them. The member asked if it would be beneficial to disclose IT security risks associated with cloud services. Mr. Jentsch replied that did he not have an opinion on whether the Board should require disclosure of cloud security risks but that it certainly was something that IT departments consider.

Mr. Gramp stated that he had not thought about that possibility but alluded to Mr. Jentsch's previous statement that cloud-service providers have to be FEDRAMP certified, which requires a certain level of security. He pointed out that preparers are not currently required to disclose security risks associated with internally developed software and that he does not see a reason why cloud services would be unique for that requirement. He stated that there were most likely different levels of risk associated with the cloud deployment models, with public clouds having the most inherent risks.

Mr. Jentsch acknowledged that it can be worrisome for agencies to put their data into commercial-cloud spaces and that the purpose of FEDRAMP was to create a base level of required security for essentially an expansion of a federal data center into a commercial space. He stated that for small agencies especially that have limited resources, it makes sense from an IT security perspective to move their data to cloud services because the large providers, like Amazon and Microsoft, have the resources and business motivation for ensuring their cloud networks are secure. Ultimately, any IT system is vulnerable to a degree. Management has to balance cost and security and must decide how many locks they want to put on their front door. However, even with 20 locks, someone could always still break in.

Mr. Williams concluded the session by thanking Mr. Jentsch and Mr. Gramp for taking the time to talk to the Board and stated that the presentation and discussion was very informative. He stated that he hoped to continue working with them in the future as the Board begins to develop reporting guidance for cloud-service arrangements.

- **Management's Discussion and Analysis**

Ms. Gilliam introduced [topic C](#), Management's Discussion and Analysis (MD&A), by thanking the members for providing preliminary comments. The goal for the session was to review the draft ED. She explained that this review would start with the standards, move into the basis for conclusions, and then conclude with the remaining sections of the draft ED.

Question 4 – Does the content in *Presenting Information in MD&A* guidance clearly state the Board's intention for management to produce a streamlined narrative that is balanced, integrated, and concise?

Members confirmed that their intent and vision is for preparers to produce a streamlined narrative that is balanced, integrated, and concise. In addition, they agreed that the MD&A should also be understandable. There was some discussion about including “by citizens” after “understandable,” but members voted against that and decided to discuss what type of users they were referring to.

The Board agreed that the lead-in sentence for *Presenting Information in MD&A* guidance should simply say:

MD&A should present a streamlined narrative that is balanced, integrated, concise, and understandable.

Members agreed that the structure for each of the four characteristics of a streamlined narrative—balanced, integrated, concise, and understandable—should include a definition to explain the Board's intent (behavioral changes for preparing an MD&A) and example(s) or indicators of that characteristic.

Ms. Gilliam presented the following proposal for a **balanced** MD&A for the Board to review:

To achieve a **balanced** MD&A, management should include information that is both (1) positive and negative, (2) financial and non-financial, (3) qualitative and quantitative, and (4) performance achievements and challenges.

Members agreed that balanced should include (1) positive and negative and (4) performance achievements and challenges. Members agreed that (2) financial and non-financial and (3) qualitative and quantitative information do not explain the Board's intent for a balanced MD&A and should move to the integrated characteristic for MD&A.

Most members agreed that (1) positive and negative could be part of the definition of “balanced” with (4) performance achievements and challenges listed as an example without formally saying “for example.”

One member shared the GASB description from GASB, Statement 34:

MD&A should discuss the current year results in comparison with the prior year, with emphasis on the current year. The fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year.

Other members said that “balanced” should include what happened that was positive and negative that caused a significant effect on the financial position and condition of the reporting entity, including the results and outcomes. Some members said they did not expect an even amount of positive and negative information. One member wanted a balanced discussion and analysis to include positive and negative trends.

A couple members indicated that they would email Ms. Gilliam suggested wording that she could incorporate and present at the next review.

Ms. Gilliam presented the following proposal for an **integrated** MD&A for the Board to review:

To achieve an **integrated** MD&A, management should present information that is blended into a unified narrative. In doing so, management should avoid boilerplate language, and duplicative and segmented reporting of information. To avoid duplicative information, reporting entities may provide references to other reports, websites, or areas of the agency financial report.

Members agreed to focus on positive wording and not to use negative words such as “avoid.”

Members believed that the intent of “integrated” is about weaving components of information into a whole, complete story.

Members want management to present the interrelationship of financial and operating performance information with budgetary outcomes, based on the structure of the reporting entity as a whole and across its component’s missions. Management should blend (2) financial and non-financial and (3) qualitative and quantitative (moved from “balanced”) types of information to explain these relationships.

Members agreed to move the last sentence to “concise.”

Ms. Gilliam presented the following proposal for a **concise** MD&A for the Board to review:

To achieve a **concise** MD&A, management should discuss and analyze the vital few matters that caused significant changes in GPFFR.

Members agreed that “vital few matters” is an important phrase to include in “concise.” However, members found that trying to describe or define “vital few matters” or its threshold was very difficult. Members agreed that “vital few matters” was not the same as “significant.” Members also agreed that the wording from SFFAS 15, *Management’s Discussions and Analysis*, paragraph 6, and in particular the following three bullets, best

articulated the essential criteria of “concise” and should be included in the new proposed standards:

MD&A should deal with the “vital few” matters; i.e., the most important matters that will probably affect the judgments and decisions of people who rely on the GPFFR as a source of information. (The specific topics mentioned in *Concepts for Management’s Discussion and Analysis* are examples of items that might be relevant for MD&A of a given entity.) Matters to be discussed and analyzed are those that management of the reporting entity believes it is reasonable to assume could:

- lead to significant actions or proposals by top management of the reporting unit;
- be significant to the managing, budgeting, and oversight functions of Congress and the Administration; or
- significantly affect the judgment of citizens about the efficiency and effectiveness of their Federal Government.

The meeting adjourned for lunch.

After lunch, Ms. Gilliam presented the following proposal for an **understandable** MD&A for the Board to review:

To achieve an MD&A that is **understandable to citizens**, management should write in accordance with the Plain Language Act of 2010. Plain language should provide communication that citizens can easily understand the first time they read the MD&A. Writing in plain language should also help citizens understand complex information presented in the GPFFR in a simple summary. For ease of understanding, management should consider incorporating non-narrative tools such as charts, tables, and/or graphs with their plain language narrative.

Members discussed what user audience MD&A should target to determine what is intended by “understandable.” One member pointed out that the MD&A is similar to that of the summary for the consolidated financial report of the U.S. Government (CFR). This summary was renamed **Citizens Guide to the CFR** to specifically state that target audience.

Some members provided references to concepts about “users” and “understandable.” These concepts included:

- Paragraph 76 of Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, which defines “citizen” as one of four user groups

- Paragraph 109 of SFFAC 2, *Entity and Display*, which refers to performance information as be readily understandable to any “reasonably informed and interested party”

Members discussed the difference in users of financial statements compared to those reading MD&A, which is required supplementary information. One member noted that the Board focused on understandability in SFFAC 8, *Federal Financial Reporting*, and materiality in SFFAC 9, *Materiality*. Materiality is not discussed or required in MD&A; therefore, financial statement users might be different from an MD&A user. One member mentioned that SFFAC 9 addresses two essential attributes of a user: (1) knowledge of the federal government’s activities and (2) a willingness to review and analyze the information diligently.

One member mentioned paragraph 4 of GASB’s financial reporting model Statement, which states, “MD&As should be written in a manner that can be understood by users who may not have a detailed knowledge of Governmental accounting and financial reporting.” It also states that the MD&A should be “an easily readable analysis of the Government’s financial activity.”

One member recommended using the term “citizen-centric” to describe how the information should be written and understood. Other members noted that “citizen-centric” describes how the government interacts with citizens and not how government documents are written.

Members agreed that “citizens” was the appropriate audience for MD&A.

Members agreed that management should reference plain language as an appropriate writing style without phrasing it as a requirement and that a footnote to the plain writing act was sufficient. One member noted that “easily readable and understandable” should explain this characteristic. In addition, members agreed that management should also use non-narrative tools, such as charts, tables, and graphics to assist with understandability.

Members also agreed that management may use appropriate headers to identify specific content for ease of understanding the MD&A.

- **Steering Committee**

The Committee reviewed budget estimates for fiscal year 2023. Committee members discussed potential incremental funding to support future staffing. The Committee will continue the discussion at the next meeting.

Adjournment

The Board meeting adjourned for the day at 4:00 p.m.

Thursday, June 23, 2022

Agenda Topics

- **Management's Discussion and Analysis**

Question 5 – Does the content in the *Information Discussed and Analyzed in MD&A* guidance clearly state the Board's intention for what information management should discuss and analyze to understand a reporting entity's financial condition and position?

Ms. Gilliam presented the following proposal for the lead-in sentence for ***Information Discussed and Analyzed in MD&A*** for the Board to review. She explained that staff updated this paragraph based on decisions made by the Board during the previous day's session. For example, staff moved the "reporting entity's mission, organization, and key performance" from *Presenting Information in MD&A* to this paragraph:

MD&A should discuss and analyze the following about the reporting entity's mission, organization, and key performance results^{FN} to assist users in assessing whether the reporting entity's financial position and condition have improved or deteriorated during the reporting period.

FN – Key "performance results" refers to both performance accomplishments and performance challenges. Management uses judgment in identifying what performance results are key.

One member provided the following sentence from GASB's MD&A Statement and explained that GASB was very specific as to what the requirements were:

The information presented should be confined to the topics discussed in the five sections outlined below.

Members decided to streamline the lead-in sentence to simply introduce the information the Board wants MD&A to present.

Members agreed that "organization and mission" should be moved out of the lead sentence and into the first paragraph.

The "organization and mission" paragraph should explain that a reporting entity should be flexible when determining how much information to include in the MD&A. For example, the volume of information could depend on the size and complexity of the reporting entity.

Ms. Gilliam explained how the pilot helped to test that out. For example, the Department of Health and Human Services (HHS), a very large reporting entity, has a number of different agencies. For organization and mission, staff recommended that HHS write a short paragraph, approximately 2-3 sentences, to explain that nature of each agency

and what it is responsible for achieving. However, for a small agency, such as the National Labor Relations Board, a paragraph for its mission and organization structure may be sufficient.

One member asked if tiered reporting, similar to what Australia does, could be considered for federal financial MD&As. This could potentially make MD&A optional for small entities. Ms. Gilliam explained that staff addressed this during the pilot. Per SFFAS 15, MD&A is required for any agency doing financial reports. However, by streamlining the MD&A, agencies of all sizes can include the amount of content that is appropriate for the size of their organization. Staff worked with the Small Agency Counsel and those agencies that participated were comfortable with the effect of streamlining their MD&A.

Members agreed that the purpose of the MD&A should be stated in this document but not necessarily in this paragraph.

Ms. Gilliam presented the proposed standard for **financial information**:

Significant changes for both the prior reporting period and significant trends over multiple reporting periods in assets, liabilities, net position, net cost/revenues, and budgetary and financing resources.

Members agreed that the second paragraph will explain why the financial position and condition improved or deteriorated and where spending has occurred. This will be accomplished by discussing significant changes from the prior reporting period and significant trends for financial statement balances, including costs and revenues. This paragraph should also include a discussion about balances related to business-type operations, social insurance statements, and statements of long-term fiscal projections of the CFR. If “sustainable” is discussed, it should be modified with “fiscal” or “financial” to distinguish it from ESG.

Ms. Gilliam presented the proposed standard for **performance results**:

- a. MD&A should explain key performance results in relation to the financial and budgetary resources used. MD&A should explain what significant challenges, if any, occurred while trying to achieve performance results and how budgetary or financial resources needs were affected. This analysis should explain why significant costs reported in the financial statements were incurred and how they were used to achieve performance results in relation to what the reporting entity expected to achieve.^{FN}
 - i. An analysis of performance results in MD&A is required for component reporting entities.
 - ii. An analysis of performance results in MD&A is not required in the Financial Report of the U.S. Government.

FN – Government Performance and Results Modernization Act (GPRAMA) reporting may be referenced but detailed GPRAMA information should not be the focus of how management analyzes performance results in the MD&A.

One member wanted to change “performance results” to “financial and performance results.” Ms. Gilliam reminded the Board that members reached a consensus at a previous meeting that the focus of the MD&A should be on financial position and financial condition. Members did not make the suggested change.

Members agreed to the following changes:

- Streamline this paragraph to clearly state the Board’s intent to understand key performance results in relation to costs incurred and any significant impacts to budgetary and/or financing resources.
- Update the footnote about the GPRAMA reporting timing inconsistencies.
- Move i and ii to a footnote about how the CFR could present consolidated performance results with more explanatory information in the basis for conclusions.

Ms. Gilliam presented the proposed standard for **systems, controls, and non-compliance**.

MD&A should explain what systems, internal controls, and/or compliance with federal laws and regulations the reporting entity relies on to produce reliable financial information; and what plans the reporting entity has to address any weaknesses or non-compliance issues.

Members agreed to include management’s assessments of their financial management systems and controls, plans to address significant weaknesses in internal control in systems, and/or non-compliance with applicable laws. Members agreed to reference specific federal laws, such as the Federal Managers Financial Integrity Act, the Federal Financial Management Improvement Act, and the Federal Information Security Modernization Act, without explicitly discussing them. One member referred staff to paragraph 16 of SFFAC 3 for relevant content.

Ms. Gilliam presented the following proposed standard **for opportunities and risks**.

Plans to support opportunities and mitigate significant risks.

Members agreed to

- add the word “significant;”

- keep this as a separate standard instead of repeating it for the financial and performance standards;
- utilize some enterprise risk management (ERM) language such as “risk plans” to support significant opportunities and mitigate significant risks; and
- include how management identified opportunities and risks.

One member asked which opportunities/risks the Board would include. Ms. Gilliam reminded members that they had decided during the risk reporting project (which rolled into this project) that management would need to determine which opportunities and risks they would address through their ERM policies and programs. The Board had decided that it would not be identifying this list, as it is subjective for each reporting entity.

Question 6 – Does the content in the basis for conclusions clearly state how and why the Board developed this proposal?

Ms. Gilliam explained that staff presented an extensive explanation about how the Board developed the MD&A objectives, draft MD&A framework, the pilot, and results. Some members found that to be too detailed. Staff then removed a lot of the detail about the pilot and instead included a footnote with the reference to the pilot results from the April 2022 Board meeting. Some members thought there was now not enough information. Staff then added back information for the June briefing memo. Ms. Gilliam requested the Board come to a consensus on how much information is adequate for the basis for conclusions.

Members had the following comments:

- The basis for conclusions could be clearer by making a few changes.
 - Paragraph A1 should explain what standards-based language means.
 - Paragraph A3 should provide an explanation for pilot results, such as what was meant by “pilot users also wanted to understand a reporting entity’s financial position and condition in a concise and integrated MD&A.”
- A minimal discussion about the history is adequate with footnotes.
- Objectives of the project should map to the project page online.
- The Board’s reasoning for the agreed upon wording and expectations for each proposed paragraph should be explained.

- It is important to communicate how key feedback from the pilot informed Board decisions for the proposed standards.

One member asked whether information about the initial burden for implementing these proposed standards should be discussed in the basis for conclusions. Ms. Valentine responded that this information is not normally included in the basis for conclusions. Another member said that information is already noted in other areas of the ED and will also be in the Statement. The member did not recommend adding that discussion in the basis for conclusions. Another member noted that the Financial Accounting Standards Board does include extensive discussion of cost and benefits in its basis for conclusions. Some members thought this was a broader discussion beyond this project and should be discussed in relation to how the Board wants to address this in the future.

Ms. Gilliam said that a question for respondents was added to understand the impact on reporting burden. One member said the information gleaned from the question will help the Board to understand the cost benefit and could be added with the final pronouncement. One member said that there is always going to be additional burden when implementing any new guidance, but eventually it will result in a reduction and give reporting entities more flexibility. Therefore, the member did not believe a discussion about cost was necessary.

The Board did not discuss the following questions:

Question 1 – Does the content in the *Executive Summary* clearly summarize the Board’s intent for this proposal?

Question 2 – Do you believe the content/questions in the questions for respondents will provide members with the feedback needed to finalize this guidance?

Question 3 – Does the content in the *Rescission and Replacement of SFFAS 15* clearly state how this proposal will affect SFFAS 15, SFFAC 3, and SFFAS 37?

Question 7 – Do members believe there are any other major revisions—NOT covered in questions 1-6—that are needed in preparation for public comment of the proposal?

The meeting adjourned for lunch.

- **Climate-Related Financial Reporting**

Ms. Gilliam introduced [topic D](#), the climate related financial reporting project. The objective of this session was to start the second phase of this project, which will develop a climate-related financial disclosure (CRFD) framework. FASAB completed the first phase on May 17, 2022, with the publication of the staff paper *Statements of Federal Financial Accounting Standards That May Be Relevant to Climate-Related Financial Reporting* on the FASAB website.

Question 1 – Do members agree with developing a climate-related financial disclosure framework that aligns with the related Task Force for Climate-Related Financial Disclosures (TCFD) recommendations?

Staff recommended the TCFD model as a basis for developing the FASAB framework for CRFD. Staff understands that TCFD is intended for commercial purposes to help investors understand financial risk from climate changes. Staff, along with a task force, will analyze the TCFD model to recommend which pieces FASAB might be able to use. Ms. Gilliam said that any usable TCFD pieces would need to be adjusted to a government framework, similar to what the Board did with SFFAS 51, *Insurance Programs*.

Some members wanted to understand what “aligns” means and if any other governments are using TCFD for their disclosures. Ms. Gilliam explained that TCFD uses the word “aligns” to indicate which governments, companies, banks, industries, insurance companies, etc., are implementing TCFD. She said that only Canada and California have actually aligned with TCFD for requiring climate-related financial disclosures for government reporting. Many other governments require TCFD only for their banks and insurance company CRFD disclosures.

Members requested an education session to learn about California and Canada’s (Canadian entities) implementation experience to align with the TCFD core elements, how the information is being used, and any lessons learned.

Members agreed that TCFD would be a good starting point to develop a CRFD framework. Members emphasized that the task force should provide information to help determine if there are any other sources that can be used to help develop the FASAB CRFD framework. The task force should also include as many users as preparers and auditors to understand what information users need.

Question 2 – Do members agree with the proposed project plan?

A number of members were not interested in tethering this project to the reexamination project. Therefore, staff will remove that from the project plan. With that change, some members were concerned that the project did not have a specific conclusion, leaving it open-ended. Ms. Gilliam said the outcome would depend on how the Board decides to proceed. For example, there could be a separate climate statement and/or disclosures. Staff will update the project plan once the Board determines a direction. Some members liked the idea of an invitation to comment; some thought the proposed timeline was too aggressive. However, there was no objection to using this project plan as a starting point.

Question 3 – What type of information would the Board like to gain from a task force to help develop the climate-related financial disclosure framework?

Ms. Gilliam thanked members for their email suggestions about information needed from the task force. However, for this session, staff requested that each member share

what was most important for the task force to focus on. Members were interested in the following:

- Climate-related government executive orders (EOs) and other reporting
 - What are agencies doing and reporting in response to the climate-related EOs?
 - What information is available to agencies or is under development that could inform FASAB's efforts and help determine drivers for financial disclosures?
 - What information will agencies provide in relation to recommendations and requirements in Circular A-136, *Financial Reporting Requirements*?
 - Do agencies presently have systems to capture climate-related financial information for EO reporting and/or for financial impacts?
 - What would be the burden (cost/benefit) to capture meaningful climate-related financial information?
 - How could climate-related issues affect FASAB guidance for contingencies?
 - What are the common themes resulting from the 10,000+ responses to the Securities and Exchange Commission's proposed climate-related financial disclosure rules?
- Information and decisions
 - What decisions will users make from climate-related financial disclosures?
 - What information do users need from CRFD for those decisions?
 - Does current FASAB guidance identified in the staff paper provide enough information for climate-related decisions?
 - Are disclosures at certain agencies more important than from other agencies? If so, which agencies?
 - Will management use information from CRFD to make decisions? If so, what information/reports will management need?
 - What historical data is available for amounts spent on past climate-related activities?

- TCFD model
 - How can each piece of the TCFD model be translated to federal user needs instead of investor needs? What are the pros and cons and is anything outside of FASAB's remit?
 - How does FASAB define transition risks, opportunities, and physical risks and the overall applicability as related to federal financial impact?
 - Are there commonalities across reporting entities for the TCFD risks and opportunities?

Ms. Gilliam spoke about recruiting for the task force and said that any observers who were interested in joining the task force should please send her an email. She also noted that a listserv message would be emailed shortly to call for volunteers.

Adjournment

The Board meeting adjourned at 3:30 p.m.

Attachment 1

How to Buy Cloud Computing for Government

Skip Jentsch

IT Specialist – Enterprise Architect
IT Cloud Products Manager
Office of Information Technology Category (ITC)
Federal Acquisition Service (FAS)
U.S. General Services Administration (GSA)



What does the GSA cloud team do for agencies?

- **Free Market Research as a Service (MRAS)**
 - ❖ Agencies fill out a questionnaire, and GSA publishes an RFI on the agency's behalf.
 - ❖ GSA receives, collates and reports results.
- **Free cloud acquisition strategy guidance**
 - ❖ Brand Name Justification and Approval (J&A)
 - ❖ Contract Types to fit Pay as You Go (PAYG) cloud rates
- **Free scope review** of your Cloud SOO, SOW, RFI, RFP, RFQ
- **A GSA Contracting Officer POC** provided to new users of the GSA Schedule
- **GSA's Cloud SIN (518210C)** for all cloud-based products and labor hours (LCATs) for a one stop solution.
- **Content Moderators** of the GSA Cloud Information Center (CIC) at cic.gsa.gov



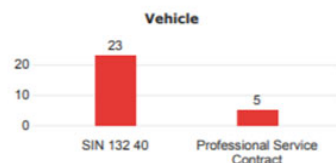
Sample Market Research Report from GSA's MRAS

GSA

A GSA M-RAS Report shows:

1. Size and socioeconomic status of interested vendor firms.
2. How many vendor firms would respond to an RFQ if issued.

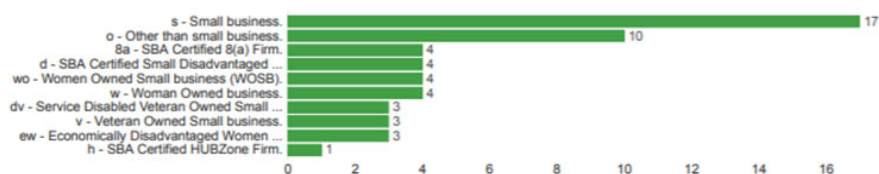
Interested Parties - Recommended Contract



Recommended NAICS - Interested Parties



Socio-economic Status/Business Size - Interested Parties



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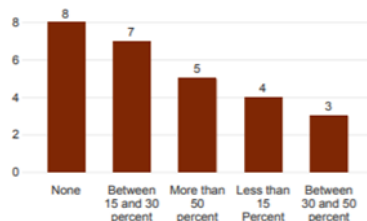
Sample Market Research Report from GSA's MRAS

GSA

A GSA M-RAS Report also shows:

3. Vendors' recommended Contract Type and estimated subcontracting information.
4. Tabulated vendor answers to Yes/No questions from the agency.

Subcontracting Estimation - Interested Parties



Recommended Contract Type - Interested Parties



Technical Yes or No - Interest Parties

Questions	Yes	No
1. Does your company utilize industry best practice to address technical performance, KPI, service level perspectives, and/or contractual business perspectives?	27	0
2. Does your company utilize best practices to provide the government with billing insight?	27	0
3. Does your company possess corporate certifications and partnerships you believe are important for the government to consider?	26	1
4. Has your company had experience within the past 5 years providing services and products to support migration to the cloud with similar scope and scale?	27	0

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GSA's Cloud Information Center (CIC)

Visit cic.gsa.gov for cloud SOO templates, acquisition guidance, and more!

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Cloud Information Center

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Helping Government get on the Cloud

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The What, Why, and How

3

SOLUTIONS

Find the Right Providers

4

ACQUISITIONS

Acquire a Cloud Solution

5

OPERATIONS

Maintain with Confidence

What is the Cloud Information Center?

Provides

- a Managed Collection of Cloud Computing Best Practices, Guidance, and Templates
- an explanation of what Cloud Computing is and the Benefits

Assists

- in identifying and conducting Market Research on Cloud Service Providers (CSPs)
- your journey through the Cloud Lifecycle with Cloud Experts to Support

Promotes

- the Communication and Collaboration between the Government Cloud Community and Industry Experts

Cloud Information Center

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Cloud SOO Templates

The following Statements of Objectives (SOOs) are labor category specific, helping you acquire planning services if you're at the beginning of the process, implementation services if in the middle, and support and sustaining services if on the back end. Government can use these statements of objectives (SOOs) to move legacy systems to the cloud more efficiently, and better plan for developing new cloud applications. Agencies that move to the cloud will realize cost savings quicker through increased efficiency, agility, and innovation, and will require less time to close data centers.

What is a SOO?

A Statement of Objectives (SOO) is a government prepared document incorporated into the Request for Proposal (RFP) that states the overall solicitation objectives. It is often provided in lieu of a Statement of Work (SOW), or instructs the offeror to create a SOW or Performance Work Statement (PWS) to address the objectives stated in the SOO.

What is IN a SOO?

The SOO should provide the basic, top level objectives of the acquisition. From the Federal Acquisition Regulation (FAR), a SOO should contain at minimum Purpose, Scope, Period and Place of Performance, Background, Performance Objectives (i.e. required results), and any operating constraints.

Why a SOO?

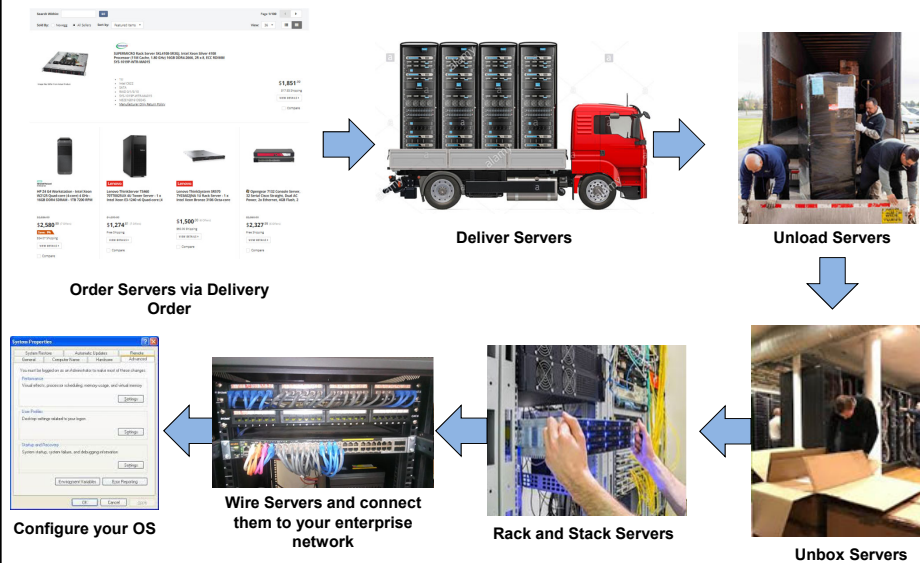
A SOO shifts the responsibility for preparing the SOW from the government to the solicitation respondents. It can be used in those solicitations where the intent is to provide the maximum flexibility to each offeror to propose an innovative development approach.

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How to Add Network Servers – On Premises

GSA



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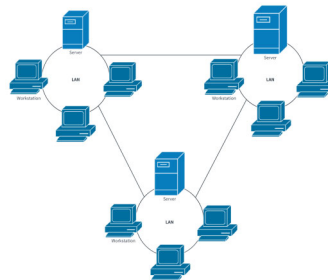
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How to Add Network Servers – In the Cloud

GSA



**Order Online
Cloud Servers**



**Connect Cloud
Servers to the
Agency's Enterprise**

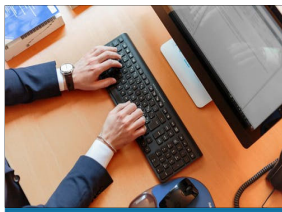
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What Is Cloud Computing?

GSA

The USG uses the 5 part NIST definition of Cloud Computing:



On-demand Self-Service

Unilateral management via an online portal



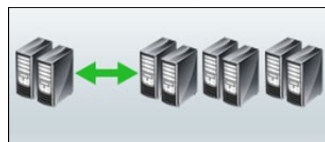
Broad Network Access

Available from all devices and locations



Resource Pooling

Multi-tenant shared resources for economy of scale



Rapid Elasticity

Scale resources up and down quickly



Measured Service

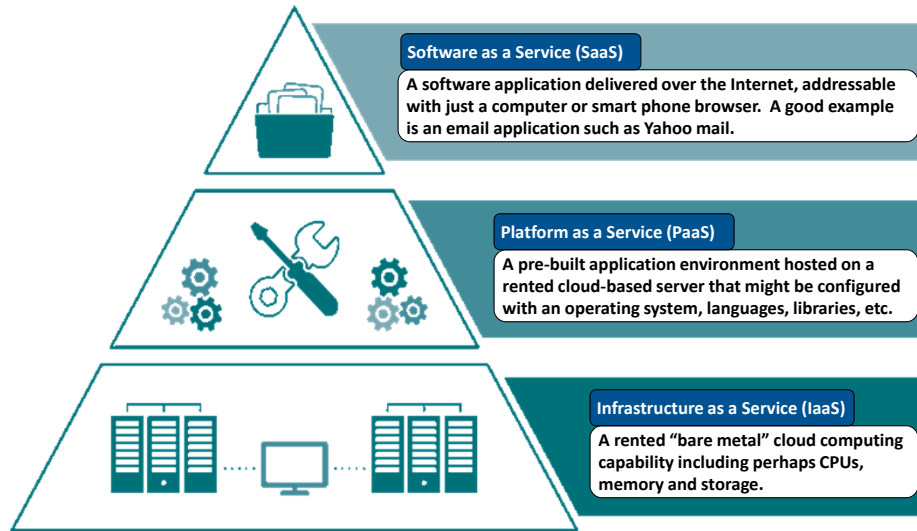
Pay only for what you use, like on a taxi meter

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Cloud Service Models

GSA

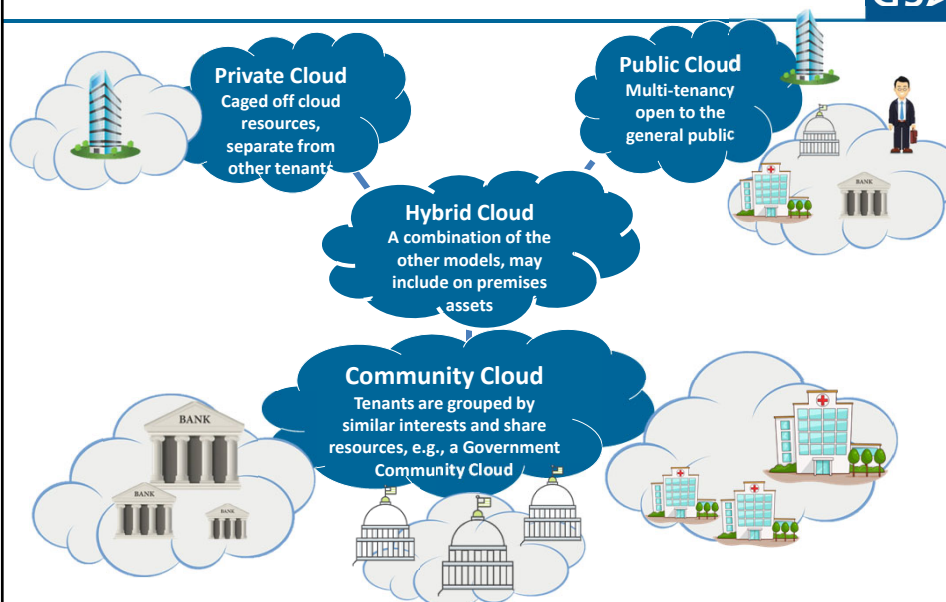


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Cloud Deployment Models

GSA





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Pizza as a Service – An Analogy

GSA



 Homeowner's Responsibility
 Pizza Service Provider

	Home Made Pizza	Take and Bake	Pizza Delivery	Dine at the Pizza Shop
Dining Table				
Utensils				
Electricity/Gas				
Oven				
Tomato Sauce				
Toppings				
Cheese				
Pizza Pie Pan				
Kitchen Facilities				
Pizza Expertise				
	(On Premises)	(IaaS)	(PaaS)	(SaaS)

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Responsibilities: Agency vs. Cloud Service Provider

GSA

	On Premises	IaaS	PaaS	SaaS
Data governance & rights management				
Client endpoints				
Account & access management				
Identity & directory infrastructure				
Applications				
Network security controls				
Operating system patches and versions				
Hosting infrastructure				
Network infrastructure				
Physical datacenter				

 Agency
 Cloud Service Provider

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USG IT Security Guidance: For Non-Cloud Systems



- **FISMA – Federal Information Security Management Act (2002):** Establishes categories for sensitivity of data, i.e., FISMA “high”, “moderate” and “low” data. Repealed Computer Security Act of 1987. The DoD has a roughly equivalent Cloud Computing Security Requirements Guide (SRG).
 - Loss of Confidentiality – did the bad guys view the data?
 - Loss of Integrity – did the data become corrupt and permanently unreadable?
 - Loss of Availability – did the data go offline?
 - FISMA High example – crime tipster names & addresses, if revealed, a threat to life & limb
 - FISMA Moderate example - if data is unreadable, would cause some serious financial damage
 - FISMA Low example – loss of today’s menu at your agency’s cafeteria
- **OMB Circular A-130**, directs how all USG IT systems are managed. First appeared in 1985.
- **NIST SP 800-37, 800-137, 800-53**, are manuals that contain hundreds of security controls for risk management, indexed by FISMA “high”, “medium” and “low”. One security control might be “all passwords shall be 8 characters in length.”
- **Assessment and Authorization (A&A.)** required by FISMA, the agency’s IT system is assessed against the NIST security controls indexed by FISMA. The product is an Authority to Operate (ATO.)
- **Authority to Operate (ATO)** is a summary of the results of the A&A and an assumption of known IT security risks. Signed by the system owner, usually the agency head, before the system is **authorized** to be put into operation.

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Cloud Security: What is FedRAMP?



- When adding cloud services (IaaS, etc.) the agency is extending the boundary of its computing enterprise to the CSP’s (cloud vendor’s) premises and so the CSP is subject to the A&A/ATO process. OMB mandates the use of the FedRAMP process when drafting agency A&A/ATOs for cloud services.
- These FedRAMP security controls are added to the NIST baseline for cloud instances:
 - ❖ FISMA High = 421 cloud controls added by FedRAMP
 - ❖ FISMA Moderate = 325 cloud controls added by FedRAMP (Reciprocity with DoD IL 2)
 - ❖ FISMA Low = 125 cloud controls added by FedRAMP
- CSPs pay for a one time A&A done at their own facilities by a FedRAMP certified consultant. Result: a FedRAMP ATO.
- As part of their system-wide Assessment and Authorization (A&A) process, we know that agencies are required to issue their own ATO before placing cloud hosted data or software application into service. Agencies may also include a CSP’s FedRAMP ATO for their new cloud instance by reference and thus leverage it when drafting their complete agency-wide ATO.
- Agencies that wish to review the detailed security documentation for any CSP holding a FedRAMP ATO may request it from FedRAMP.gov. FedRAMP performs continuous monitoring of FedRAMP authorized CSPs.
- It’s not enough to copy any old software application to a FedRAMP’ed CSP platform. The software application itself must also be assessed. Remember SQL injections?

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How Cloud Computing is Sold

GSA

- ✓ **By the Minute, Seconds, Hours or Days**, for CPUs, storage or memory for virtual machines in the cloud. Charges accrue for provisioned CPUs, running or not.
- ✓ **For IaaS/PaaS: By a Defined Long Term, sometimes called a “Reserved Instance,” or “Reservation”** for a bundle of many pre-configured cloud CPUs over a long term purchase commitment of 1-3+ years. Available at a steep discount of as much as 30%-70%, usually for IaaS/PaaS only.
 - ✓ May sacrifice some pay as you go consumption advantages but keeps the other cloud advantages such as agility.
 - ✓ May carry a “use or lose” cloud services component and/or up front payment options that may cause funding violations so check with your finance staff.
 - ✓ The purchase commitment may span multiple government fiscal years and/or the period of performance (POP) of the cloud contract, causing funding/contracting violations. Again, check with your contracting/finance staff.
- ✓ **For SaaS/EaaS: By the Application User Seat per Day, Month or Year**, in the case of SaaS or EaaS.

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How Cloud Computing is Sold - Continued

GSA

- ✓ **By the Transaction**, as in the case of large SaaS databases. Login may or may not be free, and a per transaction charge only accrues when the customer issues a query against a large database (e.g., real estate or scientific applications.) Another example, for IaaS, might be a charge for each read/write disk operation, sometimes sold in dollars per 10M operations, etc.
- ✓ **By the Bandwidth Consumed**, often as a surcharge on top of IaaS/PaaS. Calculated from the up/down bandwidth used when addressing the cloud instance.
- ✓ **By a Percentage of Spend**, where charges accrue as a percentage of the underlying CSP spend being managed by the SaaS application. Often used by cloud management platform SaaS applications, which offer dashboard and management capabilities across multiple CSPs and their catalogs.

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Best Practices for Contracting for Cloud Computing



- ✓ **Draft a broadly defined Statement of Objectives (SOO)**, not a Performance Work Statement (PWS), or a Statement of Work (SOW) for access to entire catalog of CSP services.
- ✓ **Draft the requirements as capabilities-based, not performance-based.** You may not want a solution-based response for specific CPUs, etc. Access to entire catalog is desired.
- ✓ **Consider a BPA against GSA Schedule** which may be used to execute multiple Task Orders (TOs), each with its own funding and different contract type (T&M model or FFP) with no further competition. BPAs may be issued against GSA Schedule under FAR 8.405-3(a)(1).
- ✓ **OCONUS vs CONUS [(Outside)Continental US].** If a CSP stores your data in a foreign jurisdiction, its servers may be subject to the laws of that jurisdiction and therefore risks government data being seized by a foreign government. Expect to pay more for CONUS storage.
 - ✓ For defense agencies, DFARS Part 239.7602-2 says that all DoD data not on DoD premises must be stored within CONUS, with some exceptions made by the "authorizing official."
 - ✓ For civilian agencies, policies on this issue differ from agency to agency

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Best Practices for Contracting for Cloud Computing - Continued



- ✓ **Consider a requirement for direct access to CSP usage and billing/utilization reports;** with no single line item cloud charges. No reseller-provided 3rd party **Cloud Service Broker (CSB)** cloud management tools or cloud auto-configuring in CSB applications, even for free.
- ✓ **Consider awarding to a reseller of more than one CSP.** A single award to a multiple-CSP reseller eliminates the need for a multiple award BPA to cover several CSPs. Another possibility: A single solicitation for multiple single award BPAs, covering several CSPs.
- ✓ **Do not make a FedRAMP Authorization a requirement to bid** (legal folks say this limits competition.) Instead, score respondents on their stated FedRAMP status.
- ✓ **The best funding for cloud services may be more flexible working capital** rather than appropriation funding that does not span years.
- ✓ **Cloud Solicitations:**
 - ✓ Templates: The Cloud Information Center at <https://cic.gsa.gov/>
 - ✓ Contains several templates for cloud SOOs
 - ✓ Live RFQs: GSA's eBuy Open at <https://www.ebuy.gsa.gov/ebuyopen/>
 - ✓ Requires OMB MAX login
 - ✓ Filter by "Category" 518210C to view agency RFQ IDs and POCs for active/closed cloud RFQs

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Best Practices for Contracting for Cloud Computing - Continued

GSA

✓ Is a Brand Name Justification Appropriate?

- ✓ Cloud is often sold through many resellers of a single CSP's catalog. In this case the "source" is the CSP, but competition among many resellers of the CSP's catalog may be available.
- ✓ A Sole Source would target a seller of the specific CSP catalog offerings, while a Brand Name Justification would allow all resellers to compete for the CSP catalog offerings "source."

✓ Is Migrating from one CSP to Another Appropriate? The best CSP cloud tools (e.g., APIs, auto-scaling, cacheing, container services, etc.) are designed to make cloud applications run faster and efficiently and are part of the reason to migrate to the cloud. But they often require extensive configuring/customization for those tools to run well. Therefore the cost to disentangle a portfolio of applications from one CSP and re-engineer the applications to run well on another CSP's platform may be expensive.

- ✓ *FAR 6.302-1 "Supplies may be deemed to be available only from the original source in the case of a follow-on contract for the continued development or production of a major system...when it is likely that award to any other source would result in...substantial duplication of cost to the Government that is not expected to be recovered through competition...."*

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May Cloud be Acquired as a Small Business Set Aside?

GSA

- Cloud is usually sold via resellers, not directly by the CSP
 - Resellers are often small businesses, while CSPs are often large businesses.
- The **SBA** considers Cloud (IaaS, PaaS, etc.) as a **service**, not as a **product**.
"Subscription services, remote hosting of software, data, or other applications on servers or networks of a party other than the U.S. Government are considered by SBA to be services and not the procurement of a supply item. CFR 121.1203(d)(3)"
 - **Products** may be acquired as a set aside if the small business reseller prime pays to its CSP subcontractor(s) $\geq 50\%$ of the cost of the product.
 - **Products** under the **non-manufacturing rule(NMR)**: The NMR says that a small business reseller may supply a **product** as a set-aside if it comes from another small business. CFR 121.406 (CSPs are usually large businesses so this may not apply.)
 - **Products** may receive a waiver of the non-manufacturing rule only if no small business can supply the **product**. CFR 121.1203(d)(3).
- Therefore, since the SBA considers cloud computing as a **service**, and not a **product**, none of the above set-aside strategies are valid. **A cloud set-aside might not be defensible against a solicitation Q&A or defensible against a protest by a large CSP.**

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Cloud as a Small Business Set Aside - Continued



- SBA issued a final rule effective on 12/30/2019 as 84 FR 65647
 - *In a prior rulemaking, SBA determined that...cloud computing...should be considered a service and therefore the NMR would not apply. 13 CFR 121.1203(d)(3). Due to the costs and scale involved, cloud computing is generally provided by other than small business concerns.*
 - *Of course, where cloud computing itself is the **primary purpose** of the procurement, the limitations on subcontracting could not be met by a small business, and, therefore, such a procurement should not be set aside or reserved for small business.*
- **So to answer the question “Can cloud computing be acquired as a small business set-aside,” the answer is generally No...**
 - But yes if the vendor itself (or any cloud subcontractor(s) or CTA) is a small business. (Not generally likely since most CSPs are large businesses.)
 - But yes if the vendor is a small business and the CSP cloud subcontractor or CTA is a large business and the cloud computing is **not** the “primary purpose” of the acquisition. (Not likely if the acquisition is only for cloud computing.)

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FAR Restrictions on the T&M Contract Type



- **FAR Restrictions:** The FAR may be creatively applied to cloud computing just as it does to any other IT procurement using a funding burn rate model. It should not be an impediment to the purchase of cloud services.

FAR 1.102(d) In exercising initiative, Government members of the Acquisition Team may assume if a specific strategy, practice, policy or procedure is in the best interests of the Government and is not addressed in the FAR, nor prohibited by (any other) law...that the strategy, practice, policy or procedure is a permissible exercise of authority.

- Yes, FAR Part 16.601 only speaks of a T&M or Labor Hour contract type in the context of an acquisition of commercial services (i.e., labor.) But since the FAR does not specifically prohibit the acquisition of cloud computing using the T&M model one might be able to interpret the FAR as permitting acquisition of cloud computing on a T&M model contract.

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Why use the GSA Multiple Award Schedule (MAS) or “GSA Schedule” for Cloud Computing?

GSA

- ✓ **Ordering falls directly under FAR Subpart 8.4**, with 15,000+ pre-vetted local/global contractors offering 20,000,000+ products and services. The largest government wide contract of any kind. Also available to state, local and tribal governments.
- ✓ **A Self Service Platform.** A Delegation of Procurement Authority (DPA) and DPA extra training class is *not* necessary. Training events listing: <http://www.gsa.gov/events>
- ✓ **GSA Schedule ceiling prices** can be further discounted via vendor-to-vendor competition and also via government-to-vendor negotiations down to the Task Order level.
- ✓ **GSA Schedule allows both FFP & T&M contract types.** You might establish a Firm Fixed Price for cloud, or perhaps a cloud contract that is similar to a Time & Materials model with NTE CLINs with dedicated funding with a calculated burn rate.
- ✓ **A Single Award BPA may be awarded with no up front funding against GSA Schedule (FAR 8.405-3)** that can be used over and over by sub-agency departments without the need to compete each individual Task Order (TO). Each BPA TO may carry a *different* contract type (FFP/T&M.) Each TO under a BPA also carries its own funding, making a BPA a good fit for agencies whose funding for cloud is not fully available at time of award, where funding for cloud trickles in during the course of the fiscal year(s).

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Cloud Special Item Number 518210C (Old 132-40)

GSA

- ✓ **A subset of GSA MAS vendor offerings.** The SIN lists cloud computing offerings that meet the NIST Definition of Cloud Computing (NIST SP 800-145.)
- ✓ **The Cloud SIN also contains the cloud-focused labor hours for any cloud project for an all in one solution.**
- ✓ **Agencies might solicit only the cloud-qualified vendors on the Cloud SIN and still satisfy their competition requirements.**
- ✓ **The Cloud SIN now includes 425+ offerings from 240+ vendors.**
- ✓ **Vendors may submit proposals to be listed on the Cloud SIN at anytime.**
 - ✓ **Onboarding of new cloud vendors is continuous.**
 - ✓ **Vendor proposals must pass a technical evaluation by the GSA Cloud Team of whether the cloud offering meets the NIST definition of cloud computing.**

POC: Skip Jentsch, skip.jentsch@gsa.gov, 202-617-5356

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DEOS - BPA for DoD



- ✓ DEOS: Defense Enterprise Office Solutions - a BPA for all DoD, including 4th of State entities
 - ✓ For Microsoft O365 cloud word processing, email, spreadsheet, presentation tools, etc.
 - ✓ A Single Award BPA for fast (30 day) Task Order processing - no competition required
 - ✓ Period of Performance (\$4.4B) 10 years from October, 2020 to 2030 (with option years)
 - ✓ No labor hours are available on the BPA for any customization
- ✓ GSA's Assisted Acquisition Service administers the DEOS BPA and all its Task Orders, for cradle to grave GSA acquisition support, after signing an Interagency Agreement (IAA)
- ✓ GSA manages a portal for DEOS on the GSA Acquisition Gateway at <https://hallways.cap.gsa.gov/app/#/gateway/deos> (OMB Max required)
 - ✓ There is an intake form on the portal that DoD agencies may use to get info or start the process
- ✓ DEOS POC is at deos@gsa.gov

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GSA Cloud-Focused Network and Telecom Offerings



- ✓ GSA Enterprise Infrastructure Solutions (EIS)
 - ❖ A network and telecom based Best in Class (BIC) government wide vehicle enabling agencies to modernize their IT infrastructure, voice, data and cybersecurity capabilities
 - ❖ Helps users move to the Cloud with emphasis on:
 - ✓ Secure connectivity to Cloud Service Providers
 - ✓ FedRAMP certified Security as a Service (SaaS) tools
 - ✓ Continuous technology refreshment including Software Defined Wide Area Networking (SD-WAN) and 5G
 - ✓ Trusted Internet Connection (TIC) services that meet updated OMB TIC Policy and CISA TIC 3 guidance
 - ✓ Solutions for TIC 3 use cases and Zero Trust implementations
- ✓ POC: Loren Smith loren.smith@gsa.gov (703) 306-6378

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GSA Alliant 2 GWAC



- ✓ A government wide acquisition vehicle (GWAC)
 - ❖ Primarily used when an agency wishes to contract with a systems integrator to take charge of a cloud initiative
 - ✓ May add cloud services (IaaS, etc.,) as Other Direct Costs (ODCs)
 - ❖ A closed multiple award IDIQ with 52 industry partners
 - ❖ Holds Best in Class (BIC) status
 - ❖ Requires Alliant2 training and Delegation of Procurement Authority (DPA)
 - ❖ POC: Alliant2@gsa.gov, (877) 534-2208

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Technology Modernization Fund (TMF)



The GSA's Office of Governmentwide Policy's (OGP) IT Modernization division is seeking to meet with interested small (non CFO act) Federal agencies one-on-one to discuss a potential partnership to submit a TMF request to support small agency IT modernization efforts.

Given the Administration's investment in the TMF, we think there is an opportunity for us to partner with an interested group of agencies and jointly identify areas for modernization and improvement through TMF investments.

If you'd like to have a one-on-one discussion with the PMO about your agency's IT needs and thoughts about a team-approach to a TMF proposal, please contact kiran.balsa@gsa.gov.

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Cloud Information Center
Visit cic.gsa.gov for acquisition templates, guidance, resources, and much more.



GSA Cloud Assistance
Visit gsa.gov/cloud for more customer support and points of contact.

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Skip Jentsch

**IT Specialist – Enterprise Architect
IT Cloud Products Manager
Office of Information Technology Category (ITC)
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