FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

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Agenda Item

7

Date:	August 29, 2011
Memo to:	Members of the IPSASB
From:	Joy Keenan
Subject:	Financial Statement Discussion and Analysis (formerly, "Narrative Reporting")

Objectives

- To **agree** on the structure and content of the draft Exposure Draft (ED); and
- To **agree** on next steps.

Agenda Material

7.0 Covering Memo

7.1 Draft ED – *Financial Statement Discussion and Analysis*

For information purposes: AAPC MD&A "Best Practices" Task Group document, *Management's Discussion and Analysis – Best Practices*

Background

1. At its June 2011 meeting, the IPSASB considered an issues paper which followed the scope set out in the March 2008 Project Brief. The scope of the project in the Project Brief was limited to narrative reports that were essentially the same as "management discussion and analysis" or "management commentary" reports in the private sector. That is, the report would focus on information contained in the financial statements.

2. On this basis, the IPSASB concluded this project should develop a mandatory IPSAS following the IPSASB's due process for standards, and instructed staff to develop a draft ED for consideration at its September 2011 meeting.

3. In its discussion at the June 2011 meeting, the IPSASB made a number of comments and tentative decisions on the Issues Paper presented. They are documented in the draft minutes extract in Appendix A to this paper.

4. The Task-based Group (TBG) reviewed a draft of the ED in August. The TBG is:
   - Hong Lou (Yangchun Lu)
   - Bharti Prasad (Preeti Jha)
   - Ron Salole
   - Frans van Schaik

5. The TBG made a number of suggestions, notably that the ED should include an illustrative example of what financial statement discussion and analysis could look like (see discussion of the Illustrative Example below).

6. The IPSASB is asked to consider whether the draft ED addresses the IPSASB's comments appropriately, and what further changes are necessary to the draft ED to ready it for approval in December 2011.

7. Note that your comments need not be limited to information presented in the paper, or changes made to reflect the IPSASB's discussion in June 2011. Please also consider whether any critical issues have not been identified and addressed, as well as the overall structure and presentation of the document.

Questions for the IPSASB:

1. **Overall, do you consider the draft ED to be complete? (Note that staff has not included an Introduction section, based on the proposals in ED 45, and the responses to that ED)**
2. **Is the flow and logic of the draft ED appropriate?**

Specific Issues for Discussion

Issue 1 – Scope

8. The draft ED reflects the IPSASB's tentative decision in June 2011 that the scope of the project should relate only to the financial statements, and that the title for such reports should be "financial statement discussion and analysis" rather than the previous "narrative reporting" which has a broader connotation in practice. This is addressed in the scope (paras. 2–9), the definition of financial statement discussion and analysis (para. 10), and the Basis for Conclusions (paras. BC1–B4). Paragraph 9 contains an explicit statement that the responsibility for preparation of the financial statement discussion and analysis is the same as for the financial statements (as described in IPSAS 1). This is consistent with the assumption that the financial statement discussion and analysis would be presented with the financial statements.

9. The definition is intended to clearly link the financial statement discussion and analysis to the financial statements. The details that were in the definition in the June 2011 Issues Paper have been covered in the other requirements in the draft ED.

10. The IPSASB's views are sought on whether the scope is clearly defined in accordance with the IPSASB's tentative decisions at the June 2011 meeting and whether the definition of financial statement discussion and analysis is clear, complete, and consistent with that scope.

Questions for the IPSASB:
3. **Do you agree the definition of financial statement discussion and analysis and related guidance?**
4. **Are further explanations required?**

Issue 2 – Links to the IPSASB Conceptual Framework[1]

11. The draft ED assumes the same objectives and users for financial statement discussion and analysis as those specified in Conceptual Framework ED 1 (CF-ED 1) because financial statement discussion and analysis is intended to complement and supplement the financial statements.

12. The draft ED also contains guidance on how the objective and users relate specifically to financial statement discussion and analysis.

13. The draft ED also sets out an overriding requirement that the financial statement discussion and analysis should include information that possesses the qualitative characteristics (QCs) of GPFRs set out in CF-ED 1.

[1] Appendices B, C and D to this paper contain relevant extracts from CF-ED 1.

14. The draft ED also contains specific requirements for each of the QCs. This approach is consistent with that taken in IPSAS 1, *Presentation of Financial Statements*. It also contains guidance on how the QCs relate specifically to financial statement discussion and analysis. The TBG had reviewed a draft with only some of the QCs supported with a specific requirement in addition to the guidance. Subsequently, staff developed requirements for each of the QCs, as shown in paragraphs 25-58 of the draft ED. Staff considers it appropriate to start with bold-text requirements for all of the individual QCs, rather than only certain of them. Given the fact that there is guidance in the draft ED indicating the need for balance between the QCs, it would be inappropriate to have some QCs with requirements and some with guidance alone. Staff is of the view that if any of the QCs have a specific requirement, then all of them should.

15. The IPSASB's views are sought on whether there is a need for specific requirements for each of the QCs.

Questions for the IPSASB:

5. **Is the rationale provided for assuming the same objectives, users, and QCs of financial statement discussion and analysis as those set out in CF-ED1 sufficient and appropriate?**
6. **Do you agree with the need for specific requirements related to each of the QCs (paragraphs 25-58) as they apply specifically to financial statement discussion and analysis in light of the general requirement (paragraph 17) that the information in financial statement discussion and analysis possess the qualitative characteristics of GPFRs ?**

Issue 3 – Content of Financial Statement Discussion and Analysis

16. The draft ED contains required minimum content for financial statement discussion and analysis, which was derived from material in the June 2011 Issues Paper and existing pronouncements (both IPSASs and those related to financial statement discussion and analysis.

17. Staff considers these requirements strike an appropriate balance between the need for flexibility to allow entities to tailor the disclosures to their specific circumstances and promoting a degree of consistency among entities. In addition, the Illustrative Example is intended to show how an entity could meet those requirements by providing a frame of reference for preparers, which allows them to consider the entity's specific circumstances.

Questions for the IPSASB:

7. **Do you agree with the required content of financial statement discussion and analysis in paragraph 56?**
8. **Are there other content requirements that should be added?**

Issue 4 – Transition

18. The draft ED contains transitional provisions that are the same as those in IPSAS 1. Staff is of the view that these best apply to financial statement discussion and analysis which is based on the financial statements.

Question for the IPSASB:
9. Do you agree with the proposed transitional provisions?

Issue 5 – Basis for Conclusions

19. The draft ED contains a Basis for Conclusions that reflects the IPSASB's tentative conclusions to date on key issues discussed at the June 2011 IPSASB meeting. As such, at this point, it may require further details based on the IPSASB's decisions at its September 2011 meeting.

Question for the IPSASB:
10. Are the explanations provided in the draft Basis for Conclusions appropriate?
11. Are additional explanations required?

Issue 6 – Implementation Guidance and Illustrative Example

20. At the June 2011 meeting, the IPSASB tentatively decided the draft ED should contain implementation guidance on types of information that may be included in financial statement discussion and analysis to satisfy the presentation requirements. The draft ED contains Implementation Guidance on specific disclosures about financial statement items, transactions, and events.

21. As noted above, the TBG has made a suggestion that an illustrative example be developed for inclusion in the proposed Standard. Staff notes the pros of including such guidance in the IPSAS is that it would provide a starting point for entities preparing such information for the first time. A downside is that it could be seen as a template for preparing financial statement discussion and analysis, notwithstanding the caution in the guidance, which could take away from the usefulness of such reports in assessing the specific circumstances of the entity.

22. An preliminary portion of the Overview section of a proposed illustrative example is provided in Agenda Paper 7.1. It sets out the matters that may be included in an overview or summary section specified in paragraph 59(a) of the draft ED for the financial statements in the example. Those financial statements are based on the format of the financial statements in IPSAS 1. However, because the sample financial statements in that IPSAS do not contain figures, staff has developed the figures based on the relevant figures from IAS 1, *Presentation of Financial Statements*. To the extent that IAS 1 does not address line items in IPSAS 1 (e.g., detailed revenue/expense items), staff has developed these figures based on judgment as to relative proportions of revenue and expense in looking at certain financial statements. The TBG has not yet reviewed this material due to time constraints subsequent to its meeting.

23. If the IPSASB agrees with including an illustrative example in the ED, staff and the TBG would further develop the preliminary illustrative example in Agenda Paper 7.1 for the December 2011 IPSASB meeting by:

    (a) Including a cash flow statement from IPSAS 2, *Cash Flow Statements*;

    (b) Further developing the analyses for additional matters. For example, staff expects to complete a detailed analysis of significant financial statement items, as noted in the implementation guidance and to develop charts and other non-narrative analyses of the information in the financial statements, as is often done in practice.

24. As a result of the preliminary nature of the material prepared thus far, it is not intended, therefore, that the IPSASB focus unduly on the example at this meeting; it is provided to give an initial flavor of the type of illustration that the TBG would further develop between this meeting and the December 2011 meeting if the IPSASB agrees with this approach.

25. Staff notes that another means of encouraging preparation of financial statement discussion and analysis that would comply with the proposed Standard is to provide examples of "best practice" to highlight how entities have met the requirements in practice. The FASAB has prepared such a document, which is included in these materials for information purposes. It is acknowledged that it may not be possible to produce such a document related to the proposed Standard immediately, given that practice is developing and IPSAS-compliant financial statement discussion and analysis will not be available until it is implemented.

Questions for the IPSASB:

12. Do you agree with the need for including the implementation guidance in the draft ED?

13. Do you agree with the need for including the illustrative example in the draft ED? Should the guidance be provided in another way, such as "best practices" illustrations outside of the Standard?

14. Does the guidance provided strike an appropriate balance between the need for flexibility without creating a "template" for financial statement discussion and analysis that would render it less relevant to specific entities?

Appendix A – Extract from Draft June 2011 IPSASB Minutes

9. NARRATIVE REPORTING (FINANCIAL STATEMENT DISCUSSION AND ANALYSIS)

Discuss issues (Agenda Item 9)

Staff led the discussion of the issues presented in the Issues Paper.

The need for this project was questioned in light of determining the IPSASB's project priorities. However, the IPSASB agreed that this type of report is an essential communication to allow financial statements to be better understood for decision making and accountability and thus, should have a high priority. It was noted that keeping the narrow focus was the appropriate way to move the project forward.

Name of report

The IPSASB considered the proposal to change the name of the type of report covered by this project to 'financial statement discussion and analysis'. It was noted that this term best describes the links of the report to the financial statements, which is the intended scope of the project. It also avoids the connotation that it has the broad meaning used in some jurisdictions to encompass such matters as long-tem fiscal sustainability and service performance reporting. Some Members noted the need to consider more broadly, 'what is a GPFR?'. The IPSASB agreed to use the term 'financial statement discussion and analysis'.

Definition

Members did not agree with reference to 'key management personnel' in the proposed definition, as it may be thought to introduce requirements for governance. It was noted that since the FSDA is prepared by those responsible for the financial statements, the reference is not required; however, it was suggested that there be a reference to 'on behalf of the entity'.

It was suggested that the second sentence of the proposed definition should be moved to guidance.

Qualitative characteristics and constraints of FSDA

Staff noted that the qualitative characteristics and constraints were discussed specifically in reference to their impact on FSDA. Members generally agreed with the approach taken, but suggested that in paragraph 46(b), 'verifiable' should be deleted.

Essential content

Members noted that reference to 'elements' in this section should be changed to 'components' to avoid confusion with the usage in the Conceptual Framework and for consistency with the service performance reporting project.

It was noted that risks should be only financial risks given the narrow scope of relating solely to the financial statements.

Members expressed some concerns regarding the list in paragraph 67 of the Issues Paper. It was noted that it should be checked for consistency with the CF-CP4 (see item 3.2) and with the long-term fiscal sustainability and service performance reporting projects. It was also noted that while the disclosures in the list may be appropriate for an entity, it may not be readily applicable to the whole of government. Staff was directed to develop guidance on applying the list to whole of government.

In relation to item 67(e), it was noted that policy is outside the scope of FSDA. Members questioned whether the trend analysis was meant to conclude within the FSDA or whether the information was presented to allow the reader to conclude on trends.

Members cautioned against possible overlap with the long-term fiscal sustainability and service performance reporting projects. It was also noted that in some jurisdictions, the next year budget information may be published before the FSDA. In such cases, changes would be shown in revised forecasts, and it would be inappropriate to include it in FSDA. Staff was directed to include two scenarios—one in which the entity has a structure that includes the published budget and one which does not.

In relation to forward-looking information, Members questioned whether it would include, for example, projections and implementation of new policies. It was also questioned whether this project should follow a similar approach to the IASB Practice Statement, *Management Discussion and Analysis.*

Members generally supported the proposal to include examples of types of analyses that could be provided for financial statement items, with the caution that the downside is a 'boilerplate approach'. This was thought to be counterbalanced by the need to communicate consistent information across entities. Some Members questioned whether the approach taken ought to be the same as that proposed for long-term fiscal sustainability. However, it was noted that given the more advanced state of development of FSDA relative to long-term fiscal sustainability reporting in practice, it was appropriate to provide guidance on the salient information that should be communicated, rather than encouraging experimentation.

Type of pronouncement

Some Members noted that, given that many governments already require or voluntarily provide such reports, it would be appropriate to issue a mandatory IPSAS for FSDA representing best practice. It was also pointed out that because the information is critical to accountability and decision making (it provides a 'bridge' for citizens to understand the financial statements, it meets the requirements to be a standard. Members also noted that while such practice is not yet established for local governments, it was envisaged that a complete set of GPFS would include the statements, notes and FSDA. Others expressed the concern that for some entities, parts of the disclosures may be with the financial statements and others may be in other GPFRs.

A concern was expressed that it would be possible to comply with the proposed Standard and still not provide better information for accountability and decision making. Members noted that, while the proposed Standard would provide a benchmark for minimum reporting requirements for FSDA, guidance should be provided to encourage the highest possible communications in FSDA by clearly stating the objectives of FSDA. A question was raised as to whether going beyond the proposed Standard could conflict with auditability; however, it was noted that if the proposed Standard contained appropriate criteria for preparation overall, auditability would not be impaired. Furthermore, auditability is not within the remit of the IPSASB.

Next Steps

In light of the decision to develop a mandatory IPSAS, the IPSASB directed staff to develop a draft ED for consideration at its September 2011 meeting.

Appendix B – Extract from Conceptual Framework ED 1 on Objectives of Financial Reporting and Users of GPFRs

2 Objectives of Financial Reporting and Users of General Purpose Financial Reports

2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes").

2.2 Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Users of General Purpose Financial Reports

2.3 Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services will also require information as input for decision-making purposes.

2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of this Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives.

2.5 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; some multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations.

2.6 GPFRs prepared to respond to the information needs of service recipients and their representatives and resource providers and their representatives for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided

by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information need may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Information Needs of Service Recipients and Resource Providers

2.7 Service recipients include taxpayers and other members of the community that benefit from the services provided by the government or other public sector entity, whether as a result of exchange or non-exchange transactions.

2.8 For accountability and decision-making purposes, service recipients and their representatives will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interests;
- The range, volume and cost of services provided during the reporting period, and the amounts and sources of their cost recoveries, are appropriate; and
- Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided.

They will also require information about the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

2.9 Resource providers include "involuntary resource providers" such as taxpayers, and "voluntary resource providers" such as lenders, donors, suppliers, fee-for-service consumers and employees.

2.10 For accountability and decision-making purposes, resource providers and their representatives will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

2.11 Lenders and creditors will require information as input to assessments of the liquidity of the entity and to confirm that the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using

resources economically, efficiently, effectively and as intended. They will also need information about the entity's anticipated future service delivery activities and resource needs. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

Accountability and Decision Making

2.12 Service recipients and resource providers will require information for accountability purposes and as input for making decisions. For example:

- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and
- Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the goods and services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a public sector entity or whether to purchase or consume the services provided. However, they can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.

2.13 Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by some users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.

Information Provided by General Purpose Financial Reports

2.14 To respond to the information needs of users, GPFRs will need to provide information about the financial position of the government or other public sector entity as at the reporting date and its financial performance, cash flows, and changes in net assets during the reporting period. GPFRs will also need to provide financial and non-financial information about such matters as the government's or other public sector entity's:

- Service delivery activities, achievements or outcomes during the reporting period, including whether resources have been used economically, efficiently, and

effectively, and in accordance with approved budgets and other authority that justified the raising and use of those resources; and

- Plans and objectives for service delivery in the future, including the anticipated amount and sources of the resources needed to support those plans and objectives.

Financial Position, Financial Performance and Cash Flows

2.15 Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity that can be used to provide particular services in future periods and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery objectives; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

2.16 Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers or were financed by increasing the level of indebtedness of the entity.

2.17 The financial performance of public sector entities will not be fully or adequately reflected in any measure of their financial result (whether described as "surplus or deficit," "profit or loss," or by other terms). Rather, assessments of their financial performance will involve analysis of such matters as:

- The purposes for which resources were used during the reporting period;
- The costs, efficiency and effectiveness of service delivery during the reporting period; and
- Changes during the reporting period in the amount and composition of the resources that are available for the provision of services in the future and claims to those resources.

2.18 Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates

expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.

Compliance with the Budget

2.19 Governments and other public sector entities are accountable to constituents for their use of the resources raised from them, or raised or provided on their behalf. The approved budget of a government or other public sector entity reflects the financial characteristics of the entity's plans for the forthcoming period. It is used to justify the raising of monies from taxpayers and other resource providers, and establishes the authority for expenditure of public monies.

2.20 Information that assists users in assessing the entity's compliance with legally adopted or approved budgets, and its adherence to relevant legislation or other authority governing the raising and use of public monies, is included in GPFRs. Such information is necessary for the discharge of a government's (or other entity's) accountability to its constituents, and will inform decision making.

Service Delivery Achievements

2.21 Reporting non-financial as well as financial information about service delivery activities, achievements or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting this information is necessary for a government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the financial resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

Prospective Financial and Non-financial Information

2.22 Decisions made by a government or other public sector entity in a particular period about programs for delivering and funding services in the future can have significant consequences for:

- Constituents who will be dependent on those services in the future; and
- Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.

2.23 Information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity, and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will enhance the accountability of the entity and provide additional information useful for decision-making purposes.

Narrative Reports

2.24 Narrative reports can provide additional information about the major factors underlying the financial and service delivery performance of the entity during the reporting period. They can also outline the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance. This will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

2.25 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the period and anticipated activities in future periods will provide relevant information about the achievement of these service delivery objectives—for example, information about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.

Other Sources of Information

2.26 GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, some information useful for accountability and decision-making purposes may also be provided by reports other than GPFRs. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

Appendix C – Extract from Conceptual Framework ED 1 on the Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports

3 Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports

3.1 GPFRs present financial and non-financial information about economic or other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.

3.2 The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

3.3 Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs.

3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.

3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory material or other narrative reporting. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements including their notes will be considered in the development of any IPSASs and other pronouncements of the IPSASB that deal with such matters.

Relevance

3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.

3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to them helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.

3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is fully complete, neutral, and free from material error. However, information should be as complete, neutral, and free from material error as is possible.

3.12 A depiction of an economic or other phenomenon is complete if it includes all information that is necessary for faithful representation of the phenomenon that it purports to depict. An omission of some information can cause the representation to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory material necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information, and information about the achievement of service delivery objectives and outcomes, included in GPFRs will need to be presented with the key assumptions that underlie that information, and any explanations that are necessary to ensure that its depiction is complete and useful to users.

3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behaviour.

3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.

3.16 Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

Understandability

3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and narrative reporting of achievements and expectations should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

3.18 Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to

review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—this may occur in respect of programs intended to, for example, enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal.

3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike, and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.

3.24 Information about the entity's financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- The budget of the entity for the reporting period, or prospective financial and non-financial information previously presented for that reporting period or reporting date;
- Similar information about the same entity for some other period or some other point in time; and
- Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions).

3.25 Consistent application of accounting policies to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for narrative reporting of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information represents the phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) checking records of service response times or records of patients treated, (c) observing marketable securities and their quoted prices, or (d) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).

3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of

verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the phenomena that it purports to represent.

3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling it, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgements about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

3.32 Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.

3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

Cost-Benefit

3.34 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs or benefits of information included in GPFRs.

3.35 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

3.36 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.

3.37 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better management decision making. The disclosure of information in GPFRs consistent with the principles identified in this Conceptual Framework and IPSASs derived from them will enhance and reinforce perceptions of the transparency of reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.

3.38 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.

3.39 In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs unless the costs of compliance with those requirements are assessed by the IPSASB to be greater than their benefits.

Balance Between the Qualitative Characteristics

3.40 The qualitative characteristics work together in different ways to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.

3.41 In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

International Public Sector Accounting Standards Board

Exposure Draft 48

Month 2012

Comments are requested by MM DD, 2012

Proposed International Public Sector Accounting Standard

Financial Statement Discussion and Analysis



International Federation of Accountants

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, ED 48, *Financial Statement Discussion and Analysis*, for publication in January 2012. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by May 31, 2012**.

Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website Although IFAC prefers that comments be submitted electronically, e-mail may continue to be sent to edcomments@ifac.org and stepheniefox@ifac.org. Comments can also be faxed to the attention of the IPASB Technical Director at +1 (416) 204-3412, or mailed to:

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Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at http://www.ifac.org

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IPSAS XX (ED 48)—FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

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International Public Sector Accounting Standard (IPSAS) XX (ED 48), *Financial Statement Discussion and Analysis* is set out in paragraphs 1–84. All the paragraphs have equal authority. IPSAS XX (ED 48) should be read in the context of its objective, the Basis for Conclusions, and the *Preface to International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe disclosure requirements for an entity's financial statement discussion and analysis that relates to financial statements that have been prepared in accordance with International Public Sector Accounting Standards (IPSASs). The Standard does not specify detailed lists of specific disclosures, but rather, the type of content expected to be reported at a high level with examples of what such disclosures might look like to allow entities to tailor the disclosures to their specific circumstances.

Scope

2. **This Standard shall be applied to all financial statement discussion and analysis related to general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs.**

3. This Standard applies only to financial statement discussion and analysis. It does not apply to other information presented in either the general purpose financial statements or in general purpose financial reports.

4. **This Standard applies to all public sector entities other than Government Business Enterprises.**

5. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.

Identification and Responsibility

6. **Financial statement discussion and analysis shall be identified clearly, and distinguished from other information in the same published document.**

7. Financial statement discussion and analysis is based on, and intended to complement and supplement, the financial statements prepared using IPSASs. Therefore, an entity should identify in the financial statement discussion and analysis the financial statements to which it relates.

8. For the purposes of this Standard, it is assumed that an entity will make the financial statements available with the financial statement discussion and analysis. In cases when the financial statement discussion and analysis is not presented with the financial statements, it may be necessary to clearly describe the scope of the financial statement discussion and analysis and the period to which it relates.

9. It is important that users can distinguish information that is prepared using IPSASs from other information that may be useful to users but is not the subject of those requirements. Financial statement discussion and analysis should be clearly identified and distinguished from other information presented in general purpose financial reports.

10. For purposes of this Standard, it is assumed that the responsibility for the preparation of the financial statement discussion and analysis is the same party having responsibility for the preparation and presentation of the financial statements as described in IPSAS 1, *Presentation of Financial Statements*.

11. In some jurisdictions, preparation of financial statement discussion and analysis is required by legislation or regulation. In such cases, the financial statement discussion and analysis should refer to the relevant authority.

Definition

12. **The following term is used in this Standard with the meaning specified:**

Financial statement discussion and analysis is a report prepared by those responsible for the preparation of the entity's general purpose financial statements that provides discussion and analysis of information presented in those financial statements.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Objective and Users of Financial Statement Discussion and Analysis

13. **Where an entity prepares its general purpose financial statements in accordance with IPSASs, it shall also prepare financial statement discussion and analysis in accordance with this IPSAS.**

14. Transactions entered into by public sector entities may be complex and the financial statements that report on such transactions may be consequently increasingly complex and detailed. For users to gain a better understanding of information contained in the financial statements, other information is required beyond that contained in the financial statements. The objective of financial statement discussion and analysis is to provide such information to encourage better analysis of the entity's current operations. For example, identification of the main events, trends, and factors that influenced the current reporting period provides useful information for decision making regarding the use of scarce resources.

15. Financial statement discussion and analysis assists the users of the financial statements in understanding and interpreting the financial statements, by expanding on and explaining information contained in the financial statements. It is intended to provide user-friendly descriptions of the entity's financial operations than the financial statements alone, and in ways that users can readily understand. It may also demonstrate linkages and dependencies among financial statement items that users may not otherwise be able to identify.

16. **Financial statement discussion and analysis shall provide users of financial statements with information that assists in their understanding of the financial statements**.

17. The two primary users of financial statement discussion and analysis of public sector entities are the same as those specified for general purpose financial reports (GPFRs)[1]:

    (a) Service recipients (taxpayers and other members of the community that benefit from the services provided by the government or other public sector entity, whether as a result of exchange or non-exchange transactions); and

    (b) Resource providers ("involuntary resource providers" such as taxpayers, and "voluntary resource providers" such as lenders, donors, suppliers, fee-for-service consumers and employees).

18. Service recipients and their representatives require information as input to assessments of such matters as whether the range, volume and cost of services provided during the reporting period, and the amounts and sources of their cost recoveries, are appropriate and whether current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided. They also require information about the entity's anticipated future objectives, and the amounts and sources of cost recoveries necessary to support those activities. Financial statement discussion and analysis assists in providing users with more in-depth information about costs and revenue sources, such as taxes and other charges, to assist them in making such assessments.

19. Resource providers require information as input to assessments of such matters as whether the entity is achieving the objectives established as the justification for the resources raised during the reporting period; funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and is likely to need additional (or less) resources in the future, and the likely sources of those resources. Lenders and creditors require information as input to assessments of the liquidity of the entity and to confirm that the amount and timing of repayment will be as agreed. Financial statement discussion and analysis provides more detailed information about funding and resources.

Characteristics of Information Contained in Financial Statement Discussion and Analysis

20. **Financial statement discussion and analysis shall include information that possesses the qualitative characteristics of general purpose financial reports identified in Conceptual Framework ED 1**.

[1] The users of GPFRs are described in Conceptual Framework ED 1 (CF-ED 1), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*. CF-ED1 is available at: http://ifac.org/Guidance/EXD-Details.php?EDID=0147

21. Because financial statement discussion and analysis complements and supplements the financial statements, it should possess the same qualitative characteristics as for general purpose financial reports, namely:

    (a) Relevance;

    (b) Faithful representation;

    (c) Understandability;

    (d) Timeliness;

    (e) Comparability; and

    (f) Verifiability.

22. The extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. Further, in preparing financial statement discussion and analysis, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.

23. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. For example, there is often a trade-off between the timeliness of information and its reliability. Financial statement discussion and analysis should aim to achieve a balance between the qualitative characteristics to meet the objectives of providing the information. In some cases, depending on the circumstances of the entity, the relative importance of a particular qualitative characteristic may be greater than in others.

24. Application of the qualitative characteristics to financial statement discussion and analysis is set out in paragraphs 23 to 56.

Relevance

25. **Financial statement discussion and analysis shall include information about material financial statement items, transactions, and events presented in the financial statements that, in management's view, are most relevant to understanding the entity's financial statements.**

26. The matters that are important to an entity are also specific to that entity. For example, legislation or regulatory requirements may exist in a jurisdiction, which specify information that is required to be included in financial statement discussion and analysis.

27. Financial statement discussion and analysis needs to be concise to be useful, therefore management must select the most important, or material, matters to discuss. This means that some items that are material to the financial statements, notes, and other sections of the financial statements may not be discussed in the financial statement discussion and analysis. For example, a line-by-line analysis of the financial statements is not generally appropriate. Instead, financial statement discussion and analysis should summarize the most important items, explain the relevant causes and effects, and place them in context. Inclusion of information about immaterial items could make the more important information difficult to find.

28. When dealing with qualitative or future-looking information (e.g., expectations about financial results in the future), it is not generally possible to specify a uniform quantitative threshold above which a particular type of information becomes material.

29. Financial statement discussion and analysis provides management perspective and insights about the financial statements, which increases the relevance of the information. Financial and nonfinancial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. For financial statement discussion and analysis to be relevant it must pertain to the specific circumstances of the entity and add management's insights.

30. Management of an entity has the detailed knowledge of the transactions, events, and conditions reflected in the entity's financial report and of the policies that govern the entity's operations. For example, a discussion of the risks the entity faces would provide relevant information to users about exposure or vulnerability to concentrations (e.g., significant loans to particular regions or industries) or dependence on a particular source of revenue. In addition, a comparison of actual results to those budgeted provides information relevant for accountability purposes.

31. When practicable, duplication of the disclosures made in the notes to its financial statements should be avoided. Reciting financial statement information without analysis, or presenting boilerplate discussions that do not provide insight into the entity's past performance or prospects is unlikely to provide information that is relevant to users of the general purpose financial statements and may create an obstacle for users to identify and understand the most significant matters facing the entity.

32. Generic or "boilerplate" information that does not relate to the specific operations, practices and circumstances of the entity is unlikely to be relevant and should not be included in financial statement discussion and analysis. Likewise, information that simply repeats financial statement information or note disclosures in the financial statements without analysis or explanations that provide insight into the entity's past performance or prospects is unlikely to be relevant to users and may, in fact, make it more difficult for users to understand the most significant matters the entity faces. For example, commentary on the economy that relates specifically to the financial statements would be relevant information for users.

Faithful representation

33. **Financial statement discussion and analysis shall be consistent with the financial statements and be unbiased.**

34. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. To faithfully represent information in the underlying financial statements, information presented in financial statement discussion and analysis should be:

    (a) Based on, and consistent with, the underlying financial statements; and

    (b) Unbiased and balanced in discussing both positive and negative facts and views of management.

35. It is important that information presented in the financial statement discussion and analysis is supported by information in the financial statements, and does not go beyond or contradict the information presented in the financial statements.

36. Financial statement discussion and analysis should be consistent with its related financial statements in order to faithfully represent the information reported. For example, if the financial statements include segment information, the information presented in the management commentary should reflect that segmentation.

37. Information that excludes certain facts (e.g., negative) is incomplete and thus could be biased (not neutral). In cases when financial statement discussion and analysis presents ratios, tables, or charts, they should not distort the information in the financial statements by, for example, using a scale that exaggerates a positive or negative trend.

Understandability

38. **Information provided in financial statement discussion and analysis shall be clear and concise.**

39. Understandability is the quality of information that enables users to comprehend its meaning. Financial statement discussion and analysis complements and supplements the financial statements. It is intended to help users of the financial statements by explaining and interpreting the complex events and transactions in the financial statements in a readable, clear, and simple manner. Financial statement discussion and analysis is not understandable when it uses descriptions that are not too technical, does not provides excessive detail, or is clear in describing those events and transactions.

Timeliness

40. **Financial statement discussion and analysis shall be issued at the same time as the financial statements.**

41. IPSAS 1 requires financial statements to be prepared at least annually. Thus, financial statement discussion and analysis should be prepared on the same frequency.

42. Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. The usefulness of financial statement discussion and analysis is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

43. Financial statement discussion and analysis relates to the current financial statements. In doing so, it may be useful in helping to predict future results by explaining significant changes and highlighting trends. Financial statement discussion and analysis may, for example, include an analysis of trends in financial performance that provides information that is useful beyond the date of the financial statement discussion and analysis.

Comparability

44. **Financial statement discussion and analysis shall be presented on a basis consistent with that in prior years.**

45. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. It is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information. In some jurisdictions, comparisons with prior years' results are required. Comparability is enhanced when the same principles and practices are used for each period for such items as determining ratios and preparation of tables and charts included in financial statement discussion and analysis. In addition, disclosure of those principles and practices, including underlying assumptions and formulae, is useful in interpreting the analyses.

46. Paragraph 42 of IPSAS 1 requires the presentation and classification of items in the financial statements to be retained from one period to the next unless:

    (a) It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IPSAS 3; or

    (b) An IPSAS requires a change in presentation.

47. The same principle applies to financial statement discussion and analysis because it is based on the financial statements. Thus, changes in financial statement discussion and analysis presentation from the prior year would change in the circumstances noted in paragraph 46.

48. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

Verifiability

49. **Financial statement discussion and analysis shall be based on currently-known facts, consistent with the financial information reported in the financial statements.**

50. Information in financial statement discussion and analysis is verifiable when it is based on:

(a) Currently-known facts, decisions, or conditions;

(b) Verifiable and supportable assumptions; and

51. Verifiability is the quality of information that helps assure users that information in general purpose financial reports faithfully represents the phenomena that it purports to represent. In some cases it may not be possible to verify the accuracy of all qualitative and quantitative explanations of such information until a future period, if at all. For example, if the entity's policy, strategy and risk management are included in financial statement discussion and analysis, such information would be less verifiable than, for example, a ratio calculated from information provided in the financial statements.

52. Financial statement discussion and analysis complements and supplements the related financial statements for the reporting period. Accordingly, it is important that it contain information related to that reporting period. While the information provided in financial statement discussion and analysis may reflect information outside of the financial statements (e.g., economic indicators such as changes in the tax base or the employment base), that information should be related to the reporting period and should be from a reliable source.

53. Verifiability of financial statement discussion and analysis is enhanced when the principles and practices used for such items as determining ratios and preparation of tables and charts included in financial statement discussion and analysis, including underlying assumptions and formulae used in the analyses are disclosed. In addition, the methodologies adopted in compiling it, and the factors and circumstances that support a discussion of management's perspectives and analyses, should be transparent. Disclosure of this information permits users to assess the reliability of the information provided.

54. Assumptions should be mutually compatible. Assumptions are mutually compatible when they reflect economic relationships in the jurisdiction (e.g., interest rates, employment rates, GDP). For example, all assumptions that depend on the tax base for a given future period would assume the same tax base level in that period.

55. Financial statement discussion and analysis should clearly describe the basis for how the information is reported, including the unit of measurement. For example, when financial statement discussion and analysis contains charts or graphs showing trends, disclosure of the unit of measurement is necessary to ensure such information can be properly interpreted.

56. This Standard does not require the entity to disclose forward-looking information, such as forecasts or projections. However, management possesses informed expectations regarding the entity's future operations based on its detailed knowledge of the entity's current operations that may be relevant to users. For example, a summary or overview of the entity's objectives, significant events and conditions that affected the financial statements (e.g., significant changes, unplanned events), provides the starting point for assessing the entity's financial performance and trends for the future.

57. For example, identification of the main events, trends, and factors influencing the current reporting period, may help identify potential impacts on future reporting periods by providing information about the entity's intended actions. Forward-looking information is not a prediction of the future, but is intended to set out management's objectives for the entity and its strategy for achieving those objectives.

58. To ensure such information is not biased, disclosure is required of underlying methods and assumptions used to develop the information in such discussions.

Content of Financial Statement Discussion and Analysis

59. **Financial statement discussion and analysis shall include, at a minimum:**

(a) An overview or summary;

(b) A description of the nature of the entity's operations;

(c) Information about the entity's financial risks and uncertainties, including its financial risk management strategy;

(d) Information about the entity's strategy;

(e) A description of changes from prior year; and

(f) An analysis of the financial statements.

60. Financial statement discussion and analysis provides a means of improving public sector entities' accountability and decision making. Although the specific information contained in an entity's financial statement discussion and analysis will vary depending on the facts and circumstances specific to the entity, certain essential elements are important to all financial statement discussion and analysis, as discussed below.

61. When reporting at a whole-of-government level, it is necessary to report specific information by significant segment (e.g., geographic regions or industry such as agriculture, manufacturing, fishing, banking) or function (e.g., health, welfare, education, transportation, recreation, justice) to allow for a better understanding of the significant activities for which the entity is accountable. When the entity is not a government, the nature of the entity's operations may be more homogeneous and readily apparent from the financial statements without reporting by segment.

Overview

62. The overview or summary provides an executive overview of the financial statements and outlines the significant events and activities that have affected those financial statements, without simply reiterating the information presented in the financial statements. It also includes a brief discussion of the purpose of, and information provided by, each of the financial statements and their interrelationships. In addition, this section of the financial statement discussion and analysis would describe the scope of the financial discussion and analysis when certain information is not presented on the same basis as the related financial statements (e.g., due to unavailability of information for the entire entity, or for the full reporting period of the financial statements).

Nature of the entity's operations

63. The nature of the entity's operations helps users to understand the entity and the environment in which it operates. For example, information about the entity's operations may include:

    (a) The entity's mission and vision.

    (b) An organization chart.

    (c) Trends, events and developments in the legal, regulatory, and macro-economic environment specific to the entity, which have or may have a material impact on the entity and its financial performance (e.g., the impact of a regional or international financial crisis on employment, the tax base, or interest rates in the jurisdiction).

    (d) A list of the organizations and segments comprising the entity being reported on (e.g., controlled entities, associates, jointly-controlled entities, and any significant changes).

(e) The entity's main programs, services, service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.

Financial risks and uncertainties

64. Information about the entity's risks and uncertainties helps users to evaluate the impact of risks currently (e.g., contingent liabilities reported in the financial statements) as well as expected outcomes. Information provided may include its main exposures to risk and changes in those risks, along with its policies and strategies for mitigating the risks. It may also include the entity's evaluation of the effectiveness of its financial risk management strategies. Because financial risks and uncertainties may have a pervasive effect on the financial statements, discussion and analysis may be reported separately in the financial statement discussion and analysis, or in relevant sections throughout the report. Information about the entity's financial risks and uncertainties may include a discussion of such matters as a summary of the entity's investment policy and other means of managing its financial risks, insurance coverage (e.g., self-insurance), and other financial controls intended to safeguard financial assets. It may also include the relevant legislation, regulation or body that sets the financial risk management policies for the entity (e.g., when financial risks are managed at a government-wide level).

65. As part of a balanced approach to reporting, the discussion would also consider any of the entity's opportunities. It is noted however, that these would need to be fact-based and take into account currently-known conditions. In addition, underlying assumptions would need to be disclosed.

66. A discussion of the entity's financial risk management strategy helps users obtain a complete picture of the entity's exposure to financial risks (i.e., those that directly affect financial statement items and disclosures), which allows them to evaluate the entity's financial position and financial performance. Such disclosure may include the entity's decision to "self-insure", or to mitigate risk by transferring or sharing it, or through insurance.

67. Additional information may be provided about uncertainties such as environmental issues, and significant events occurring subsequent to the reporting date, which may affect the entity's future operations (e.g., debt issuance, guarantees issued in relation to a financial crisis or service concession arrangement). Information may also be provided about the entity's opportunities; however in reporting such information, care must be taken to ensure it is fact-based, unbiased, and verifiable. This means, for example, that the assumptions made are based on conditions that exist at the reporting date and events that occurred in the current period.

Changes from prior year

68. Information about changes from the prior year, such as variance analysis and actual-to-budget comparisons, is important in helping users to understand trends that may affect future resource requirements.

69. Financial statement discussion and analysis may include quantitative analysis of significant variances between the prior year and current year, including assets, liabilities, revenues, and expenses. This allows users to assess the results of past events, and to understand the extent to which past performance may be indicative of future performance.

70. Financial statement discussion and analysis should discuss both the positive and negative aspects of any significant variances that become apparent through a comparison of the budget to actual or through a comparison of prior year actual results to current year actual results.

71. In some cases, a significant change may have occurred during the reporting period, but the financial statements and quantitative analyses my not illustrate a significant variance because of offsetting factors. Explanations contained in financial statement discussion and analysis may identify and explain significant variances between the current year and prior year such as variances due to changes in how a service is delivered, changes in programs and services provided, and changes due to the level of revenues raised or costs incurred. Some of these may be within the control of the entity (e.g., taxation rates, new or discontinued programs or services, restructuring operations, or changing the method of service delivery), while others may be more due to external factors (e.g., a downgraded credit rating, a decreased tax base, wage contracts, and unexpected events such as a natural disaster). Such explanations may assist users in assessing possible future changes in current services and commitments of the entity.

72. In cases where the entity publishes its annual budget, the subsequent year's budget may be published before the financial statement discussion and analysis is prepared. In such cases, it would be inappropriate to include explanations of any variances in the financial statement discussion and analysis; such changes would typically be reported in revised forecasts. In cases where the entity does not publish its annual budget, explanations of variances may be explained in financial statement discussion and analysis. In cases where the comparison of actual results to budget information is included in financial statement discussion and analysis, IPSAS 24, *Presentation of Budget Information in Financial Statements*, would require a cross-reference to the financial statement discussion and analysis.

73. Paragraph 29(b) of IPSAS 24, *Presentation of Budget Information in Financial Statements*, requires that explanations of material differences between actual and budget amounts to be included in the notes to the financial statements, unless (a) included in other public reports or documents issued in conjunction with the financial statements, and (b) the notes to the financial statements identify the reports or documents in which the explanation can be found. When such explanations are provided in the financial statement discussion and analysis, they would be expected to go beyond an explanation of the differences, and provide greater analysis of the implications of such differences.

74. Information about changes from prior year also assists in understanding and assessing trends in the entity's financial position and changes in financial position. For example:

    (a) Analysis of financial assets provides information regarding the amount of resources available to be converted to cash if necessary. In addition, specific ratios and analysis of cash flows may be useful to highlight liquidity.

    (b) Analysis of revenues by major source may indicate trends and dependencies on specific revenue sources (e.g., government business enterprises (GBEs), transfers, or royalties).

    (c) Analysis of expenses may demonstrate the entity's allocation and use of resources, provide insight into the cost of programs and services, and assist in evaluating the cost of borrowing to finance spending.

    (d) Discussion of significant commitments, contingencies, and subsequent events assists users in assessing future revenue requirements of the entity.

    When such information is presented in a graphical format, the scale of such illustrations should be on a basis that faithfully represents the relationships of the items being analyzed.

75. If information from the financial statements has been adjusted for inclusion in management commentary, that fact should be disclosed. If financial performance measures that are not required or defined by IPSASs are included within management commentary, those measures should be defined and explained, including an explanation of the relevance of the measure to users. When financial performance measures are derived or drawn from the financial statements, those measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs.In addition, narrative explanations of such illustrations may also be required to accurately and completely present the information.

76. Analysis of significant trends assists users in gaining a better understanding of the entity's financial position and financial performance in the reporting period, which can be used as a basis for assessing its future financial position and financial performance. In some cases, analyses may include forward-looking information. In such cases, supporting assumptions and formulae used in the analyses, as well as the methodologies adopted in compiling it should be disclosed. The assumptions used should be based on currently-known facts and circumstances and should be mutually consistent.

77. To present the most relevant information, trend analysis should provide information for several prior years if the information is available and can be presented in a consistent manner. The source of information related to periods not covered by the comparative information in the financial statements to which the financial statement discussion and analysis pertains should be disclosed. In cases where the presentation of the underlying financial statements has changed in accordance with paragraph 42 of IPSAS 1, the presentation of any information in the financial statement discussion and analysis based on the changed financial statements would also change.

78. In some cases, historical information may not be readily available on which to base trend analyses for some or all of the entity's operations. In such cases, the entity should do trend analysis with information it possesses that meets the qualitative characteristics and disclose in the financial statement discussion and analysis that historical information is not readily available. When the data is available for only part of the reporting entity, the financial statement discussion and analysis should clearly describe the scope of information including the fact that information related to certain activities is not available.

79. Other changes may affect the trend analysis. For example, when a government restructures its operations or chooses an alternative method of service delivery, this may affect certain trends. In cases where such changes have significantly affected a trend, the entity should describe the reasons for the changes in the trend in the financial statement discussion and analysis.

The entity's financial statements

80. Information about the entity's financial statements would include information about the entity's:

    (a) Financial position;

    (b) Financial performance;

    (c) Cash flows; and

    (d) Commitments, contingencies, and events after the reporting date.

Transition

81. **The provisions of this Standard shall be applied from the date of first adoption of this Standard, except in relation to items that have not been recognized in the financial statements as a result of transitional provisions under another IPSAS. The provisions of this Standard would not be required to apply to such items until the transitional provision in the other IPSAS expires. Comparative information is not required to be included in financial statement discussion and analysis in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs.**

82. Notwithstanding the existence of transitional provisions under another IPSAS, entities that are in the process of adopting the accrual basis of accounting for financial reporting purposes are encouraged to comply in full with the provisions of that other Standard as soon as possible.

Effective Date

83. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

84. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's financial statement discussion and analysis covering periods beginning on or after the date of adoption.

Appendix A

Amendments to Other IPSASs

IPSAS 24 *Presentation of Financial Statements*

Paragraph 19 is amended as follows:

1. ~~Management~~ Financial statement discussion and analysis, operations review, or other public reports that provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In accordance with paragraph 14(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements, unless (a) included in other public reports or documents issued in conjunction with the financial statements, and (b) the notes to the financial statements identify the reports or documents in which the explanation can be found.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS XX (ED48).

Scope

BC1. The IPSASB approved a project in March 2008 to address "narrative reporting". In developing this Standard, the IPSASB clarified that the scope of the project is to address only those reports that provide discussion and analysis specifically pertaining to an entity's general purpose financial statements, and not broader types of reports that may be considered general purpose financial reports as envisaged in the IPSASB's Conceptual Framework.

BC2. The report is intended to address similar matters to reports that may be termed "management discussion and analysis" and "management commentary" in various jurisdictions. The IPSASB did not consider those terms to accurately describe the nature of the report in relation to the financial statements. The IPSASB considers the term "financial statement discussion and analysis" clearly defines the scope of applicability of this Standard and its close linkage to the financial statements.

BC3. The IPSASB considered whether financial statement discussion and analysis should be mandatory for entities that prepare their financial statements in accordance with IPSASs. Many jurisdictions already require public sector entities to provide such reports. The IPSASB determined that financial statement discussion and analysis is an important tool for accountability and transparency because it enhances financial statement users' understanding of the financial statements. The IPSASB concluded that financial statement discussion and analysis should be prepared by all entities that prepare their financial statements in accordance with IPSASs.

BC4. The IPSASB also decided it was important to link financial statement discussion and analysis to the financial statements because the financial statement discussion and analysis is intended to complement and supplement the financial statements, and not to stand alone.

Links to the IPSASB Conceptual Framework

BC5. The objective of financial statement discussion and analysis is to complement and supplement an entity's general purpose financial statements. The IPSASB concluded that the objective and users of financial statement discussion and analysis should be the same as those identified for general purpose financial reports in the IPSASB's Conceptual Framework ED 1 (CF-ED 1). The IPSASB also concluded that the information in financial statement discussion and analysis should possess the qualitative characteristics constraints of general purpose financial reports. Accordingly, IPSAS XX (ED 48) contains requirements that financial statement discussion and analysis contain information that is consistent with the qualitative characteristics in CF-ED 1. It also contains specific requirements for each of the qualitative characteristics. The IPSASB is of the view that these additional requirements are necessary to provide a common basis for determining the information to be provided in financial statement discussion and analysis.

Content of financial statement discussion and analysis

BC6. The IPSASB noted that the content and format of presentation of financial statement discussion and analysis should be determined by the entity, in a way that best reflects its circumstances, noting that the specific information contained in an entity's financial statement discussion and analysis will vary depending on the facts and circumstances specific to the entity. The IPSASB wishes to avoid a checklist approach that may result in an entity reporting less relevant information. Accordingly, some flexibility is provided in the content and format. However, the Standard contains certain essential required content that is important to all financial statement discussion and analysis.

BC7. This Standard contains non-mandatory implementation guidance and an illustrative example to illustrate the types of information that may be provided to comply with the presentation requirements. In developing the Standard, the IPSASB weighed the need for flexibility against the need for comparability among entities. The IPSASB considered the view that there is a risk that undue emphasis could be placed on the implementation guidance in applying the presentation principles. Furthermore, the Board observed that such guidance or examples could be misinterpreted and thus reduce the flexibility in applying the Standard. On balance, the IPSASB concluded that providing high-level implementation guidance, and not detailed illustrative examples, best meets the need for consistent reporting among entities while still providing sufficient flexibility to tailor the report to an entity's specific circumstances.

Forward-looking information

BC8. This Standard does not require the entity to disclose forward-looking information, such as forecasts or projections. However, the IPSASB concluded that forward-looking information could provide useful information in interpreting an entity's financial statements, and has thus provided guidance on how such information should be included in financial statement discussion and analysis. For example, information about an entity's financial risk management policies, and trend analyses of significant financial statement items, may assist users in assessing the extent to which resources will be available to support future service delivery objectives and the amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources. To ensure such information satisfies the qualitative characteristics, the methods and assumptions underlying the preparation of such information is required to be disclosed.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS XX (ED 48).

The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS XX (ED 48).

IG1. Paragraph 20 requires financial statement discussion and analysis to include information about all material financial statement items, transactions, and events presented in the financial statements that are most relevant to the entity's circumstances. This Implementation Guidance includes guidance on the type of information an entity may provide in its discussion and analysis to satisfy that requirement.

Financial Position

IG2. Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity that can be used to provide particular services in future periods and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery objectives; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

Financial assets

IG3. Financial statement discussion and analysis may include the following information pertaining to an entity's financial assets:

(a) Changes in financial assets to illustrate volatility in the sources of funds;

(b) Provisions for loan losses;

(c) The rates of return on investment;

(d) Composition of investments;

(e) A government's investment in GBEs as a percentage of the total financial assets;

(f) Taxes receivable to total tax revenues; and

(g) Restricted and designated assets set aside for specific purposes.

Property, Plant and Equipment

IG4. Financial statement discussion and analysis may include the following information pertaining to an entity's property, plant and equipment:

(a) An analysis of required maintenance, including future expenditure requirements for maintenance and replacement, to allow users to make informed decisions regarding the ability of the capital assets to sustain and provide services in the future;

(b) An analysis of the change in the net book value of tangible capital assets by major category for the last five years; and

(c) An explanation of what the net book value and changes in it mean; for example, a description of why the net book value has increased or decreased is useful in understanding asset replacement and usage.

Other Assets

IG5. Financial statement discussion and analysis may include the following information pertaining to an entity's other assets, to the extent they are material (e.g., inventories of supplies—see IPSAS 12, *Inventories*, and prepaid expenses):

(a) The nature, extent and purpose of inventories of supplies (e.g., maintenance materials, strategic stockpiles, and land/property held for resale); and

(b) The nature, extent, purpose, and timing of any prepaid items such as insurance.

Liabilities

IG6. Financial statement discussion and analysis may include the following information pertaining to an entity's liabilities:

(a) A breakdown of the entity's debt by domestic issues versus foreign issues.

(b) A description of the entity's debt management policies and strategies, and the general terms and conditions associated with the debt, including whether the entity has complied with any debt covenants.

(c) An analysis of the entity's total debt. Specific ratios or indicators may also be useful to highlight the magnitude of the entity's debt and the changes in it over time. For example, an analysis of the total debt outstanding at year end to the total liabilities of the entity may be provided. The impact of the debt servicing cost, expressed as public debt charges to revenues, may also be included. An assessment of any unfunded retirement and other employment or post employment benefit liabilities. This may include a discussion related to the timing of when the unfunded liability needs to be provided for.

(d) An analysis of revenues that are not earned at the end of the period including the terms and conditions (e.g., commitments) associated with them. The entity is not entitled to these revenues until it performs specific actions as outlined in the terms and conditions of the related contract or agreement. For example, in the case of service concession arrangements in which the operator is compensated by the entity granting it the right to earn third-party revenues, there may be substantial liabilities of this type.

(e) The nature of financial liabilities under service concession arrangements.

(f) An analysis of any sinking funds available for the discharge of long-term liabilities.

Liabilities

IG7. An analysis of net assets/equity provides users with information relevant in assessing the entity's overall financial position, and whether it has improved or deteriorated. Providing significant explanations and a trend analysis related to the net assets/equity provides users with an indication as to whether the entity's liabilities are growing and allows them to make assessments about whether current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided or to undertake any planned enhancements. For example, explanations and a trend analysis related to the assets/equity may indicate to users that while debt is growing, the entity is accumulating resources, such as property, plant and equipment.

Statement of Financial Performance

IG8. Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers or were financed by increasing the level of indebtedness of the entity.

IG9. Any currently-known conditions that have significantly affected revenues or expenses in the current period, as well as those that may impact future revenues or expenses, should be disclosed to assist users in determining trends.

Revenues

IG10. Financial statement discussion and analysis may include the following information pertaining to an entity's revenues:

(a) An overview of total revenues by major source to indicate trends and dependencies on specific sources.

(b) Ratios may also be provided to highlight the level of dependence the entity has on particular sources of revenues, for example:

(i) Public-to-public transfers to revenues generated by the entity (e.g., taxes, user fees, licences); and

(ii) Revenues generated by the entity as a percentage of total revenues.

(c) The impact of GBE activities on the entity as a whole, which may be relevant especially if there are restrictions placed on the use of a GBE's net assets.

(d) An analysis of the change in revenues by major source.

Expenses

IG11. Financial statement discussion and analysis may include the following information pertaining to an entity's expenses:

(a) An overview of total expenses by nature (e.g., depreciation, purchases of materials, transport costs, employee benefits, and advertising costs).

(b) An overview of total expenses by function.

(c) An analysis of debt servicing costs as a percentage of total expenditures, which helps to highlight the magnitude of expenses that is required to service past obligations and thus reduces the amount of funds that can be directed to various programs. Alternatively, debt servicing costs as a percentage of revenues could be provided.

(d) An analysis of significant changes in expenses by nature and function.

Surplus or Deficit for the Period

IG12. An analysis of the surplus or deficit for the period provides users with information relevant in determining whether the entity was able to raise enough revenues in the period to cover its costs and spending and whether the trend is likely to continue in the future.

IG13. Financial statement discussion and analysis may include the following information pertaining to an entity's surplus or deficit for the period:

(a) An analysis of net revenues or expenses by nature (for example, depreciation, purchases of materials, transport costs, employee benefits, and advertising costs);

(b) A comparison of direct / identifiable program revenues to expenses by function, to illustrate the amount of program spending funded through taxation; and

(c) Analyses of specific, significant non-recurring transactions or events such as:

(i) Write-downs of inventories to net realizable value or of property, plant, and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;

(ii) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(iii) Disposals of items of property, plant, and equipment;

(iv) Privatizations or other disposals of investments;

(v) Discontinuing operations;

(vi) Litigation settlements; and

(vii) Other reversals of provisions.

In these cases, the nature of the revenue or expense and a discussion of its impact on future operations would be disclosed.

Cash flows

IG14. Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.

IG15. Financial statement discussion and analysis may include the following information pertaining to an entity's cash flows from operating, investing, and financing activities:

(a) An analysis of the cash flows arising from operating activities such as:

(i) The gross cash receipts and payments arising from the normal operations of the entity (e.g., the gross cash receipts from taxation, user fees or transfers from other entities).

(ii) Significant cash requirements or payments made during the period (e.g., payments to and on behalf of employees).

(b) An analysis of cash flows arising from investing activities such as:

(i) Expenditures made to acquire resources (e.g., property, plant and equipment, investment property, and intangible assets) intended to generate future cash flows and service potential; and

(ii) Significant changes in such investments, including any additions or disposals during the current year

(c) An analysis of financing activities, which provides information relevant in assessing future cash flow requirements due to debt financing arrangements. This analysis may highlight cash proceeds from debt issues or redemptions. It may also highlight significant changes in capital leases. Further, it may be helpful in explaining the need for borrowing even though the entity has reported a surplus in its statement of operations.

(d) Analysis of whether the entity has complied with any spending mandates expressed in cash flow terms.

(e) Trend analyses of operating, investing and financing cash flows, or components thereof.

Commitments, Contingencies, and Events after the Reporting Date

IG16. Where they are significant to the entity, information may be required pertaining to events occurring after the reporting date and planned future events, such as those described in paragraph IG13(c), but which did not occur in the reporting period, and are therefore not reflected in the entity's financial statements. Such information assists users in assessing future revenue requirements of the entity.

IG17. Financial statement discussion and analysis may include the following additional information:

(a) A subsequent issue of debenture debt;

(b) Litigation;

(c) Capital and operating leases;

(d) Service concession arrangements; and

(e) Various types of guarantees.

Although such disclosures are required to be provided in the notes to the financial statements in accordance with various IPSASs, further elaboration of such transactions and events may be necessary to provide greater insight as to how such events may affect the entity's future operations.

Illustrative Example

These examples accompany, but are not part of, IPSAS XX (ED 48).

The purpose of these examples is to illustrate the information that an entity may include in its financial statement discussion and analysis. This example is one illustration of how an entity could meet the requirements set out in this Standard. However, this illustration is not intended to be a template for financial statement discussion and analysis. Entities are encouraged to report financial statement discussion and analysis in a way that best informs readers about their own specific circumstances.

Public Sector Entity

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

This section of Public Sector Entity's annual financial report presents our discussion and analysis of the entity's financial position and performance during the year ended December 31, 20X2 [*if the entity is required to provide financial statement discussion and analysis by way of legislation or regulation, it may state the relevant requirements here*]. It should be read together with the entity's financial statements for that period.

Overview of the Financial Statements

Our report consists of the financial statement discussion and analysis (this section) and the financial statements. The financial statements consist of:

- A *Statement of Financial Position* – which provides information about the accumulated deficit—the difference between the Government's total liabilities and total assets. It provides information about:
  - The extent to which resources are available to support the Entity's future service delivery objectives; and
  - The amounts and timing of future cash flows necessary to service and repay existing claims to the Entity's resources

- A *Statement of Financial Performance* – which measures the net surplus or deficit— the difference between revenues and expenses. It provides information about:
  - Costs of service delivery; and
  - The amounts and sources of cost recovery (e.g., through taxes, user charges, contributions and transfers, or by increasing the level of indebtedness)

  The annual surplus or deficit is presented on an accrual basis of accounting, recognizing revenue in the period it is earned and expenses when incurred, regardless of when the associated cash is received or paid.

- A *Statement of Changes in Net Assets/Equity* – which highlights the sources of changes in The Entity's overall financial position, including:
  - Gains and losses that directly affect The Entity's total assets less liabilities;
  - Changes due to the surplus or deficit for the period.

- A *Cash Flow Statement*[2] – which provides information about The Entity's liquidity and solvency, including:
  - How the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment; and
  - The cash received through taxes and investments and the cash transfers made to, and received from, other governments, government agencies and international organizations.

  In contrast to the Statement of Financial Performance, The Entity's net cash flow measures the difference between cash coming in to the Entity and cash going out.

Financial Highlights

- Overall, net assets increased by CU 142,250,000 (17%), mainly due to an increase in the surplus for the period.
- The Entity's total current assets decreased by CU 13,860 (2%). This resulted from a decrease of CU 10,500,000 (2%) in its most liquid assets—cash and cash equivalents and receivables, which was offset by a increases in inventories and other current assets. Current liabilities decreased by CU 139,320 (30%). The entity's short-term liquidity, as measured by the change in current assets – current liabilities, improved by CU 125,460,000.
- The increase in the 20X2 surplus over the 20X1 surplus of CU 55,750,000 (85%) was largely due to increased revenues from taxes, fees and transfers from other governments, as well as modest decreases in overall expenses for the period of CU 6,383,000 (2%). The Entity introduced measures to reduce costs during 20X2, and it is expected that for 20X3 further cost savings will be realized.
- The Entity's long-term borrowing position improved overall by CU 40,000,000 (25%). Its total liabilities, which are a claim on future resources, also decreased by CU 199,950,000 (29%).
- According to the Organisation for Economic Co-operation and Development (OECD), The Entity's total government debt-to-GDP ratio stood at 28.9 percent in 20X2. This is the lowest level amongst G7 countries, which the OECD estimates will record, on average, a debt-to-GDP ratio of 60.3 percent for that same year.
- The growth in tax revenues of CU 18,700,000 (9%) was mainly due to the increase in personal tax revenues, which was caused by strong growth in wages and employment during the year. Recent data published by The Entity's Statistics Department suggests that this growth will not continue due to lower employment figures and wage increases resulting from a weakening economy.

[2] To be developed from IPSAS 2.

Financial Statement Information on which the Financial Statement Discussion and Analysis is Based

In this example, monetary amounts are denominated in "currency units" (CU).

Public Sector Entity—Statement of Financial Position

As at December 31, 20X2
(in thousands of currency units)

	20X2	20X1
ASSETS	CU	CU
Current assets		
Cash and cash equivalents	312,400	322,900
Receivables	91,600	110,800
Inventories	135,230	132,500
Other current assets	25,650	12,540
	564,880	578,740
Non-current assets		
Property, plant, and equipment	350,700	360,020
Intangible assets	227,470	227,470
Service concession assets	80,800	91,200
Investments in associates	100,150	110,770
Other financial assets	142,500	156,000
	901,620	945,460
Total assets	1,466,500	1,524,200
LIABILITIES		
Current liabilities		
Payables	115,100	187,620
Short-term borrowings	150,000	200,000
Current portion of long-term borrowings	10,000	20,000
Short-term provisions	35,000	42,000
Employee benefits	5,000	4,800
	315,100	454,420
Non-current liabilities		
Long-term borrowings	120,000	160,000
Long-term provisions	28,850	52,240
Employee benefits	28,800	26,040
	177,650	238,280

	20X2	20X1
Total liabilities	492,750	692,700
Net assets	973,750	831,500
NET ASSETS/EQUITY		
Capital contributed by:		
Other government entities	625,000	590,000
Accumulated surpluses/(deficits)	267,900	170,900
Reserves	10,800	20,000
Minority interest	70,050	48,600
Total net assets/equity	973,750	831,500

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Classification of Expenses by Function)
(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	229,800	211,100
Fees, fines, penalties, and licenses	89,400	80,600
Transfers from other government entities	56,400	50,700
Revenue from exchange transactions	14,400	12,600
Other revenue	20,667	11,300
Total Revenue	410,667	366,300
Expenses		
General public services	(20,000)	(21,000)
Defense	(145,000)	(135,000)
Public order and safety	(100,000)	(95,000)
Education	(22,000)	(39,500)
Health	(18,500)	(22,000)
Social protection	(2,600)	(2,500)
Housing and community amenities	(2,000)	(1,900)
Recreational, cultural, and religion	(2,100)	(1,800)
Economic affairs	(2,000)	(1,800)
Environmental protection	(2,000)	(2,700)
Other expenses	(317)	(200)
Finance costs	(8,000)	(7,500)
Total Expenses	324,517	330,900
Share of surplus of associates	35,100	30,100
Surplus/(deficit) for the period	121,250	65,500
Attributable to:		
Owners of the controlling entity	97,000	52,400
Minority interests	24,250	13,100
	121,250	65,500

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2

(Illustrating the Classification of Expenses by Nature)
(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	229,800	211,100
Fees, fines, penalties, and licenses	89,400	80,600
Revenue from exchange transactions	56,400	50,700
Transfers from other government entities	14,400	12,600
Other revenue	20,667	11,300
Total Revenue	410,667	366,300
Expenses		
Wages, salaries, and employee benefits	(115,100)	(107,900)
Grants and other transfer payments	(24,417)	(17,000)
Supplies and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortization expense	(19,000)	(17,000)
Impairment of property, plant, and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Restructuring costs	–	(30,500)
Total Expenses	324,517	330,900
Share of surplus of associates	35,100	30,100
Surplus/(deficit) for the period	121,250	65,500
Attributable to:		
Owners of the controlling entity	97,000	52,400
Minority interests	24,250	13,100
	121,250	65,500

Public Sector Entity—Statement of Changes in Net Assets/Equity for the Year Ended December 31, 20X2

(in thousands of currency units)	Attributable to owners of the controlling entity						
	Contributed Capital	**Other Reserves**	**Translation Reserve**	**Accumulated Surpluses/ (Deficits)**	**Total**	**Minority interest**	**Total net assets/ equity**
Balance at December 31, 20X0	600,000	3,600	(4,000)	118,100	717,700	29,800	747,500
Changes in accounting policy	–	–	–	400	400	100	500
Restated balance	600,000	3,600	(4,000)	118,500	718,100	29,900	748,000
Changes in net assets/equity for 20X1							
Gain on property revaluation	–	2,160	–	–	2,160	540	2,700
Gain on revaluation of investments	–	16,000	–	–	16,000	4,000	20,000
Exchange differences on translating foreign operations	–	–	6,400	–	6,400	1,600	8,000
Cash flow hedges	–	(2,400)	–	–	(2,400)	(600)	(3,000)
Actuarial gains (losses on defined benefit plans)	–	800	–	–	800	200	1,000
Share of net revenue of associates recognized directly in net assets/equity	–	(560)	–	–	(560)	(140)	(700)
Net revenue recognized directly in net assets/equity	–	16,000	6,400	–	22,400	5,600	28,000
Surplus for the period	–	–	–	52,400	52,400	13,100	65,500
Total recognized revenue and expense for the period	–	16,000	6,400	52,400	74,800	18,700	93,500
Distributions to owners	(10,000)	–	–	–	–	–	(10,000)
Balance at December 31, 20X1 carried forward	590,000	19,600	2,400	170,900	782,900	48,600	831,500

(in thousands of currency units)	Attributable to owners of the controlling entity						
	Contributed Capital	**Other Reserves**	**Translation Reserve**	**Accumulated Surpluses/ (Deficits)**	**Total**	**Minority interest**	**Total net assets/ equity**
Balance at December 31, 20X1 carried forward	590,000	19,600	2,400	170,900	782,900	48,600	831,500
Changes in net assets/equity for 20X2							
Gain on property revaluation	–	480	–	–	480	120	600
Gain on revaluation of investments	–	(14,400)	–	–	(14,400)	(3,600)	(18,000)
Exchange differences on translating foreign operations	–	–	3,200	–	3,200	800	4,000
Cash flow hedges	–	(400)	–	–	(400)	(100)	(500)
Actuarial gains (losses on defined benefit plans)	–	(400)	–	–	(400)	(100)	(500)
Share of net revenue of associates recognized directly in net assets/equity	–	320	–	–	320	80	400
Net revenue recognized directly in net assets/equity	–	(14,400)	3,200	–	(11,200)	(2,800)	(14,000)
Surplus for the period	–	–	–	97,000	97,000	24,250	121,250
Total recognized revenue and expense for the period	–	(14,400)	3,200	97,000	85,800	21,450	107,250
Contributions from owners	50,000	–	–	–	50,000	–	50,000
Distributions to owners	(15,000)	–	–	–	(15,000)	–	(15,000)
Balance at December 31, 20X2	625,000	5,200	5,600	267,900	903,700	70,050	973,750

Management's Discussion and Analysis Best Practices

Accounting and Auditing Policy Committee

January 2011

NOTE: This illustrative report was prepared by the AAPC MD&A "best practices" task group. This report is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

MD&A Best Practices – Performance Goals, Objectives, and Results

Introduction

Statement of Federal Financial Accounting Concepts (SFFAC) 3 and Statement of Federal Financial Accounting Standards (SFFAS) 15 provide guidance and requirements for management's discussion and analysis (MD&A) in federal agency financial reports. The standards call for management to present a frank and concise analysis of performance and financial results.

The MD&A should provide management's view of actual current performance and financial results as well as expectations about the future. It should be grounded in facts and provide meaningful explanatory data rather than be a series of vague and/or generally positive statements or vignettes about the entity's successes. The MD&A should present a balanced discussion of negative as well as positive results, and it should relate financial results, especially costs, to performance and both to strategic goals.

The MD&A should be more than a compliance exercise it should be a communication vehicle. It should be concise, meaningful, and readily understandable. In addition to explaining why financial results changed during the reporting period, MD&A should explain how performance did or did not achieve planned results. To the extent the results have been affected by any change in the underlying goals or performance measures, the nature and effects of such changes upon the outcomes should also be discussed.

However, current federal MD&A generally tend not to meet expectations established in SFFAC 3 and SFFAS 15. They typically do not effectively summarize and communicate entity performance and financial results. For example:

- There is often excessive narrative description, rather than concise information focused on the "vital few" matters envisioned by the standards. Program vignettes are often offered in place of concise analysis.
- Large numbers of performance measures are often included, rather than a limited number of key measures that clearly communicate how well the entity is achieving its goals and objectives. Numerous internal, operational measures are often presented whose relationship to the "vital few" entity goals is unclear, and which are not meaningful to external users unfamiliar with the intricacies of daily internal operations. Again, the goal should be to present a balanced discussion of performance.
- Discussion of the financial statements is often limited to noting changes in account balances during the reporting period, which are fairly obvious on the face of the financial statements, rather than explaining the reasons for the changes in balances and financial results. Also, significant variances from the budget are often not identified or explained.

In addition, charts, graphs, photographs and other pertinent graphics are often used and when effectively designed and presented, can significantly enhance the quality of the MD&A. However, in many instances their full potential is not realized due to shortcomings in their presentation such as use of (1) excessively small text fonts or photographs, (2) shading that obscures the text it is intended to highlight, and (3) overly ambitious charts and graphs that attempt to present too much information and thereby become very difficult to understand.

These issues have contributed to a perception that the MD&A in federal financial reports, as currently presented, is not as useful as was originally envisioned.

It should be noted that the federal government is not alone in questioning the decision-usefulness of financial reports. Much has been written about the need to improve the decision-usefulness of financial reports, especially regarding forward-looking information. There is a general call for concise reports with less reiteration of innocuous data and more discussion about the future.

Purpose of this Report

By providing examples of "best practices" from current federal MD&A, this report is intended to help preparers of federal MD&A achieve the objectives of the standards and avoid some of the pitfalls that in the past have prevented these MD&A's from achieving their full potential as a vehicle to effectively communicate important information about the entity's mission, operations, goals, challenges, financial results, and future. This report provides examples of selected sections of certain federal fiscal year 2009 MD&As which the Accounting and Auditing Policy Committee (AAPC) believes effectively captured the letter and spirit of the key elements of the standards. They provide excellent examples of how these standards were intended to be implemented.

Structure of this Report

This report is the product of a federal task group under the auspices of the AAPC.[1] The AAPC is a permanent committee established by the FASAB. The AAPC's mission is to assist the federal government in improving financial reporting by timely identifying, discussing, and recommending solutions to accounting issues within the framework of existing authoritative literature.

This report provides ideas for improving federal MD&A. The techniques and practices used to implement the current and past performance initiatives that are discussed in this document are not mandatory guidance. They should be viewed as useful examples of techniques for MD&A to better communicate essential information about the entity's operations.

The report is organized by the four MD&A section indicated in SFFAS 15 as follows:

[1] See Appendix 2 for a list of the task group members.

MD&A Best Practices – Performance Goals, Objectives, and Results

- **MISSION AND ORGANIZATIONAL STRUCTURE;**
- **PERFORMANCE GOALS, OBJECTIVES, AND RESULTS;**
-
-

- **ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP** INFORMATION SECTION**; and**
- **ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE.**

The following table lists the federal agencies from whose MD&A sections examples of best practices were selected and provides Web links to their FY 2009 financial reports that includes their MD&A.

Table 1 – Agency Examples by MD&A Section

MD&A Section	Agency Example of Best Practice	AAPC Rpt. Page No.	Web Link to PAR or AFR containing the MD&A
Overview	Commerce	7	http://www.osec.doc.gov/bmi/budget/FY09PAR.html
	Defense	13	http://comptroller.defense.gov/afr/index.html
	VA	15	http://www4.va.gov/budget/report
Mission and Organization	Defense	20	http://comptroller.defense.gov/afr/index.html
	FTC	25	http://ftc.gov/opp/gpra/index.shtm
	NASA	30	http://www.nasa.gov/news/budget/index.html
	PTO	35	http://www.uspto.gov/about/stratplan/index.jsp
Performance goals, Objectives, And Results	Commerce	38	http://www.osec.doc.gov/bmi/budget/FY09PAR.html
	Defense	39	http://comptroller.defense.gov/afr/index.html
	EPA	46	http://www.epa.gov/ocfo/par/2009par/index.htm
	FAA	48	http://www.faa.gov/about/plans_reports
	GSA	50	http://www.gsa.gov/portal/category/26534
	Justice	50	http://www.justice.gov/ag/annualreports/pr2009/TableofContents.htm
	VA	51	http://www4.va.gov/budget/report
	FHFA	53	http://www.fhfa.gov/Default.aspx?Page=136
Analysis of Financial Statements and Stewardship	Energy	56	http://www.energy.gov/about/budget.htm
	GSA	58	http://www.gsa.gov/portal/category/26534
	FAA	58	http://www.faa.gov/about/plans_reports
	SBA	65	http://www.sba.gov/aboutsba/budgetsplans/SERV_ABTSBA_BUDGET_2009AFR.html
Analysis of Systems, Controls and Legal Compliance	GSA	68	http://www.gsa.gov/portal/category/26534
	PTO	70	http://www.uspto.gov/about/stratplan/index.jsp
	USDA	74	http://www.ocfo.usda.gov/usdarpt/usdarpt.htm
Forward-looking Information	FHFA	80	http://www.fhfa.gov/Default.aspx?Page=136
	USPS	82	http://www.usps.com/financials/ar/welcome.htm
	PTO	85	http://www.uspto.gov/about/stratplan/index.jsp
	VA	89	http://www4.va.gov/budget/report

DISCLAIMER

The examples of best practices included in this report have been reproduced verbatim from agency fiscal year 2009 Management Discussions and Analysis. The AAPC is not

responsible for any factual, editorial, or other errors they may contain. They are intended to provide users with illustrative examples of the basic form and content of the various sections of the MD&A as they may appear when prepared as intended by the standards.

MD&A OVERVIEW

In addition to the MD&A sections explicitly mentioned in SFFAS 15, MD&A may include a brief overview or executive summary explaining the MD&A. An overview section gives the reader a useful summary of what is to come. Some agencies include an overview or executive summary in the "mission and organizational structure" section of the MD&A.

The following are examples of overview or executive summary "best practices".

Commerce Department

The following is from the Commerce Department's introductory material for FY 2009[2], which precedes the MD&A, and provides an overview.

THE DEPARTMENT AT LARGE

HISTORY AND ENABLING LEGISLATION

The Department of Commerce was originally established by Congressional Act on February 14, 1903 as the Department of Commerce and Labor (32 Stat. 826; 5 U.S.C. 591) and was subsequently renamed the U.S. Department of Commerce by President William H. Taft on March 4, 1913 (15 U.S.C. Section 1512). The defined role of the new Department was "to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, and fishery industries of the United States."

MISSION

The Department of Commerce creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship.

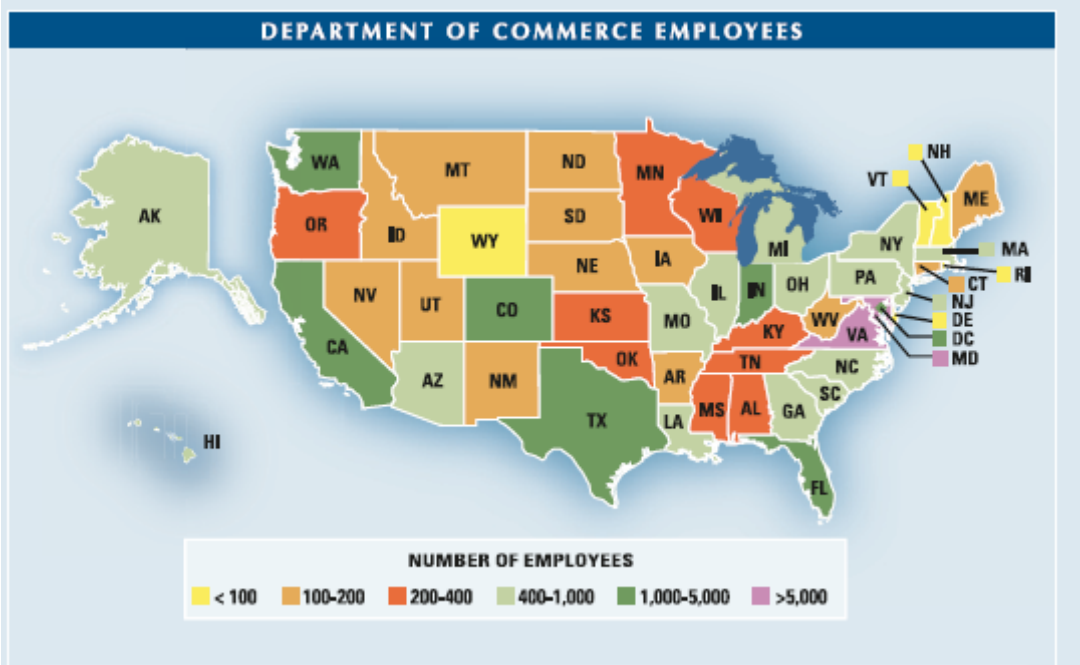
PROGRAM BUREAUS

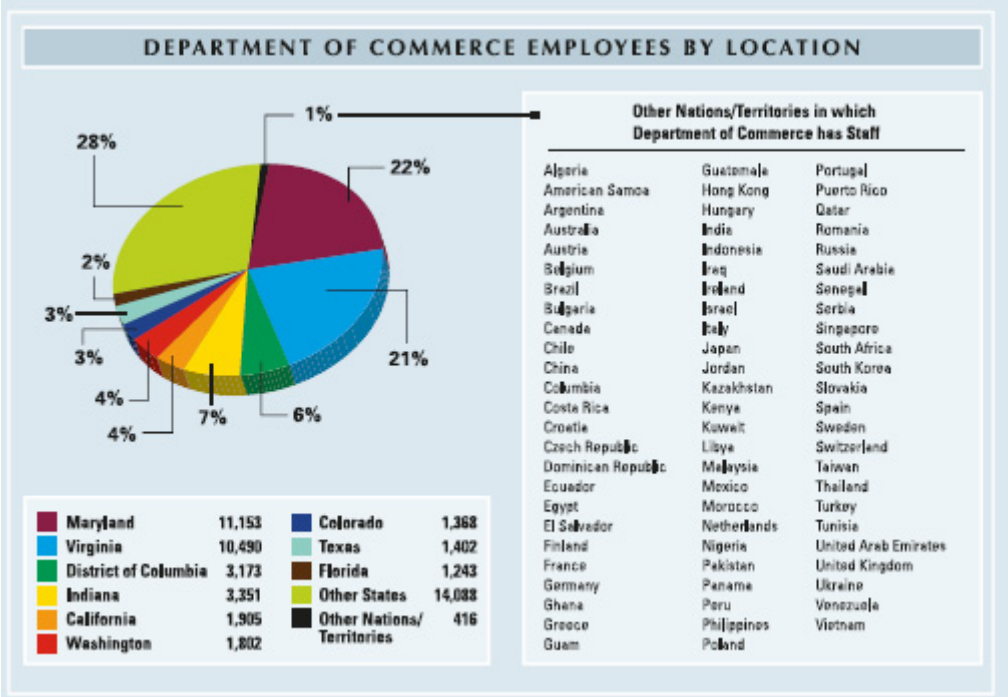
- Economic Development Administration (EDA)
- Economic Statistics Administration (ESA)
  - Bureau of Economic Analysis
  - Census Bureau
- International Trade Administration
- Bureau of Industry and Security
- Minority Business Development Agency
- Patent and Trademark Office
- National Institute of Standards and Technology
- National Telecommunication and Information Administration
- National Oceanic and Atmospheric Administration

[2] For the referenced agency's financial report (and MD&A), see Table 1 above.

STRATEGIC GOALS
Goal 1: Maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers ***Goal 2***: Promote U.S. innovation and industrial competitiveness ***Goal 3***: Promote environmental stewardship ***Management Integration Goal***: Achieve organizational and management excellence

EMPLOYEES
As of September 30, 2009, the Department had approximately 54,400 employees. The size of the Department will fluctuate in the next three years depending on the needs of the Census Bureau, growing to more than 140,000 employees in FY 2010.





DEPARTMENT OF COMMERCE EMPLOYEES BY LOCATION

Maryland	11,153	Colorado	1,368
Virginia	10,490	Texas	1,402
District of Columbia	3,173	Florida	1,243
Indiana	3,351	Other States	14,088
California	1,905	Other Nations/ Territories	416
Washington	1,802		

Other Nations/Territories in which Department of Commerce has Staff

Algeria	Guatemala	Portugal
American Samoa	Hong Kong	Puerto Rico
Argentina	Hungary	Qatar
Australia	India	Romania
Austria	Indonesia	Russia
Belgium	Iraq	Saudi Arabia
Brazil	Ireland	Senegal
Bulgaria	Israel	Serbia
Canada	Italy	Singapore
Chile	Japan	South Africa
China	Jordan	South Korea
Columbia	Kazakhstan	Slovakia
Costa Rica	Kenya	Spain
Croatia	Kuwait	Sweden
Czech Republic	Libya	Switzerland
Dominican Republic	Malaysia	Taiwan
Ecuador	Mexico	Thailand
Egypt	Morocco	Turkey
El Salvador	Netherlands	Tunisia
Finland	Nigeria	United Arab Emirates
France	Pakistan	United Kingdom
Germany	Panama	Ukraine
Ghana	Peru	Venezuela
Greece	Philippines	Vietnam
Guam	Poland	

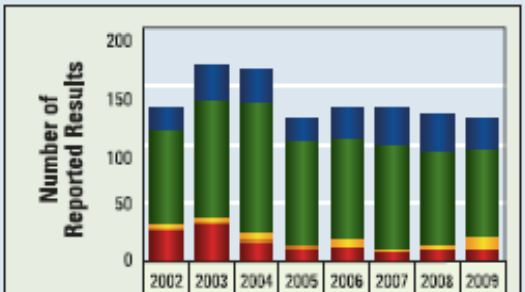
In the first several pages of the MD&A , the Commerce Department provides additional highlights as follows.

FY 2009 PERFORMANCE AND FINANCIAL HIGHLIGHTS

PERFORMANCE HIGHLIGHTS

In FY 2009, the Department met or exceeded 84 percent of its 123 performance targets. The Department has maintained a steady rate of performance from FY 2002 onward ranging from a low of 79 percent in FY 2003 to a high of 93 percent in FY 2007. Below are the funding amounts by strategic goal and financial highlights. Achieving results in each of the strategic goals furthers the Department's mission. This summary provides a snapshot of the targeted achievements. Discussions and highlights of successes are in the performance discussions of each performance goal.

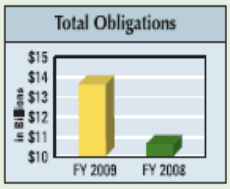
PERFORMANCE RESULTS

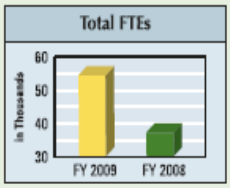


	2002	2003	2004	2005	2006	2007	2008	2009
Exceeded	19	31	29	21	27	33	32	28
Met	80	101	111	88	85	89	80	75
Slightly Below	5	3	5		7	1	3	10
Improved	1	2	4	4		1		1
Not Met	26	31	15	10	12	7	10	9

See Appendix A: Performance and Resource Tables for individual reported results.

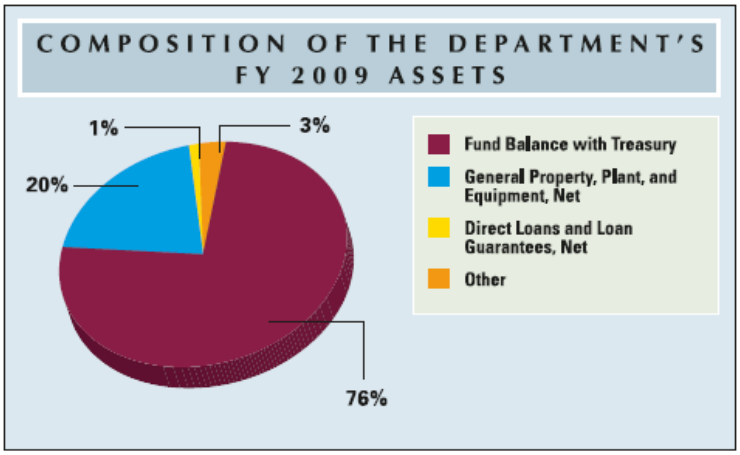
(Dollars in Millions)[1]	Percentage Change	FY 2009	FY 2008
For the Years Ended September 30, 2009 and 2008			
Obligations by Strategic Goal:			
Strategic Goal 1: Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers[2]	+72.4%	$ 4,555.2	$ 2,642.4
Strategic Goal 2: Promote U.S. Innovation and Industrial Competitiveness	+3.8%	3,840.9	3,701.2
Strategic Goal 3: Promote Environmental Stewardship	+20.3%	5,094.1	4,234.4
Management Integration Goal: Achieve Organizational and Management Excellence	+17.1%	79.3	67.7
TOTAL OBLIGATIONS	+27.4%	$13,569.5	$10,645.7
Full Time Equivalents (FTEs) by Strategic Goal:			
Strategic Goal 1: Maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers[2]	+141.8%	29,266	12,103
Strategic Goal 2: Promote U.S. innovation and industrial competitiveness	+5.8%	12,798	12,096
Strategic Goal 3: Promote environmental stewardship	-4.8%	12,031	12,637
Management Integration Goal: Achieve Organizational and Management Excellence	+2.1%	297	291
TOTAL FTEs	+46.5%	54,392	37,127

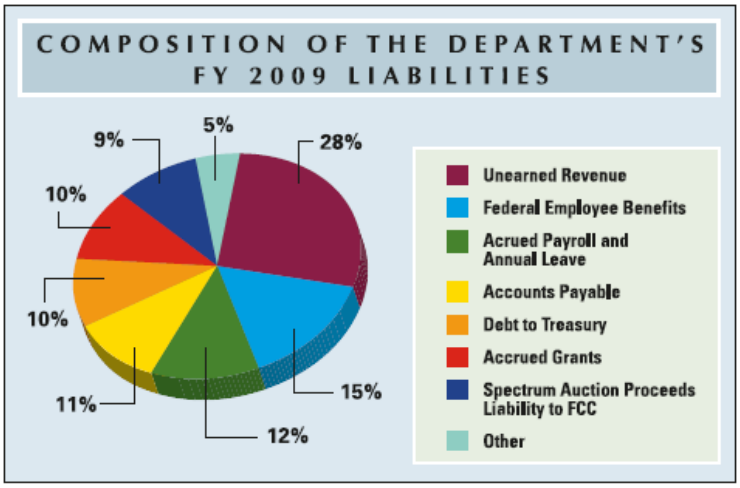




[1] *Performance obligations may differ from obligations shown in financial reports because they do not include one-time funds for unexpected events (e.g., Hurricane Katrina) or reimbursable work that cannot be planned. In these cases, these obligations are not factored into bureau performance amounts.*

[2] *For Strategic Goal 1, the funding and FTE rose significantly in FY 2009 as a result of the Census Bureau's ramp up for the Decennial Census in 2010.*



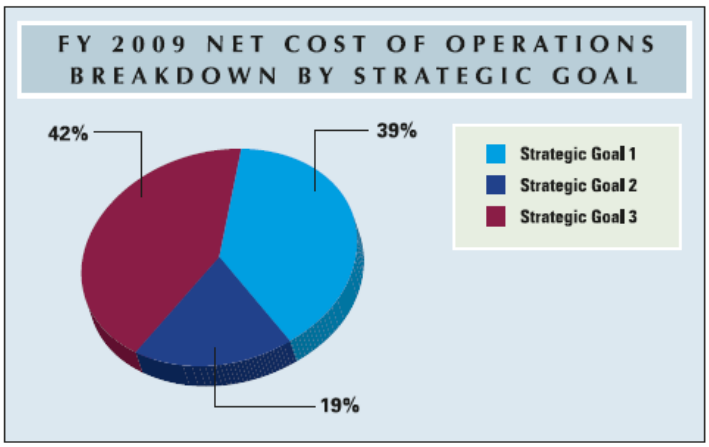


ASSETS

The Department had total assets of $34.0 billion as of September 30, 2009. This represents an increase of $240 million or 1 percent over total assets of $33.7 billion at September 30, 2008. Fund Balance with Treasury decreased $962 million or 4 percent, which primarily resulted from an increase in Advances and Prepayments of $583 million, and an increase in Construction-in-progress of $401 million, primarily related to satellites/weather systems personal property. General Property, Plant, and Equipment, Net increased $568 million or 9 percent, mainly due to the increase in Construction-in-progress. Other Assets increased $633 million, primarily due to a significant increase in Advances and Prepayments to other federal agencies for the National Telecommunications and Information Administration's (NTIA) Public Safety Interoperable Communications grant program and for work on the National Oceanic and Atmospheric Administration's (NOAA) Pacific Regional Center in Hawaii.

LIABILITIES

The Department had total liabilities of $4.6 billion as of September 30, 2009. This represents a decrease of $16.7 billion or 79 percent as compared to total liabilities of $21.5 billion at September 30, 2008. This decrease is mainly due to the large decrease of $16.9 billion in NTIA's Spectrum Auction Proceeds Liability to the Federal Communications Commission (FCC). This liability represents FCC auction proceeds for which licenses have not yet been granted by FCC. During FY 2009, the liability was primarily reduced by net auction proceeds for which licenses have been granted of $16.69 billion, and these net auction proceeds were recognized as a financing source on the FY 2009 Consolidated Statement of Changes in Net Position. Unearned Revenue decreased $107 million or 8 percent, mainly due to fewer patent filings and trademark applications received in FY 2009. Other Liabilities decreased $239 million or 50 percent, as a result of a large decrease of $141 million for accrued coupons for NTIA's Digital-to-Analog Converter Box Program, due to a significant decrease in the number of coupons issued during the third quarter of 2009 versus the third quarter of 2008.



NET COST OF OPERATIONS

In FY 2009, Net Cost of Operations amounted to $9.8 billion, which consists of Gross Costs of $12.5 billion less Earned Revenue of $2.7 billion. Strategic Goal 1 includes Gross Costs of $4.1 billion related to maximizing U.S. competitiveness and enabling economic growth for American industries, workers, and consumers. Strategic Goal 2 includes Gross Costs of $4.0 billion related to promoting U.S. innovation and industrial competitiveness. Strategic Goal 3 includes Gross Costs of $4.4 billion related to promoting environmental stewardship. The Strategic Goal 1 increase in FY 2009 Net Cost of Operations over FY 2008 of $1.6 billion or 73 percent is primarily due to an increase in Gross Costs of $1.4 billion for Census Bureau's Decennial and Periodic Censuses major program. The Strategic Goal 2 increase in FY 2009 Net Cost of Operations over FY 2008 of $457 million or 32 percent is primarily due an increase in Gross Costs of $100 million for NTIA's Digital Television and Transition Public Safety Fund, which reflects increased costs primarily for the Digital-to-Analog Converter Box Program, and increased Gross Costs of $351 million provided by additional American Recovery and Reinvestment Act (ARRA) of 2009 funding for the Digital-to-Analog Converter Box Program.

Defense Department

In its FY 2009 MD&A, the Defense Department presents an effective summary of a complex organization as follows.

Fiscal Year 2009 Overview

The Defense Department is committed to executing our mission and responding to 21st Century national security requirements. In Fiscal Year (FY) 2009, the Department carried out its mission in many ways. We continued to engage in Operation Iraqi Freedom (OIF) military operations while executing a substantial portion of our responsible troop withdrawal from Iraq. In FY 2009, counter-Insurgency Operations (COIN) brigade combat teams (BCTs) in Iraq decreased from 14 to 12. Since the President announced the responsible withdrawal in May 2009, the Department saved $554 million in contractor costs, transferred 20,000 units of equipment to Afghanistan, and returned 10 percent of total OIF equipment to the U.S. The FY 2010 plans reflect the President's decision to decrease force levels to six Advisory and Assistance Brigades by August 31, 2010.

While performing mission requirements in Iraq, we also increased our efforts in Operation Enduring Freedom (OEF) in Afghanistan. In FY 2009, we executed the President's decision to increase force levels from three to six BCTs with a Marine Expeditionary Brigade, a Stryker BCT, an Afghan Security Force training BCT, and additional supporting forces and capabilities. The additional 33,000 troops were critical in training Afghan Security Forces, bolstering International Security Assistance Force security in Regional Command East, retaking Helmand Province, and increasing security in Kandahar.

While continuing to support OIF and OEF, the Department conducted numerous other military operations, including humanitarian efforts and relief operations throughout the world. For example, DoD provided disaster relief efforts in Taiwan, including supplies and airlift support, in response to the devastation caused by typhoon Marokot. In addition DoD provided humanitarian assistance, including building basic infrastructure, such as schools and roads, basic medical relief, and projects that enable host nations to prepare for disasters in as many as 80 countries.

The Department depends on the Military Services to execute operations and in FY 2009 the Department took a number of steps to strengthen the Military Services. In FY 2009, the Army and Marine Corps successfully achieved their "grow the force" active military goals of 547,400 and 202,000 enlisted, respectively, more than two years ahead of schedule. The successful effort will allow the Army and Marine Corps to reduce the stress on their forces and will ultimately result in military members spending less time deployed. The Department also continued the growth of the special operations force level by over 5,000 military personnel. In addition to "growing the force," the Department created an additional regional command. The Africa Command (AFRICOM) was established on October 1, 2008, the first day of FY 2009. This command will greatly enhance the nation's focus on outreach and counterterrorism efforts in Africa.

To carry out its key missions, the Department maintained focus and commitment to take care of its people: the all-volunteer military force, including the wounded Service members, military families, and civilians. Both military and civilian personnel received a 3.9 percent pay raise. The basic allowances for military housing and subsistence increased an average of 5.9 percent and 10.0 percent, respectively, to ensure that military families could cover increased costs. In recognition of the needs of our wounded warriors, the Department improved military health care facilities through funding initiatives such as warrior transition units. In addition, healthcare was provided for 9.3 million eligible beneficiaries in 59 inpatient medical facilities, more than 800 medical and dental clinics, as well as private sector care through the TRICARE program. To address the needs of military families, DoD invested in family support efforts such as childcare centers, schools, and youth programs.

The Department invested in new weapon system platforms and capabilities such as unmanned aerial vehicles, mine resistance ambush protected vehicles, and precision guided munitions to improve the nation's ability to combat unconventional threats. While investing in new weapon systems, the Department focused on aligning acquisitions to operational demands and requirements.

The Department implemented plans to improve acquisition effectiveness. We are committed to pursuing a number of acquisition excellence initiatives that address contracting and contract management issues, to include contracting in an expeditionary environment, addressing the Government Accountability Office's (GAO) high-risk area of interagency contracting, growing the contracting workforce, and increasing DoD organic acquisition management capability.

In addition to acquisition improvements, the Department continues to make improvements in financial management and audit readiness. The DoD established plans to improve business practices and internal controls to enhance visibility and accountability of its resources. The Department strengthened the business environment within the operational theater to increase effectiveness in terms of responsive mission support and better control over resources. To accomplish this, the Department formed a cross-functional team of senior leaders to ensure that the people, processes, and systems were in place at appropriate levels to provide management visibility and assurance over controls. The underlying goal is to provide support for improved mission effectiveness, enhanced personnel safety/security, reduced likelihood of loss of funds or erroneous payments, less rework, and better cost visibility and control. By applying lessons learned from prior theater experience, the Department hopes to develop an enhanced capability for future contingencies and theater operations.

In FY 2009, the Department established plans for continued management reform organized around high-priority performance goals. These plans will:

- Increase energy efficiencies
- Reform the personnel security clearance process
- Execute Virtual Lifetime Electronic Record (VLER) milestones
- Streamline the hiring process
- Spend American Recovery and Reinvestment Act (ARRA) funds quickly and effectively
- Provide effective business operations and ensure logistics support to Overseas Contingency Operations (OCO)
- Increase the audit readiness of individual DoD components
- Reform the DoD acquisition process
- Enhance the security cooperation workforce

In summary, during FY 2009, the Secretary emphasized the strategic priorities of taking care of our people; reshaping and modernizing the force; reforming how the Department buys equipment and services; and supporting the troops in the field.

Veterans Affairs

Some MD&A presentations provide a Web-based Performance and Accountability Report (PAR) with hyperlinks to MD&A sections (and other sections of its PAR). Several agencies provide similar Web pages, which are very helpful. See Table 1 above for the Web addresses. The Department of Veteran's Affairs (VA)'s PAR and MD&A is an outstanding example of this approach.

Regarding the overview section, the VA begins its MD&A with a "performance scorecard", which is followed in due course by a concise "performance overview" as follows.

Performance Scorecard

Color coding for FY 2009 Results: Target Achieved; Target Missed – Small Extent; Target Missed – Great Extent

Strategic Goals		Key Performance Measures (page references)	FY 2008 Recap		FY 2009 Recap					
			Targets	Results	Targets	Results	Target Achieved? Yes	Target Achieved? No	Improved From FY 2008? Yes/No/Same	Measure Type
Strategic Goal #1	Restoration and Improved Quality of Life for Disabled Veterans	National accuracy rate for compensation rating claims (pp. II-12 & 134)	90%	86%	90%	83%*		No	No	Output
		Compensation & Pension rating-related actions — average days to complete (pp. II-10 & 134) (Also supports SG #3)	169	179	168	161	Yes		Yes	Output
		Rating-related compensation actions - average days pending (pp. II-11 & 134)	120	121	116	117		No	Yes	Output
		Rehabilitation Rate (General) (pp. II-17 & 134)	75%	76%	76%	74%		No	No	Outcome
		Average days to complete Dependency and Indemnity Compensation actions (pp. II-21 & 134)	118	121	115	109	Yes		Yes	Output
Strategic Goal #2	Smooth Transition to Civilian Life	Average days to complete education claims								
		Original claims (pp. II-30 & 134)	24	19	24	26		No	No	Output
		Supplemental claims (pp. II-31 & 134)	11	9	10	13		No	No	Output
Strategic Goal #3	Honoring, Serving, and Memorializing Veterans	Percent of patients rating VA health care service as very good or excellent: - Inpatient (pp. II-43 & 136)	79%	79%	Baseline	62%*				Outcome
		- Outpatient (pp. II-44 & 136)	79%	78%	Baseline	56%*				Outcome
		Percent of primary care appointments completed within 30 days of the desired date (pp. II-39 & 136)	97%	99%	97%	99%*	Yes		Same	Output
		Percent of specialty care appointments completed within 30 days of the desired date (pp. II-40 & 136)	95%	98%	95%	98%*	Yes		Same	Output
		Percent of new patient appointments completed within 30 days of the create date (pp. II-41 & 136)	Baseline	89%	92%	90%*		No	Yes	Output
		Percent of unique patients waiting more than 30 days beyond the desired appointment date (pp. II-42 & 136)	Baseline	8%	6%	8%*		No	Same	Output

Performance Scorecard

Color coding for FY 2009 Results: Target Achieved; Target Missed – Small Extent; Target Missed – Great Extent

Strategic Goals		Key Performance Measures (page references)	FY 2008 Recap		FY 2009 Recap					
			Targets	Results	Targets	Results	Target Achieved? Yes	Target Achieved? No	Improved From FY 2008? Yes/No/Same	Measure Type
Strategic Goal #3 *(continued)*	Honoring, Serving, and Memorializing Veterans	Clinical Practice Guidelines Index III (pp. II-37 & 136)	85%	84%	86%	86%*	Yes		Yes	Outcome
		Prevention Index IV (pp. II-38 & 138)	88%	88%	89%	89%*	Yes		Yes	Outcome
		Non-institutional, long-term care average daily census (pp. II-45 & 138)	N/Av	54,053	72,352	71,944*		No	Yes	Output
		Pension maintenance claims — average days to complete (pp. II-50 & 138)	84	119	85	101		No	Yes	Output
		National accuracy rate for pension maintenance claims (pp. II-51 & 138)	92%	93%	94%	94%*	Yes		Yes	Output
		Average number of days to process Traumatic Injury Protection Insurance disbursements (pp. II-55 & 138)	5.0	2.5	5.0	2.9	Yes		No	Output
		Percent of Veterans served by a burial option within a reasonable distance (75 miles) of their residence (pp. II-60 & 140)	83.7%	84.2%	86.9%	87.4%	Yes		Yes	Outcome
		Percent of respondents who rate the quality of service provided by the national cemeteries as excellent (pp. II-61 & 140)	97%	94%	98%	95%		No	Yes	Outcome
		Percent of graves in national cemeteries marked within 60 days of interment (pp. II-66 & 140)	95%	93%	95%	95%	Yes		Yes	Output
		Percent of applications for headstones and markers that are processed within 20 days for the graves of Veterans who are not buried in national cemeteries (pp. II-67 & 140)	75%	95%	90%	93%	Yes		No	Output
		Default Resolution Rate (pp. II-72 & 140)	N/Av	N/Av	56.5%	66.4%	Yes		N/A	Outcome
Strategic Goal #4	Contributing to the Nation's Well-Being	Progress towards development of one new treatment for post-traumatic stress disorder (3 milestones over 3 years) (pp. II-80 & 140)	80%	80%	87%	80%*		No	Same	Outcome
		Percent of respondents who rate national cemetery appearance as excellent (pp. II-90 & 142)	99%	98%	99%	98%		No	Same	Outcome

How We Measure Performance

VA employs a **five-tiered performance management framework** to measure performance.

Term	*Definition*
Strategic Goals	The Department's long-term outcomes as detailed in its Strategic Plan and articulated through four strategic goals and one enabling goal.
Strategic Objectives	Broad operational focus areas designed to achieve strategic goals. The Department has 21 strategic objectives.
Performance Measures	Specific measurable indicators used to measure progress towards achievement of strategic objectives. The Department uses different types of measures (i.e., outcome, output, and efficiency) to evaluate its performance and progress.
Performance Targets	Associated with specific performance measures, these are quantifiable expressions of desired performance/success levels to be achieved during a given fiscal year.
Strategic Targets	Also associated with specific performance measures, these are quantifiable expressions of optimum success levels to be achieved; they are "*stretch goals*" that VA strives for in the long-term.

VA's 21 strategic objectives are supported by 104 performance measures, 26 of which were identified by VA's senior leadership as **mission critical**. The Department's performance measures are a mix of program outcomes that measure the impact that VA programs have on the lives of Veterans and their families, program outputs that measure activities undertaken to manage and administer these programs, and program efficiency that measures the cost of delivering an output or desired outcome.

Key Features of the FY 2009 Report

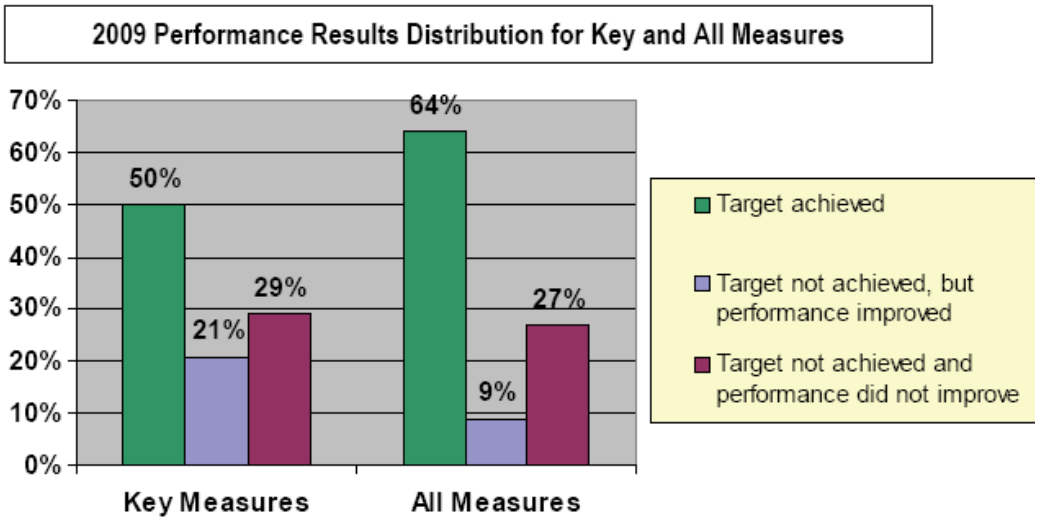
VA's PAR includes several features designed to give our stakeholders more complete information on VA's performance and activities.

Key Feature	*Benefit to VA's Stakeholders*
Cost Per Measure Data	The Department is furthering its integration of performance and budget information. As part of this effort, this year's PAR includes information on the cost of achieving performance targets for ***nine*** measures. We provide this in addition to cost estimates provided by strategic goal and objective, respectively.
Major Management Challenges	This year's report improves how major management challenges are presented. VA's response to each challenge is presented in an easy-to-read tabular format providing an estimated resolution date, a responsible official, a summary of actions taken, milestones planned for FY 2010, and anticipated impacts of actions planned. In addition, the presentation now divides the response into three categories: People, Process, and Policy. Together these elements provide a comprehensive analysis of the challenges facing the Department and what VA is doing to address them.
Web Links	This year's PAR lists more VA Web links compared to last year's PAR.
Data Quality Information	This year's report contains more robust and detailed information on how VA verifies the quality of its performance results data. The report's Key Measures Data Table and the Assessment of Data Quality sections have been restructured to provide more comprehensive data quality information.
Dashboard Style Tables	Selected tables now include more dashboard-like features that convey performance results using easy-to-read tables and "traffic light" color coding to help the reader more quickly and clearly assess VA performance results.
VA Snapshots	Snapshots are short vignettes that give the reader an easy way to understand VA through human interest stories.
Strategic Objective Measures Recap	Our strategic objective chapters in Part II now include a recap of all measures and associated results for a given objective including a statistical recap.

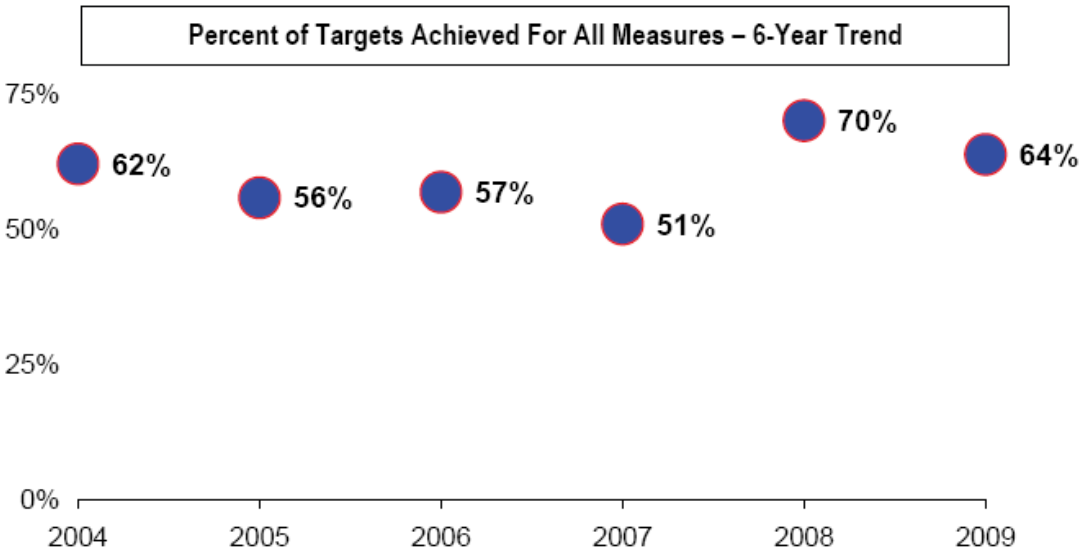
2009 Performance -- *A Department-Level Summary*

Key Measures -- *Continuity and Type*: Key measures are those that measure mission-critical activities. As of FY 2009, 25 of VA's 26 key measures have been in place for at least 5 years. This provides the Department's leadership with the ability to track significant performance trends over time and to make strategic adjustments when necessary.

Performance Results: *Key vs. All Measures:* The chart below shows how well VA performed in meeting its performance targets. As shown, VA achieved the target for 50 percent of its key measures and 64 percent of all measures. In addition, for key measures, 21 percent of the targets were not achieved, but performance improved from 2008. Further details on performance by goal and objective are provided on the following pages.



Performance Trends: *All Measures:* The chart below shows how well VA performed in meeting its performance targets for all of its measures since 2004. Trend analysis should be considered in light of yearly changes to performance targets and, to a lesser extent, changes to the numbers and types of measures.



MISSION AND ORGANIZATIONAL STRUCTURE

Regarding the four MD&A sections listed in SFFAS 15, the ***mission and organizational structure*** section should be concise and easily understood. Well-designed graphics help a great deal. Best practices for the mission and organizational structure follow, starting with the Defense Department.

Defense Department

The Defense Department's MD&A concise and easily understood description of a complex organization is shown on the following pages.

Organization

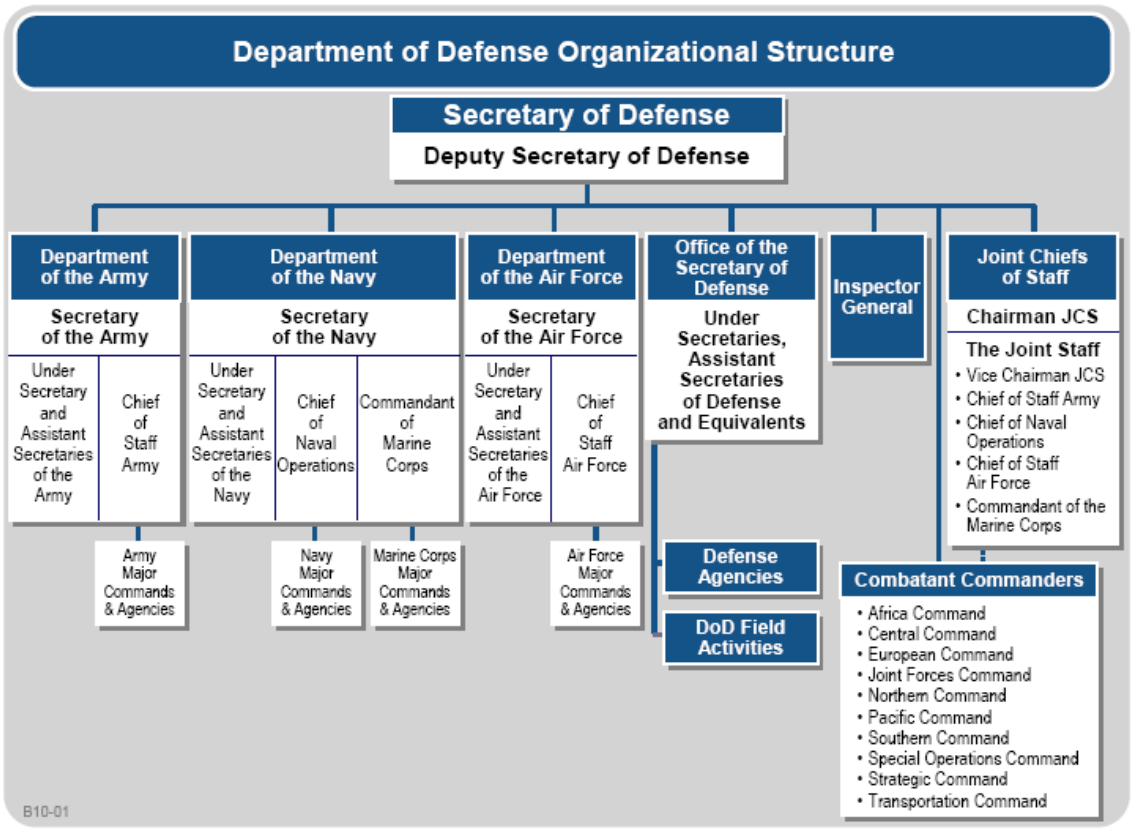
The Department must be effectively structured to make best use of its resources. Since the creation of the Continental Army in 1775, the U.S. military has evolved to become a global presence. The DoD was created by the National Security Act of 1947 by combining the Department of War and the Department of the Navy and was called the National Military Establishment; it became the DoD when the act was amended in 1949. Under the act, the Secretary of Defense, who is appointed by the President with the consent of the Senate, supervises the entire military. Under the Secretary of Defense is the Joint Chiefs of Staff. The Joint Chiefs consist of a chairperson, who holds the grade of General or Admiral, the heads of the three main Military Departments, and the Commandant of the Marine Corps. The Secretary of the Army, the Secretary of the Navy, and the Secretary of the Air Force were subordinated to give the Secretary of Defense full Cabinet authority over the Department.

The DoD embraces the core values of all successful organizations: leadership, professionalism, and technical knowledge. Its employees are dedicated to duty, integrity, ethics, honor, courage, and loyalty. Figure 1-3 shows how the Department is structured.

The Secretary and the Office of the Secretary

The Secretary of Defense and the Office of the Secretary of Defense are responsible for the formulation and oversight of America's defense strategy and policy. The Office of the Secretary of Defense supports the Secretary in policy development, planning, resource management, and fiscal and program evaluation.

Figure 1-3


Department of Defense Organizational Structure
Secretary of Defense
Deputy Secretary of Defense
Department of the Army
Secretary of the Army
Under Secretary and Assistant Secretaries of the Army
Chief of Staff Army
Army Major Commands & Agencies
Department of the Navy
Secretary of the Navy
Under Secretary and Assistant Secretaries of the Navy
Chief of Naval Operations
Commandant of Marine Corps
Navy Major Commands & Agencies
Marine Corps Major Commands & Agencies
Department of the Air Force
Secretary of the Air Force
Under Secretary and Assistant Secretaries of the Air Force
Chief of Staff Air Force
Air Force Major Commands & Agencies
Office of the Secretary of Defense
Under Secretaries, Assistant Secretaries of Defense and Equivalents
Defense Agencies
DoD Field Activities
Inspector General
Joint Chiefs of Staff
Chairman JCS
The Joint Staff
• Vice Chairman JCS
• Chief of Staff Army
• Chief of Naval Operations
• Chief of Staff Air Force
• Commandant of the Marine Corps
Combatant Commanders
• Africa Command
• Central Command
• European Command
• Joint Forces Command
• Northern Command
• Pacific Command
• Southern Command
• Special Operations Command
• Strategic Command
• Transportation Command
B10-01

Military Departments



The Military Departments consist of the Army, the Navy (of which the Marine Corps is a component), and the Air Force. In wartime, the U.S. Coast Guard becomes a special component of the Navy; otherwise, it is a maritime service within the Department of Homeland Security. The Military Departments organize, train, and equip America's military forces. When the President and Secretary of Defense determine that military action is required, these trained and ready forces are assigned to a Combatant Command responsible for conducting the military operations.

The Military Departments include Active Duty, Reserve, and National Guard forces. Active Duty forces are full-time Military Service Members. The Reserves, when directed by Congress or Presidential declaration, support the active forces. They are an extension of the Active Duty personnel and perform similarly when called into service. The Reserves may also be called upon to conduct counterdrug operations, provide disaster aid, and perform other peacekeeping missions. The National Guard has a unique dual mission, with both Federal and State responsibilities. In peacetime, the Governor of each respective State or territory commands the Guard. The Governor can call the Guard into action during local or Statewide emergencies, such as storms, wild fires, or civil disturbances. When ordered to active duty for mobilization or called into Federal Service for emergencies, units of the Guard are under the control of the appropriate DoD Military Department. The Guard and Reserve are recognized as indispensable and integral parts of our Nation's defense from the earliest days of a conflict.

- **Department of the Army.** The mission of the Department of the Army is to provide organized, trained, and equipped ground and combat support forces to the Combatant Commanders in support of National Security and Defense Strategies. The Army is committed to remaining the world's preeminent land power – relevant and ready at all times to serve the nation and support our allies.
- **Department of the Navy.** The mission of the Department of the Navy is to organize, train, and equip combat-ready Navy and Marine Corps forces capable of winning wars, deterring aggression and maintaining freedom of the seas.
- **Department of the Air Force.** The mission of the United States Air Force is to organize, train, and equip forces to fly, fight, and win in air, space, and cyberspace. The Air Force also strives to preserve the peace and security of the U.S. by providing the Combatant Commanders air-combat, air-service, aerospace, missile, and airlift forces.
- **Defense Agencies and Defense Field Activities.** Defense Agencies and DoD Field Activities provide support services commonly used throughout the Department. For example, the Defense Finance and Accounting Service (DFAS) provides accounting and payroll services, and contractor and vendor payments. Another example is the Defense Logistics Agency (DLA), which provides logistics support and supplies to all DoD activities.

Combatant Commands

The Secretary of Defense exercises his authority over how the military is trained and equipped through the Service secretaries; however, the Secretary of Defense uses a totally different method to exercise his authority to deploy troops and exercise military power. This latter authority is directed, with the advice of the Chairman of the Joint Chiefs of Staff, to the ten Combatant Commands who are responsible for conducting DoD missions around the world (Figure 1-4).

The combatant commanders are the direct link from the military forces to the President and the Secretary of Defense.

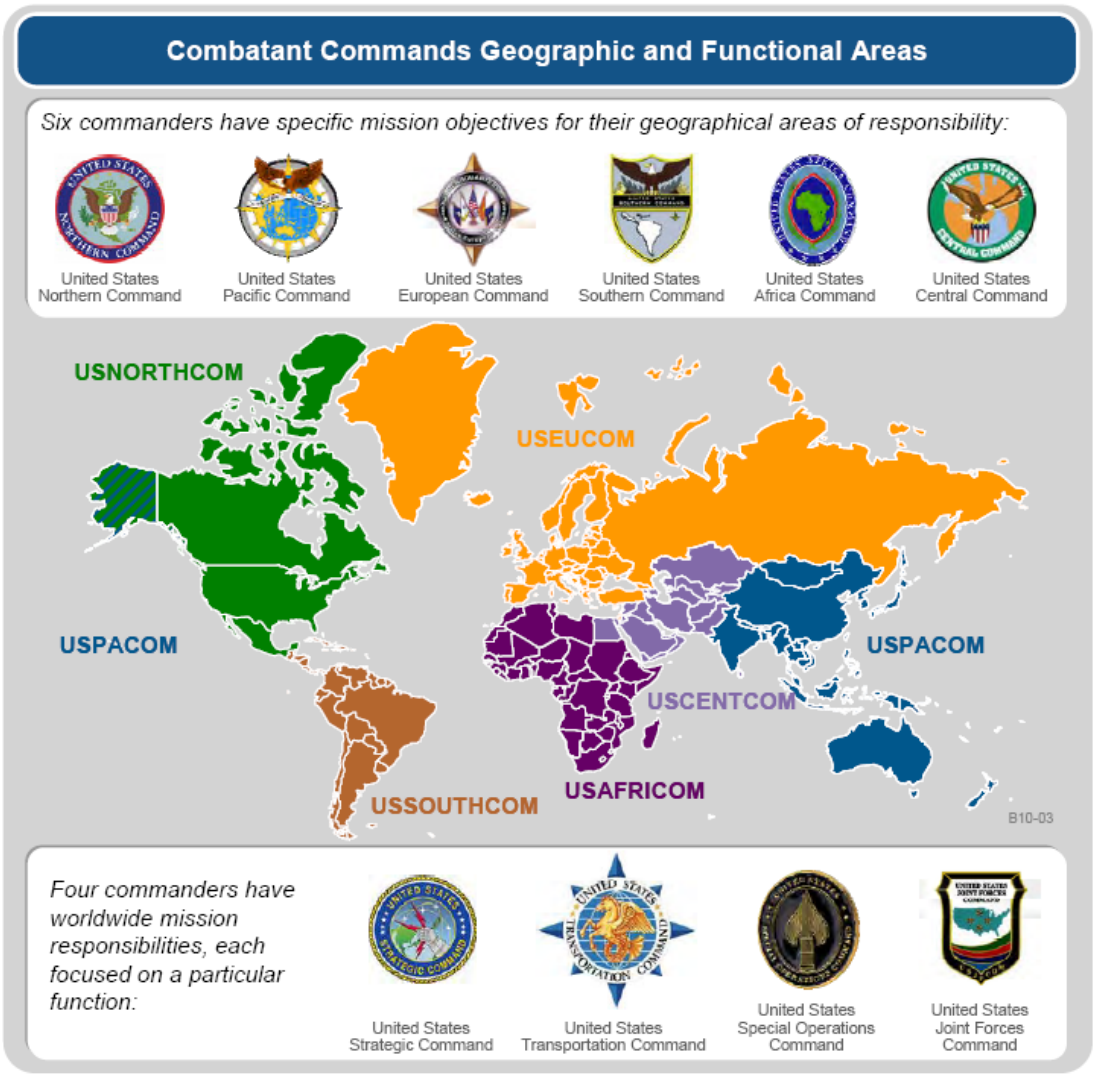
Six commanders have specific mission objectives for geographical areas of responsibility as depicted in Figure 1-5.

- **U.S. Northern Command (USNORTHCOM)** is responsible for North America.
- **U.S. Pacific Command (USPACOM)** is responsible for Northeast Asia, South Asia, and Southeast Asia, as well as Oceania.
- **U.S. European Command (USEUCOM)** is responsible for activities in Europe, Greenland, and Russia.
- **U.S. Southern Command (USSOUTHCOM)** is responsible for Central and South America, and the Caribbean.
- **U.S. Africa Command (USAFRICOM)** is responsible for all of Africa, with the exception of Egypt.
- **U.S. Central Command (USCENTCOM)** is responsible for the Middle East, several of the former Soviet republics, and Egypt. This Command is bears primary responsibility for Operation Enduring Freedom in Afghanistan and Operation Iraqi Freedom.

Figure 1-4



Figure 1-5



Four commanders have worldwide mission responsibilities, each focused on a particular function:

- **U.S. Strategic Command (USSTRATCOM)** is responsible for providing global deterrence capabilities and synchronizing DoD efforts to combat weapons of mass destruction worldwide.
- **U.S. Special Operations Command (USSOCOM)** is responsible for providing fully capable Special Operations Forces to defend the U.S. and its interests and synchronize planning of global operations against terrorist networks.
- **U.S. Transportation Command (USTRANSCOM)** is responsible for moving military equipment, supplies, and personnel around the world in support of operations.
- **U.S. Joint Forces Command (USJFCOM)** is responsible for developing future concepts for joint warfighting.

Federal Trade Commission

The Federal Trade Commission's mission and organizational structure section is concise and easily grasped as follows:

Mission and Organization

The work of the Federal Trade Commission (FTC) is critical to protecting and strengthening free and open markets and promoting informed consumer choice, both in the United States and around the world. The FTC performs its mission through the use of a variety of tools, including law enforcement, rulemaking, research, studies on marketplace trends and legal developments, and consumer and business education.

FTC's Vision

A U.S. economy characterized by vigorous competition among producers and consumer access to accurate information, yielding high-quality products at low prices and encouraging efficiency, innovation, and consumer choice.

FTC's Mission

To prevent business practices that are anticompetitive or deceptive or unfair to consumers; to enhance informed consumer choice and public understanding of the competitive process; and to accomplish these missions without unduly burdening legitimate business activity.

The FTC: Our Purpose and History

Consumers and businesses are likely to be more familiar with the work of the FTC than they think. In the consumer protection area, the care labels in clothes, product warranties, or stickers showing the energy costs of home appliances illustrate information that is required by the FTC. Likewise, businesses must be familiar with the laws requiring truthful advertising and protecting consumers' personally identifiable information and sensitive health information. These laws are administered by the FTC.

Each year, more people around the globe have come to understand that the competition among independent businesses is good for consumers, the businesses themselves, and the economy. Competitive markets yield lower prices and better quality goods and services, and a vigorous marketplace provides the incentive and opportunity for the development of new ideas and innovative products and services. Many of the laws governing competition also are administered by the FTC.

The FTC has a long tradition of maintaining a competitive marketplace for both consumers and businesses. When the FTC was created in 1914, its purpose was to prevent unfair methods of competition in commerce as part of the battle to "bust the trusts." Over the years, the Congress passed additional laws giving the agency greater authority over anticompetitive practices. In 1938, the Congress passed a broad prohibition against "unfair and deceptive acts or practices." Since then, the FTC also has been directed to administer a wide variety of other consumer protection laws and regulations, including the Telemarketing Sales Rule, the Identity Theft Act, and the Equal Credit Opportunity Act.

FTC History and Laws



The FTC had its genesis in the Supreme Court's 1911 decision in the Standard Oil case (Standard Oil Co. v. U.S., 221 U.S. 1 (1911)). In the aftermath of that decision, Congress determined to create an administrative agency that would be directed to prevent "unfair methods of competition;" to give definition to that general prohibition; and to use a number of quasi-judicial powers to enforce that prohibition. The FTC Act was later amended to prohibit unfair or deceptive acts or practices. Since its creation in 1914, Congress has substantially increased the FTC's enforcement responsibilities with respect to both of its goals, protecting consumers and maintaining competition. The FTC currently has enforcement and administrative responsibilities under 46 laws. For a description and further information on each law see http://www.ftc.gov/ogc/stats.shtm.

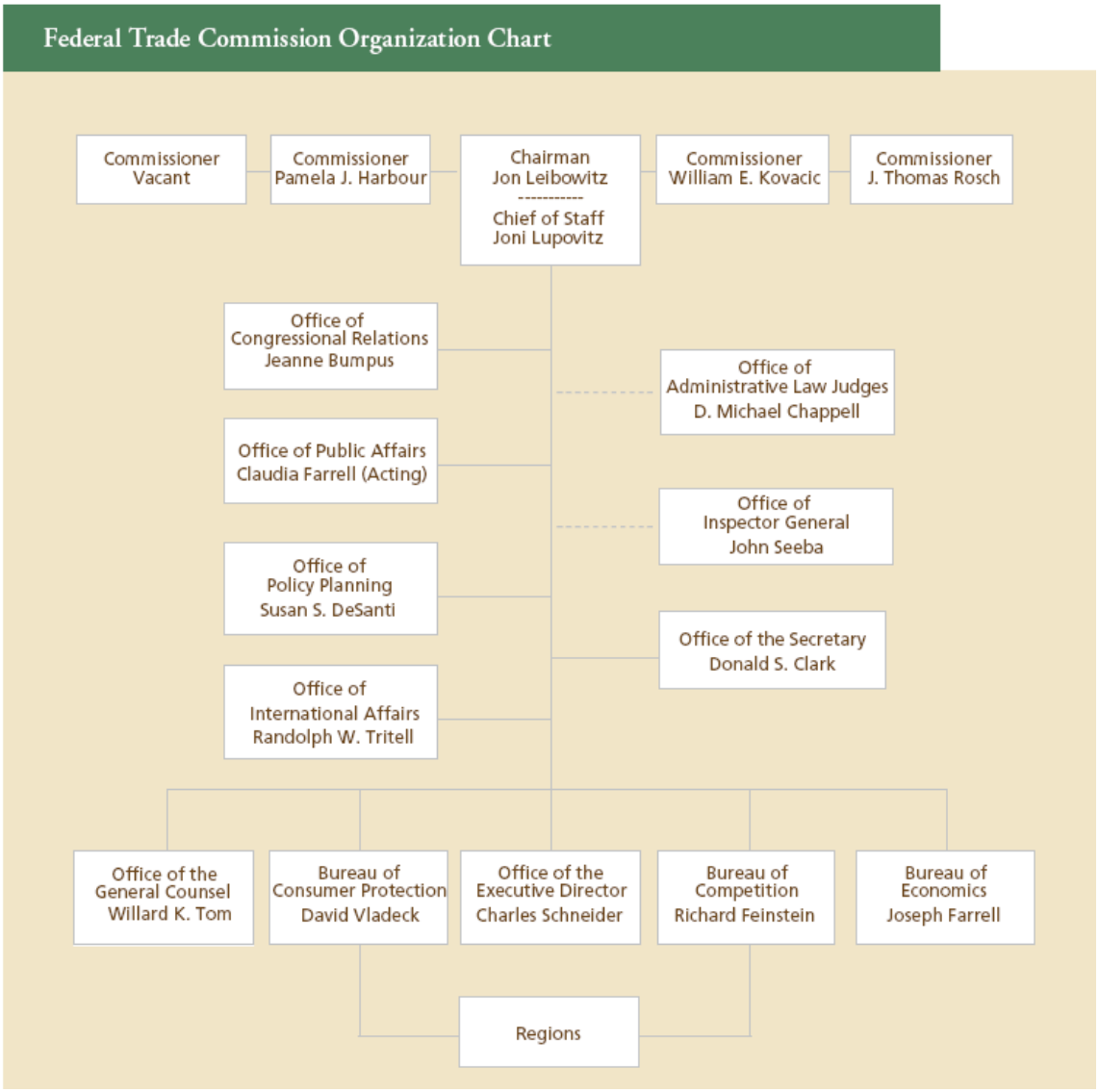
FISCAL YEAR
2009

Our Organization

The FTC is an independent agency that reports to the Congress on its actions. These actions include pursuing vigorous and effective law enforcement; advancing consumers' interests by sharing its expertise with federal and state legislatures and U.S. and international government agencies; developing policy and research tools through hearings, workshops, and conferences; and creating practical and plain-language educational programs for consumers and businesses in a global marketplace with constantly changing technologies.

The FTC is headed by a Commission composed of five commissioners, nominated by the President and confirmed by the Senate, each serving a seven-year term. The President chooses one commissioner to act as Chairman. No more than three commissioners can be from the same political party. Jon Leibowitz was designated to serve as Chairman of the FTC on March 2, 2009, by President Barack H. Obama. Leibowitz was previously sworn in as a Commissioner on September 3, 2004, following his nomination by the President and confirmation by the U.S. Senate. At the end of the fiscal year, the commissioners were Pamela Jones Harbour, William E. Kovacic, and J. Thomas Rosch. The fifth commissioner position was vacant.

The FTC's mission is carried out by three bureaus: the Bureau of Consumer Protection, the Bureau of Competition, and the Bureau of Economics. Work is aided by offices, including the Office of General Counsel, the Office of Inspector General, the Office of International Affairs, the Office of the Executive Director, and seven regions.

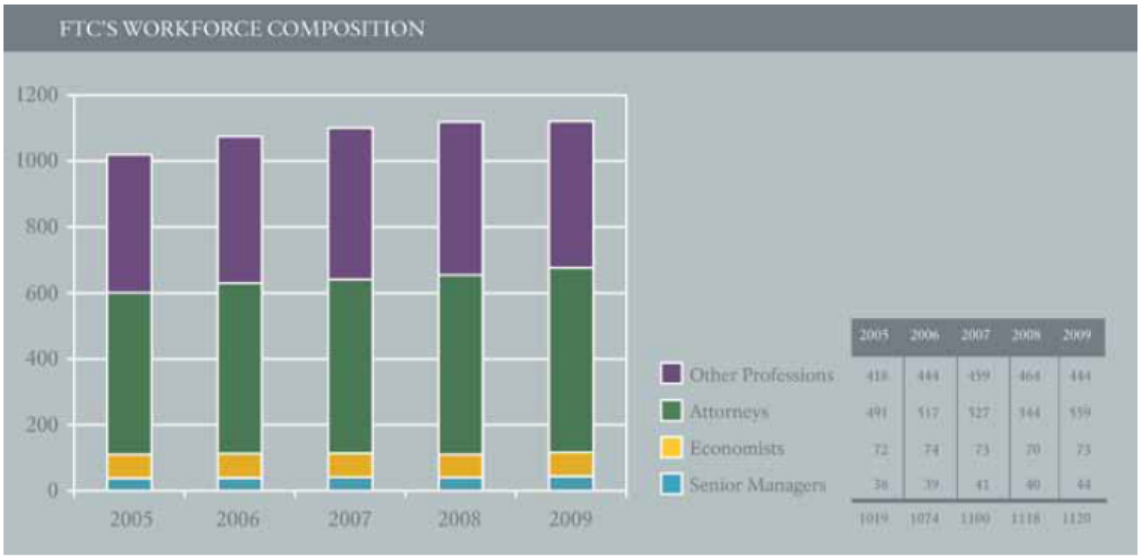

Federal Trade Commission Organization Chart
Commissioner Vacant
Commissioner Pamela J. Harbour
Chairman Jon Leibowitz
Chief of Staff Joni Lupovitz
Commissioner William E. Kovacic
Commissioner J. Thomas Rosch
Office of Congressional Relations Jeanne Bumpus
Office of Public Affairs Claudia Farrell (Acting)
Office of Policy Planning Susan S. DeSanti
Office of International Affairs Randolph W. Tritell
Office of Administrative Law Judges D. Michael Chappell
Office of Inspector General John Seeba
Office of the Secretary Donald S. Clark
Office of the General Counsel Willard K. Tom
Bureau of Consumer Protection David Vladeck
Office of the Executive Director Charles Schneider
Bureau of Competition Richard Feinstein
Bureau of Economics Joseph Farrell
Regions

The agency is headquartered in Washington, DC, and operates with seven regions across the United States. The graphic below illustrates the locations of the FTC regions.



Our People

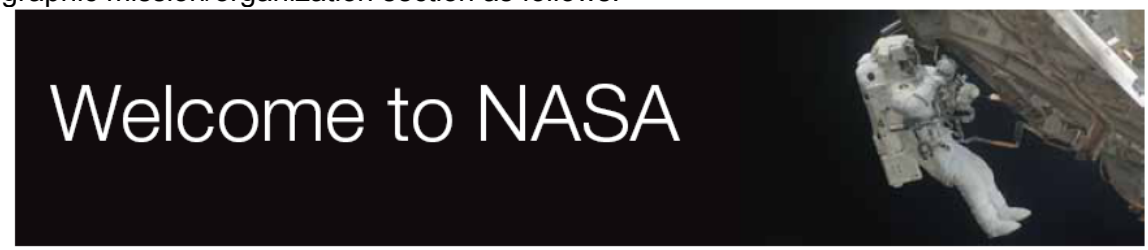
The FTC's workforce is its greatest asset. The agency's workforce consists of over 1,100 civil service employees dedicated to addressing the major concerns of American consumers. The graph below shows workforce composition by category.



	2005	2006	2007	2008	2009
Other Professions	418	444	459	464	444
Attorneys	491	517	527	544	559
Economists	72	74	73	70	73
Senior Managers	38	39	41	40	44
	1019	1074	1100	1118	1120

NASA

The National Air and Space Administration's (NASA) MD&A contains a concise and graphic mission/organization section as follows:



Our Mission

Congress enacted the National Aeronautics and Space Act of 1958 to provide for research into problems of flight within and outside the Earth's atmosphere and to ensure that the United States conducts activities in space devoted to peaceful purposes for the benefit of mankind. Our mission is:

To pioneer the future in space exploration, scientific discovery and aeronautics research.

NASA's Organization

NASA is comprised of its Headquarters in Washington, D.C., nine Centers located around the country, and the Jet Propulsion Laboratory, a Federally Funded Research and Development Center operated under a contract with the California Institute of Technology. In addition, we have partnership agreements with academia, the private sector, state and local governments, other Federal agencies, and a number of international organizations, creating an extended NASA family of civil servants, contractors, allied partners, and stakeholders.



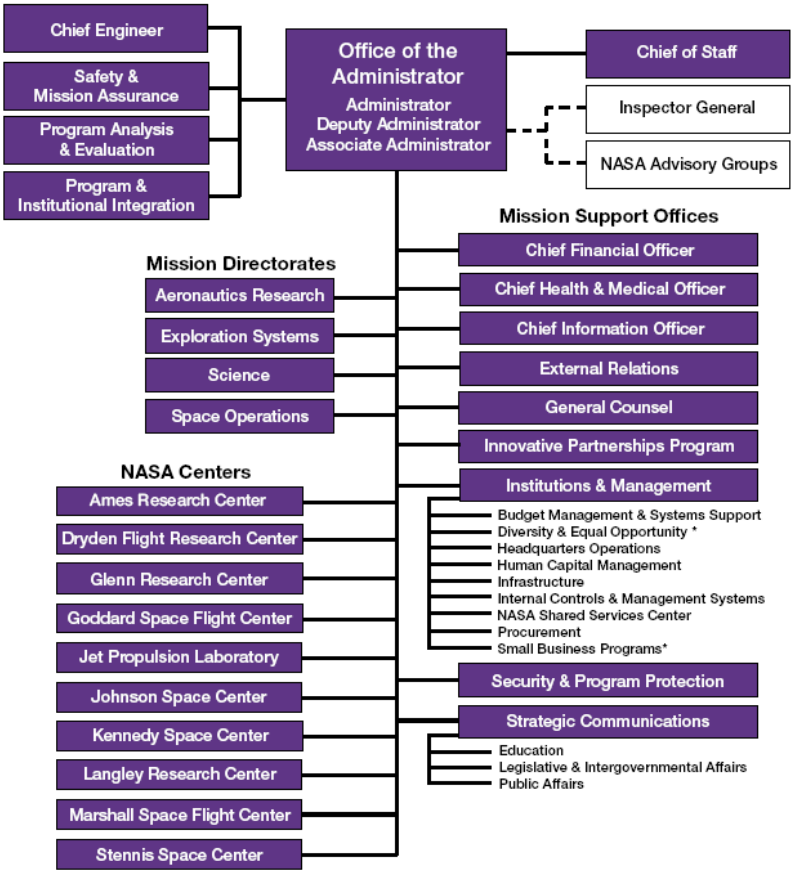
NASA's science, research, and technology development work is conceived of and implemented through its four Mission Directorates:

The **Aeronautics Research Mission Directorate (ARMD)** conducts fundamental research in aeronautical disciplines and develops capabilities, tools, and technologies that will significantly enhance aircraft performance, safety, and environmental compatibility, as well as increase the capacity and flexibility of the U.S. air transportation system.

The **Science Mission Directorate (SMD)** conducts the scientific exploration of Earth, the Sun, the solar system, and the universe. Missions include ground-, air-, and space-based observatories, deep-space automated spacecraft, and planetary orbiters, landers, and surface rovers. SMD also develops innovative science instruments and techniques in pursuit of NASA's science goals.

The **Exploration Systems Mission Directorate (ESMD)** develops the capabilities for long-duration human and robotic exploration. In support of the near-term goal of lunar exploration, ESMD is conducting robotic precursor missions, developing human transportation elements, creating innovative life support and medical technologies, and establishing international and commercial partnerships.

The **Space Operations Mission Directorate (SOMD)** directs spaceflight operations, space launches, and space communications and manages the operation of integrated systems in low Earth orbit and beyond, including the International Space Station (ISS). SOMD is laying the foundation for future missions to the Moon and Mars by using the ISS as an orbital outpost where astronauts can test systems and technology.



NASA organization as of September 30, 2009.

NASA's Mission Support Offices ensure that critical support functions for facilities, resources (human, financial, material), and institutional systems are ready and available to maximize the success of the research, technology development, and operational missions. For more detailed information about the functions represented in the NASA organization go to *www.nasa.gov/about/org_index.html*.

NASA's Workforce

NASA employs over 18,000 civil servants at our nine Centers, Headquarters, and the NASA Shared Services Center, with an additional 5,000 people at the Jet Propulsion Laboratory. We have employees at facilities in 12 states and Washington, D.C. Having NASA employees spread out across the country means that much of the general U.S. public is close to a NASA Center or facility, and has the ability to develop a personal connection to NASA.

As we enter the second decade of the 21st century, there is a greater diversity of age in our workforce than ever before, with four generations working side by side in many of our organizations. Currently NASA is implementing new programs to pull more Generation Y workers, those with birth dates starting from the mid-1970s, into the NASA community as a way to strengthen our diversity and skill sets. New employees will be able to learn from expert employees, retaining valuable institutional knowledge that would otherwise be lost to future generations. The Office of Human Capital Management is implementing a new program called the Early-Career Hiring Initiative to increase the number of people hired for entry-level and early-career positions.

NASA remains one of the best places to work in the Federal government ranking third in the Partnership for Public Service's 2009 Best Places to Work survey of Federal agencies as identified by employees (see *data.bestplacestowork.org/bptw/index* for more information). We ranked particularly high in strategic management, teamwork, leadership, and support of diversity. This ranking is a 2.8 percent improvement over the last survey, conducted in 2007. We are proud to provide this level of employee satisfaction and are committed to improving our ranking in the future.

Shared Values, Shared Results

NASA has four shared core values that support our commitment to technical excellence and express the ethics that guide our behavior. Every NASA employee believes that mission success is the natural outcome of an uncompromising commitment to safety, technical excellence, teamwork, and integrity.

Safety: Constant attention to safety is the cornerstone upon which we build mission success. We are committed, individually and as a team, to protecting the safety and health of the public, NASA team members, and the assets that the Nation entrusts to the Agency.

Integrity: We are committed to maintaining an environment of trust, built upon honesty, ethical behavior, respect, and candor. Our leaders enable this environment by encouraging and rewarding a vigorous, open flow of communication on all issues, in all directions, and among all employees without fear of reprisal. Building trust through ethical conduct as individuals and as an organization is a necessary component of mission success.

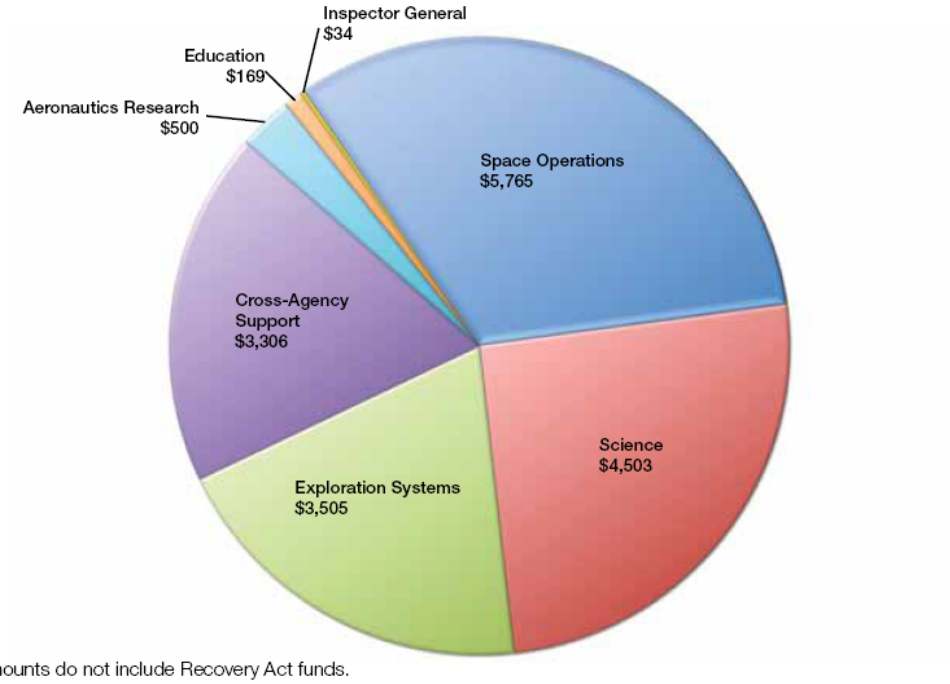
Teamwork: We strive to ensure that our workforce functions safely at the highest levels of physical and mental well-being. The most powerful tool for achieving mission success is a multi-disciplinary team of diverse, competent people across all NASA Centers. Our approach to teamwork is based on a philosophy that each team member brings unique experience and important expertise to project issues. Recognition of and openness to the insight of individual team members improves the likelihood of identifying and resolving challenges to safety and mission success. We are committed to creating an environment that fosters teamwork and processes that support equal opportunity, collaboration, continuous learning, and openness to innovation and new ideas.

Excellence: To achieve the highest standards in engineering, research, operations, and management in support of mission success, we are committed to nurturing an organizational culture in which individuals make full use of their time, talent, and opportunities to pursue excellence in both the ordinary and the extraordinary.

Budgeting for Performance: NASA's FY 2009 Budget

NASA's Fiscal Year (FY) 2009 budgetary resources totaled $17,782 million, an increase of about 2.2 percent from NASA's FY 2008 Budget. This increase demonstrates a commitment to funding the balanced priorities set forth for the Agency in space exploration, Earth and space science, and aeronautics research.

NASA's FY 2009 Enacted Budget Total: $17,782
(Dollars in Millions)

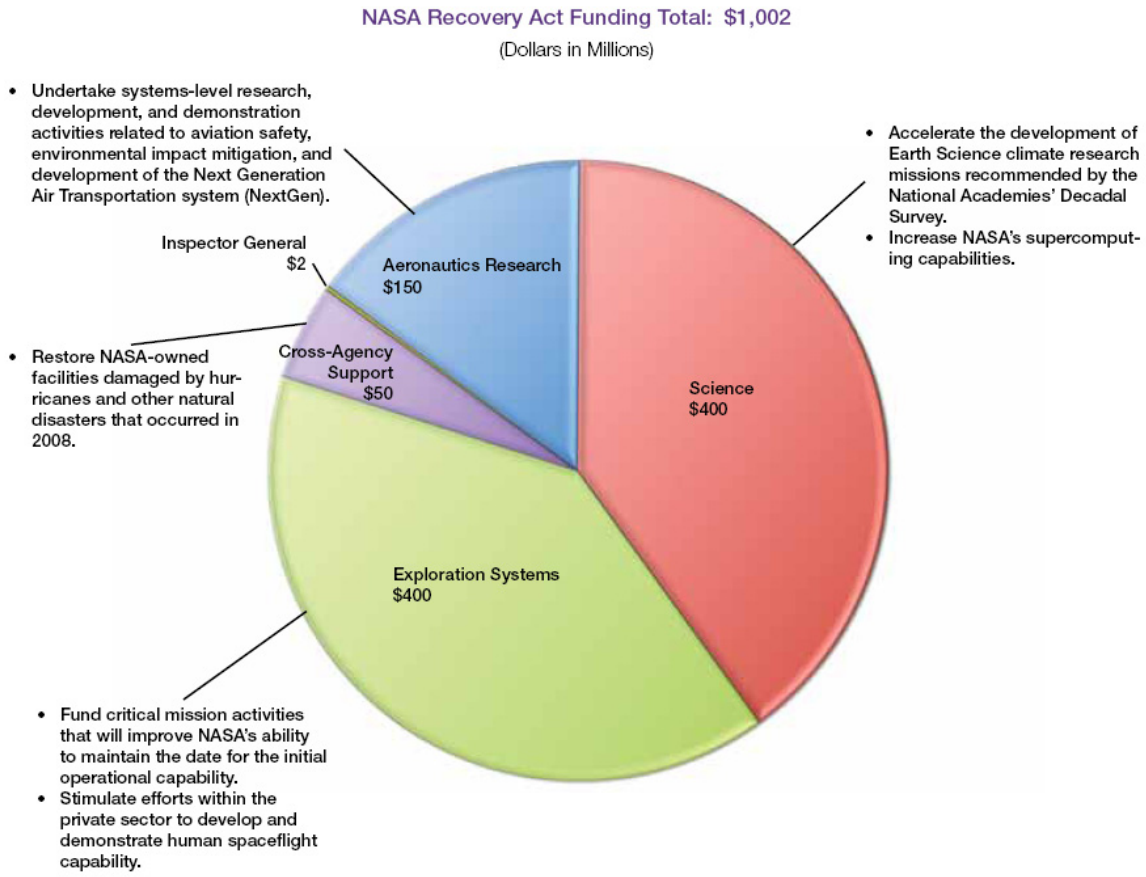


Note: Amounts do not include Recovery Act funds.

Proud to Serve the Nation: American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law by President Obama on February 17, 2009. It is an unprecedented effort to jumpstart our economy, create and save millions of jobs, and modernize our Nation's infrastructure so our country can thrive in the 21st century.

We received $1,002 million in Recovery Act funds. Details on our progress are available at *www.nasa.gov/recovery/index.html*. From satellites that track and trend weather and natural hazards to creating a safer, more efficient air transportation system, our employees are proud to contribute to the breakthroughs and activities that will aid America's economic recovery.


NASA Recovery Act Funding Total: $1,002
(Dollars in Millions)
• Undertake systems-level research, development, and demonstration activities related to aviation safety, environmental impact mitigation, and development of the Next Generation Air Transportation system (NextGen).
Inspector General $2
Aeronautics Research $150
• Accelerate the development of Earth Science climate research missions recommended by the National Academies' Decadal Survey.
• Increase NASA's supercomputing capabilities.
• Restore NASA-owned facilities damaged by hurricanes and other natural disasters that occurred in 2008.
Cross-Agency Support $50
Science $400
Exploration Systems $400
• Fund critical mission activities that will improve NASA's ability to maintain the date for the initial operational capability.
• Stimulate efforts within the private sector to develop and demonstrate human spaceflight capability.

Patent and Trademark Office

The Patent and Trademark Office's (PTO) MD&A provides an excellent example for presenting a great deal of information about "mission and organizational structure" in a table as follows

2007-2012 USPTO Strategic Plan

Mission

To foster innovation and competitiveness by:
- Providing high quality and timely examination of patent and trademark applications
- Guiding domestic and international intellectual property policy
- Delivering intellectual property information and education worldwide

Vision

USPTO: Leading the World in Intellectual Property Protection and Policy

Strategic Goal #1	Strategic Goal #2	Strategic Goal #3	Management Goal
Optimize Patent Quality and Timeliness	Optimize Trademark Quality and Timeliness	Improve Intellectual Property Protection and Enforcement Domestically and Abroad	Achieve Organizational Excellence
Objectives	**Objectives**	**Objectives**	**Objectives**
■ Provide high quality examination of patent applications ■ Improve and integrate existing electronic systems to promote full electronic patent application processing; implement better/more secure systems ■ Improve the quality and timeliness of patent examination by exploring a range of approaches to examining applications	■ Achieve and maintain three-month first action pendency, and reduce average total pendency excluding suspended and *inter partes* cases ■ Improve quality of examination by ensuring consistency and quality of searching and examination, and provide internal on-line tools ■ Provide electronic file management and workflow ■ Develop interactive on-line electronic filing capabilities and upgrade e-tools	■ Support efforts and initiatives aimed at strengthening IP protection and curbing theft of IP ■ Continue efforts to develop unified standards for international IP practice ■ Provide policy guidance on domestic IP issues ■ Foster innovation and competitiveness by delivering IP information and education worldwide	■ Function as true business partners across the organization to achieve superior enterprise performance and provide strategic leadership ■ Ensure operational excellence in enterprise-wide management processes ■ Dramatically simplify on-line access to, and availability of, USPTO information and data

Performance Measures by Goal

Goal #1 Measures	Goal #2 Measures	Goal #3 Measures
■ Patent allowance compliance rate ■ Patent in-process examination compliance rate ■ Patent average first action pendency ■ Patent average total pendency ■ Patent applications filed electronically	■ Trademark final compliance rate ■ Trademark first action compliance rate ■ Trademark average first action pendency ■ Trademark average total pendency ■ Trademark applications processed electronically	■ Percentage of countries on the United States Trade Representative (USTR) 301 list, awaiting World Trade Organization (WTO) accession, or targeted by Office of Intellectual Property Policy and Enforcement (OIPPE) for improvements that have positively amended or improved their IP systems ■ Number of countries that implement at least 75% of action steps which improve IP protections in the joint cooperation, action or work plans

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The ***performance objectives, goals, and results*** section of the MD&A should highlight the key performance measures for a "vital few"[3] matters, programs, etc. and relate them to strategic goals. In deciding which matters to present, the entity should consider who the stakeholders are. The MD&A should focus on matters of substantial interest to external users (the public, Congress, etc.), and avoid matters that are primarily if not exclusively internal, such as routine internal management processes. External users often will neither understand nor care about such matters.

For the federal government, the distinction between "internal" and "external" users is more difficult to make than for states and local governments or the private sector where the primary audience for general purpose financial statements is investors and creditors. The Board has stated that, in general, users of federal financial information fall into the four categories identified in SFFAC 1: citizens, Congress, executives, and program managers. However, for information at the more highly summarized governmentwide or consolidated level, the Board divided the four groups identified in SFFAC 1 into two major groups: external users (citizens), and internal users (Congress, executives, and program managers).

Presenting concise performance information is a challenge. The tendency is to include a lot of information rather than applying a rigorous relevancy or "vital few" test.

Performance measures should relate costs to outputs and outcomes. Cost information should stimulate interest in determining where resources are going or will go. Any change in how a performance measure is calculated should be explained. Such changes can affect the outcome, including causing an agency to meet a goal they otherwise would have failed to meet (or vise-versa).

The large array of performance measures is daunting and not likely to be read and therefore has not been identified as a "best practice."

In addition, the "vital few" unmet performance goals should be discussed because the agency's target should be challenging.

Focusing on clear, measurable outcomes and goals contributes to effective government operations.[4] The MD&A is an opportunity for management to frankly and concisely explain the essentials of performance, and to go beyond the usual formulaic communication. The Government Performance and Results Act of 1994 (GPRA) and various administrations before and since 1994 have sought to focus on outcomes and create useful performance measures. However, OMB has noted that current GPRA-based performance goals and measures are not being used. Congress does not use them to conduct oversight, agencies do not use them to manage, and the public does

[3] SFFAS 15, par. 6.
[4] See OMB's "high priority performance goals" ("HPPG) initiative as explained in the Analytical Perspectives section of the FY 2011 budget.

not use them to evaluate government operations. Moreover, OMB has noted that past performance management efforts generally have been ineffective; they have identified problems involving management policy and planning rather than focusing on outcomes.

OMB states that current performance reports seldom answer the questions of key audiences. The OMB's recent "high priority performance goals (HPPG) initiative requires agencies to commit to a limited number of ambitious, realistic, and achievable high-priority goals to be achieved within 24 months without additional resources or legislation; it requires agencies to have a limited number (generally three to eight) of well-defined, outcome-based measures of performance.

The HPPG initiative contrasts with the typical MD&A discussion of performance in current reports. The latter often discusses very high level strategic goals and, when discussing operations, uses (1) general, usually positive statements and (2) a complex table of performance measures that may be challenging to understand.

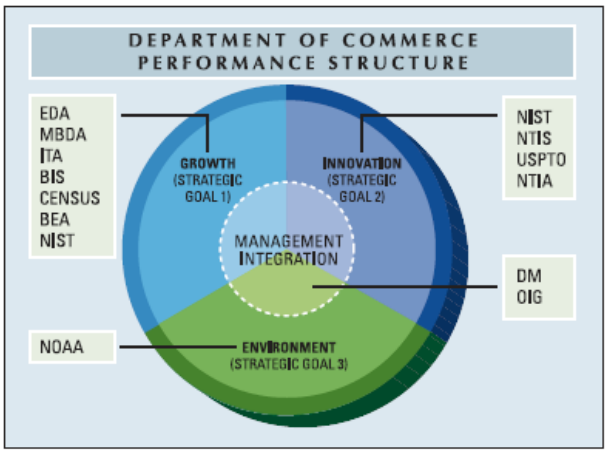
The following presentation of MD&A performance sections includes some references to the HPPG initiative.

Commerce Department

Among the extensive material in its discussion of performance in the FY 2009 MD&A, the Commerce Department presents an effective chart relating organizational structure (bureaus) to the three strategic objectives as follows.

DEPARTMENTAL PERFORMANCE STRUCTURE

The Department focuses on three different, yet inter-related aspects of economic growth and opportunity—growth, innovation, and environment—with each aspect reflected in each of the Department's strategic goals. A fourth goal—management integration—is linked to all three goals, focusing on various aspects of improving the management of the Department. The Department has 13 bureaus, each of which appears in a specific strategic (or management integration) goal, the lone exception being the National Institute of Standards and Technology (NIST) which appears in both Strategic Goals 1 and 2. This structure and the descriptions of each goal and corresponding objectives appear below.



The Department promotes growth by developing partnerships with state, local, private, and non-profit enterprise so as to encourage economic growth and development (objective 1.1). The Department also encourages trade by promoting U.S. exports (objective 1.1) while at the same time monitoring those exports to prevent any export of goods that could be used for any activities against the United States (objective 1.2). The Department also develops and publishes economic statistics and indicators (e.g., gross domestic product [GDP]) essential to U.S. business (objective 1.3). Finally, the Department promotes the growth and competitiveness of the Nation's manufacturing industry (objective 1.4).

Defense Department

Defense Department's MD&A provides a concise and easily understood description of performance as follows..

Program Performance Overview

DEPARTMENT OF DEFENSE STRATEGIC PLAN

The Department examines America's defense needs by conducting the Quadrennial Defense Review (QDR) to provide a blueprint for a strategy-based, balanced, and affordable defense program. The Department is conducting the QDR for FY 2010 as required by law and it will be completed and released by February 1, 2010. The QDR 2010 will tie to the new National Security Objectives and establish the Administration's approach to carrying out defense objectives. As required for the AFR, the remainder of this section discusses the performance plan and goals for FY 2009. These goals were based on the QDR 2006 and will be updated when QDR 2010 is complete. A copy of the Department's QDR 2006 can be found at www.defenselink.mil/qdr/report/Report20060203.pdf.

The QDR 2006 was the first contemporary defense review to coincide with an ongoing major conflict. Consequently, Strategic Goal 1 (Figure 1-6) focuses on the ongoing major conflict and extended stabilization campaigns in Iraq and Afghanistan. At the same time, QDR 2006 recognized that the Department needed to recast its view of future warfare through the lens of a long duration and globally distributed conflict. Therefore, Strategic Goal 2 focuses on reorienting the Armed Forces to deter and defend against transnational terrorists around the world. Strategic Goal 5 recognizes that DoD cannot meet today's complex challenges alone. This goal recognizes integrated security cooperation and strategic communication as additional tool sets the Combatant Commanders may use to fight wars. Together, these three goals encompass the Department's warfighting missions. Strategic Goals 3 and 4 focus on reshaping the defense infrastructure and developing a Total Force, respectively, in ways that better support the warfighter. These supporting goals enable accomplishment of the Department's primary Strategic Goals 1, 2, and 5.

Figure 1-6



DEPARTMENT OF DEFENSE PERFORMANCE BUDGET HIERARCHY

Figure 1-7 depicts the Department's performance budget hierarchy. This hierarchy highlights that every level within the Department is accountable for measuring performance and delivering results at multiple tiers of the organization.

Primary responsibility for performance improvement in DoD rests with the Deputy Secretary of Defense in his role as the Chief Management Officer (CMO). The Deputy Secretary is assisted by a Deputy CMO and the DoD Performance Improvement Officer (PIO), who advises and integrates performance information across DoD. The DoD strategic objectives and performance targets are recommended by Principal Staff Assistants (PSAs) within the Office of the Secretary of Defense, in coordination with the Joint Staff, as most relevant for enterprise or DoD-wide strategic focus. The DoD strategic objectives and performance targets (measures and milestones) are subject to annual refinement based on changes in missions and priorities.

FISCAL YEAR 2009 DEPARTMENT OF DEFENSE KEY PERFORMANCE OUTCOMES

The Department submitted its detailed Fiscal Year (FY) 2009 Performance Plan in the FY 2009 Budget Request Summary Justification dated February 4, 2008 that is available at http://www.defenselink.mil/comptroller/defbudget/fy2009/FY2009_Budget_Request_Justification.pdf. This initial plan included 51 performance targets at the enterprise, or DoD-wide level.

Since that time, the Deputy Secretary of Defense/CMO approved some changes to this initial plan that resulted in a net reduction of two in the number of enterprise-level performance targets (from 51 to 49) for FY 2009. The following tables, organized by QDR Strategic Goal and Strategic Objective, depict 16 key performance outcomes for FY 2009. Based on fourth quarter data, the Department met or showed improvement in 88 percent (Figure 1-8) of these key outcome areas when compared to prior year (FY 2008) results.

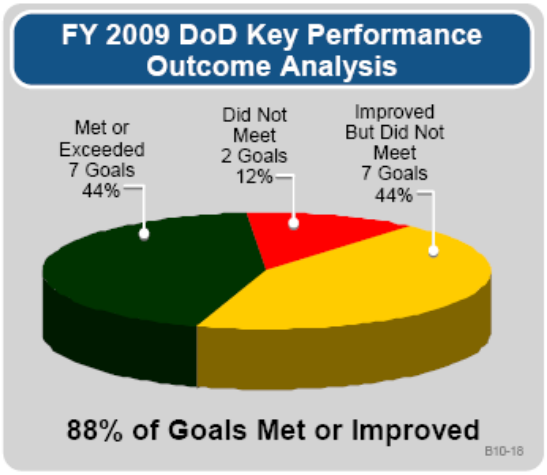
Strategic Goal 1: Successfully Conduct Overseas Contingency Operations

Since 2001, the Department has been engaged in developing the forces and capabilities of Iraq and Afghanistan to provide for their own defense. Iraqi Security Forces (ISF) training is critical to enabling the Department to reallocate its resources and military forces in FY 2010 and beyond to Afghanistan and other regions as may be directed. Consequently, two key outcomes under this goal area focus on training Iraqi and Afghan Security forces as primary indicators for transitioning the security of both nations to their respective governments. By the end of FY 2009, the Department significantly surpassed its annual performance target with regard to training Iraqi Security Forces and accomplished 98 percent of its performance goal associated with the number of trained/assigned Afghan National Security Forces (ANSF).

Figure 1-7



Figure 1-8



Department of Defense Agency Financial Report for FY 2009

STRATEGIC GOAL 1 (revised): SUCCESSFULLY CONDUCT OVERSEAS CONTINGENCY OPERATIONS				
Performance Measures	**Strategic Plan Long-term Performance Targets**	**Annual Performance Targets/Results**		
		FY 2008 Results	FY 2009 Targets	FY 2009 Results
Strategic Objective 1.1:	**Conduct a large-scale, potentially long-duration irregular warfare campaign that includes counterinsurgency, security stability, transition, and reconstruction operations.**			
1.1-1a: Cumulative number of ISF trained	1.1-1a: By FY 2009, the DoD will train 588,000 ISF	558,279	588,000	Sensitive[1]
1.1-1b: Cumulative number of ANSF trained/assigned	1.1-1b: By FY 2009, the DoD will develop a trained/assigned ANSF level of 187,196.	144,000	187,196	184,059
1/ DoD previously reported on the number of Iraqi Security Forces personnel authorized and assigned by the Ministries of Defense and Interior and trained with the assistance of Coalition forces. With the expiration of the mandate of UNSCR 1790, the data is now considered sensitive as it pertains to the specific military personnel strength for a sovereign nation.				

Strategic Goal 2: Reorient Capabilities and Forces

Five key performance outcomes relate to the Department's second goal to reorient its capabilities and forces. The first two outcomes reflect new DoD capabilities necessary to mitigate attacks on the U.S. and its territories. A third measure focuses on increasing DoD Special Operations Forces capabilities to address irregular/unconventional warfare. The final two outcomes are focused on converting Army force structure to modular designs required to meet military operational missions and achieving significant transformation of the Army in a generation.

STRATEGIC GOAL 2: REORIENT CAPABILITIES AND FORCES				
Performance Measures	**Strategic Plan Long-term Performance Targets**	**Annual Performance Targets/Results**		
		FY 2008 Results	FY 2009 Targets	FY 2009 Results
Strategic Objective 2.1 (Revised):	**Improve capabilities to prevent and mitigate attacks on U.S. personnel, facilities, and key assets.**			
2.1-1: Number of National Guard Weapons of Mass Destruction –Civil Support Teams (WMD-CSTs) certified	2.1-1: By FY 2009, 55 National Guard WMD-CSTs will be certified.	53	55	55
2.1-2: Number of National Guard CBRNE Enhanced Response Force Packages (CERFPs) trained	2.1-2: By FY 2008, 17 National Guard CERFPs will be trained for WMD or other catastrophic responses.	17	17	15

Department of Defense Agency Financial Report for FY 2009

STRATEGIC GOAL 2: REORIENT CAPABILITIES AND FORCES				
Performance Measures	**Strategic Plan Long-term Performance Targets**	**Annual Performance Targets/Results**		
		FY 2008 Results	FY 2009 Targets	FY 2009 Results
Strategic Objective 2.2:	**Deter and defend against transnational terrorists attacks and globally distributed aggressors and shape the choices of countries at strategic crossroads, while postured for a second, nearly simultaneous campaign.**			
2.2-2: Percent increase in DoD Special Forces and Navy SEAL personnel achieved	2.2-2: By FY 2012, the DoD will increase its Special Forces and Navy SEAL personnel by 32 percent from the FY 2006 actual of 13,206 end strength.	12.4%	17%	23%
2.2-4a: Number of Army Brigades Combat Teams (BCTs) converted to a modular design and available to meet military operational demands.	2.2-4a: By FY 2013, 76 modular Army BCTs will be available to meet military operational demands.	38	47	46
2.2-4b: Number of Army Multi-functional and Functional (MFF) Support brigades converted to a modular design and available to meet military operational demands.	2.2-4b: By FY 2013, 227 modular Army MFF brigades will be available to meet military operational demands.	188	201	196

Strategic Goal 3: Reshape the Defense Enterprise

Three key performance outcomes are identified as representative samples of the Department's enterprise reshaping goal. The first outcome, average customer wait time, is used by DoD's logistics community to improve joint warfighting support for maintenance and repair activities of major equipment and sustainment of the operating forces. Two other key outcomes focus on improving the quality of life for Service Members and their families. The strategic goals optimize long-term performance, readiness, and return on investment of facilities across the Department. These measure the number of inadequate military housing units in the continental U.S. (CONUS) and outside the continental U.S. (OCONUS).

STRATEGIC GOAL 3: RESHAPE THE DEFENSE ENTERPRISE				
Performance Measures	**Strategic Plan Long-term Performance Targets**	**Annual Performance Targets/Results**		
		FY 2008 Results	FY 2009 Targets	FY 2009 Results
Strategic Objective 3.3:	**Implement improved logistics operations to support joint warfighting priorities.**			
3.3-1: Average customer wait time (days)	3.3-1: Beginning in FY 2007, DoD will reduce average customer wait time to 15 days.	16.7	15	16.2

Department of Defense Agency Financial Report for FY 2009

STRATEGIC GOAL 3: RESHAPE THE DEFENSE ENTERPRISE				
Performance Measures	**Strategic Plan Long-term Performance Targets**	**Annual Performance Targets/Results**		
		FY 2008 Results	FY 2009 Targets	FY 2009 Results
Strategic Objective 3-4:	**Maintain capable, efficient, and cost-effective installations to support the DoD workforce.**			
3.4-4a: Number of inadequate family housing units CONUS	3.4-4b: By FY 2009, DoD will eliminate all inadequate family housing CONUS	5,085	0	4,600
3.4-4b: Number of inadequate family housing units OCONUS	3.4-4b: By FY 2009, DoD will eliminate all inadequate family housing OCONUS	7,273	0	2,367

Strategic Goal 4: Develop a 21st Century Total Force

Four key performance outcomes under this goal are focused on sustaining the capacity of the All-Volunteer Force to meet DoD steady-state and surge activities. Two measures assess DoD Active and Reserve component end-strength against levels prescribed by the Secretary of Defense for mission accomplishment. A third measures the percent of Armed Forces without any deployment-limiting medical conditions to ensure readiness for mission capability. A fourth, and final key outcome, under this goal, is focused on closing the current gap in language capabilities by assessing the percent of operational and contingency language skills to meet mission requirements.

STRATEGIC GOAL 4: DEVELOP A 21ST CENTURY TOTAL FORCE				
Performance Measures	**Strategic Plan Long-term Performance Targets**	**Annual Performance Targets/Results**		
		FY 2008 Results	FY 2009 Targets	FY 2009 Results
Strategic Objective 4.1:	**Ensure an "All Volunteer" military force is available to meet the steady-state and surge activities of the DoD.**			
4.1-1a: Percent variance in Active component end strength.	4.1-1a: For each fiscal year, the DoD Active component end strength will not vary by more than three percent from the SECDEF prescribed end strength for that fiscal year.	2.1%	+/- 3%	0.9%
4.1-1b: Percent variance in Reserve component end strength.	4.1-1b: For each fiscal year, the DoD Reserve component end strength will not vary by more than three percent from the SECDEF prescribed end strength for that fiscal year.	0%	+/-3%	1%

Department of Defense Agency Financial Report for FY 2009

STRATEGIC GOAL 4: DEVELOP A 21ST CENTURY TOTAL FORCE				
Performance Measures	**Strategic Plan Long-term Performance Targets**	**Annual Performance Targets/Results**		
		FY 2008 Results	FY 2009 Targets	FY 2009 Results
Strategic Objective 4.1:	**Ensure an "All Volunteer" military force is available to meet the steady-state and surge activities of the DoD.**			
4.1-2: Percent of deployable Armed Forces without any deployment- limiting medical condition.	4.1-2: By FY 2010, DoD will sustain the percent of deployable Armed Forces without any deployment-limiting medical condition to equal to or greater than 92 percent.	84%	>92%	85%
Strategic Objective 4.4:	**Improve workforce skills to meet mission requirements.**			
4.4-1: Percent of operational and contingency language needs met	4.4-1: By FY 2011, DoD will increase the percent of operational and contingency language needs met by three percent from the FY 2008 baseline.	Non-applicable	+1%	<.1%

Strategic Goal 5: Achieve Unity of Effort

The Department's fifth and final strategic goal focuses on building the capacity of international partners by improving access to equipment, technology, and training. Two key outcomes involve risk-reduction activities to control export of technology and activities that shape the international environment toward U.S. interest and track training capabilities among international partners for countering threats and challenges of terrorism. The first outcome focuses on increasing the number of international students participating in DoD-sponsored educational activities. The second measures the number of various technological and security reviews of goods and services approved for transfer to international partners.

STRATEGIC GOAL 5: ACHIEVE UNITY OF EFFORT				
Performance Measures	**Strategic Plan Long-term Performance Targets**	**Annual Performance Targets/Results**		
		FY 2008 Results	FY 2009 Targets	FY 2009 Results
Strategic Objective 5.1:	**Build capacity of international partners in fighting the war on terror.**			
5.1-1: Annual number of international students participating in Department-sponsored educational activities	5.1-1: Beginning in FY 2007, the DoD will increase the number of international students participating in Department-sponsored educational activities by at least two percent per year.	55,895	56,400	60,409
5.1-2: Annual number of Technology Security Actions (TSAs) approved	5.1-2: Beginning in FY 2007, DoD will increase the number of relevant technologies involving transfers to international partners by two percent per year.	118,367	120,704	143,600

Final year-end results for all 49 DoD performance outcomes will be addressed in the Department's more detailed performance report for FY 2009, submitted with the DoD's FY 2011 Congressional Budget Justification, on or about February 1, 2010. This report will be posted with the FY 2011 budget materials at http://www.defenselink.mil/comptroller/.

Environmental Protection Agency

The Environmental Protection Agency's (EPA) effective MD&A performance data includes a very informative U.S. map color coded by EPA region reporting an accomplishment for each EPA region as follows.

Highlights of Environmental

Region 8 EPA Protects At-Risk Communities

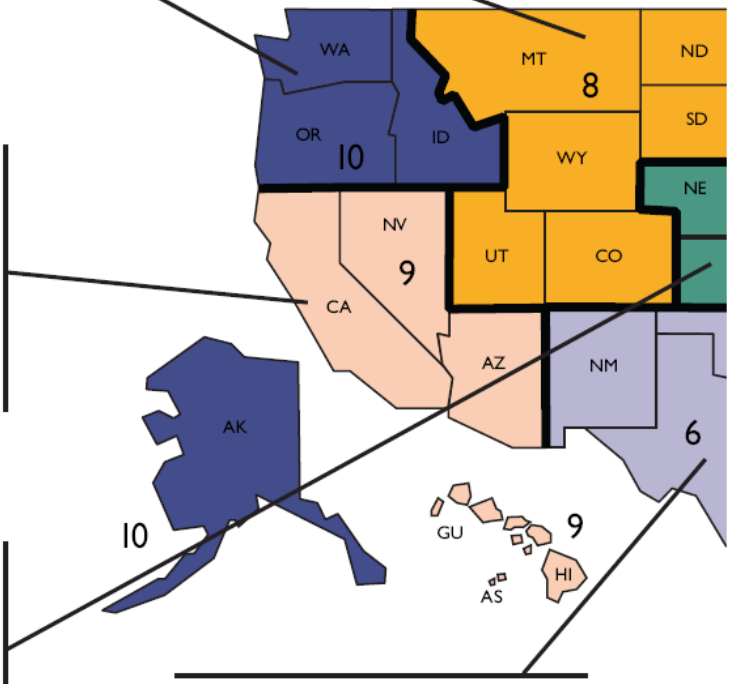
Based on health risks documented by Region 8's remedial investigation, investigations conducted by the Agency for Toxic Substances and Disease Registry, and concerns expressed by the community and state political leaders, in June 2009 EPA determined that a public health emergency exists at the Libby Asbestos Superfund Site in Northwest Montana. This marked the first EPA determination under the Comprehensive Environmental Response, Compensation and Liability Act that conditions at a site constitute a public health emergency. The unprecedented determination underscored the need for further action and health care for area residents who have been or may be exposed to asbestos. As a result, the U.S. Department of Health and Human Services awarded a grant to provide medical care to the residents of Lincoln County, while EPA continued its expeditious elimination of human exposure pathways at the site. http://www.epa.gov/region8/superfund/libby/index.html

Region 10 EPA Reports on Toxics in the Columbia River Basin

In 2009, EPA released the first *Columbia River Basin State of the River Report for Toxics*, a compilation of data about four widespread contaminants in the basin and the risks they pose to people, fish, and wildlife. The Region led a team of more than 20 partner organizations to draw this latest portrait of the toxic threats in the Columbia Basin, which drains nearly 260,000 square miles across seven states. http://yosemite.epa.gov/r10/ecocomm.nsf/Columbia/Columbia

Region 9 The American Reinvestment and Recovery Act (ARRA) Saves Jobs

At the Iron Mountain Mine Superfund site, EPA has spent $20.7 million in ARRA funds, which will reduce cleanup time from three years to 18 months. Work completed will enable the removal of 170,000 cubic yards of contaminated sediments from the bottom of Keswick Reservoir downstream from the mine and eliminate a major threat to the Sacramento River ecosystem, the most important salmon spawning grounds in California. Federal hydropower facilities will be able to generate $3 million to $6 million worth of additional peak power each year. The project has created or saved more than 200 jobs. www.epa.gov/region09/ironmountainmine



Region 7 Conducts Massive Lead Clean-up

Through September 15, 2009, EPA Region 7 has cleaned up lead-contaminated soil from 1,128 residential properties at eight Superfund lead/mining sites in Missouri and Nebraska. Specifically, lead contamination has been removed from 807 properties within the Omaha lead site, and the remaining 321 cleanups occurred at sites in southeastern and southwestern Missouri. Region 7's use of site-specific contracts on these sites has enabled the Region to meet 100 percent of its small business goals. In FY 2009, Region 7 awarded all Superfund-American Reinvestment and Recovery Act funding to small businesses. http://www.epa.gov/region07/cleanup/npl_files/index.htm

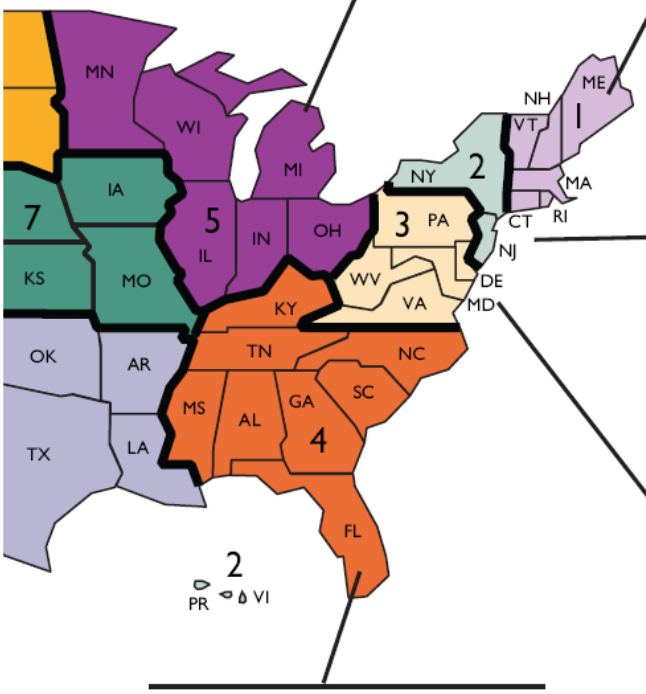
Region 6 BP Consent Decree Will Control Pollution

A settlement with BP Products North America Inc. resulted in the company paying a penalty of $12 million for violations of the Clean Air Act regulations. The settlement also requires BP to spend more than $161 million on pollution controls and enhanced maintenance and monitoring, and $6 million on a supplemental project to reduce air pollution in Texas City. EPA estimates that these actions will reduce emissions of benzene and other volatile organic compounds by approximately 6,000 pounds annually, providing a substantial benefit to the 4,700 people living less than 1 mile from the refinery. http://www.epa.gov/compliance/resources/cases/civil/caa/bptexas.html

Accomplishment, EPA Regions

Region 5 A Coal-Fired Plant Re-Powers With Renewable Biomass Fuel

Region 5 will be home to the country's first electric utility to reduce greenhouse gas emissions due to a Clean Air Act consent decree. The conversion will make Ohio Edison's Burger facility the largest coal-fired plant in the United States to re-power using primarily renewable biomass fuels. The change will approach "carbon neutrality" because the carbon dioxide (CO_2) emissions from burning biomass will be offset by the absorption of CO_2 by the vegetation grown to produce the fuel. In addition to the 1.3-million-ton-per-year CO_2 reduction from the coal-fired operation, the agreement will reduce 14,000 tons of sulfur dioxide, 1,300 tons of nitrogen oxides, and 700 tons of particulate matter annually.
http://yosemite.epa.gov/opa/admpress.nsf/a5792a626c8dac098525735900400c2d/7eef89c1a5d3b60985257610004 7a74d!OpenDocument



Region 1 Enforcement and Voluntary Actions Curb Diesel Emissions

Region 1 helped alleviate asthma and other respiratory diseases caused or exacerbated by exposure to diesel emissions. The Region enforced federally approved anti-idling regulations and encouraged voluntary partnerships with the freight industry through the Agency's SmartWay program. This two-pronged approach reduced millions of pounds of particulate matter that can lead to respiratory problems and greenhouse gases that contribute to climate change. http://www.epa.gov/region1/eco/diesel/idling.html

Region 2 Hudson River Dredging Removes PCBs

The long-awaited and historic dredging of the Upper Hudson River to remove sediment contaminated with polychlorinated biphenyls (PCBs) began in May 2009. The first phase of the six-year project is being conducted under an agreement with the General Electric Company, which plans to remove 265,000 cubic yards of sediment from a 6-mile stretch of the river. EPA is working closely with communities in the dredging area to minimize impacts, ensure their concerns are heard, and convey critical information about the project. http://www.epa.gov/hudson/

Region 3 Agencies Establish Enhanced Review Process for Mountaintop Mining Permits

In FY 2009, EPA and the U.S. Army Corps of Engineers jointly developed an enhanced review process (ERP) that will ensure timely, consistent, and transparent review of permit applications with the greatest potential to impact water quality and drinking water in affected communities. Region 3's Multi-criteria Integrated Resource Assessment (MIRA) tool identified 79 permits for the ERP. MIRA allowed decision-makers from EPA Regions 3, 4, and 5 to reach consensus on the permits using a common set of data for discussion and analysis.
http://www.epa.gov/region3/mtntop/index.htm

Region 4 School Chemical Clean-out Campaign (SC3) Protects Students

Region 4 continues to demonstrate national leadership with its School Chemical Clean-out Campaign (SC3) program. In FY 2009, the SC3 program was responsible for the removal of more than 78,500 pounds of chemicals (including 180 pounds of mercury) from 110 schools, impacting over 53,400 students.
http://www.epa.gov/region4/waste/rcra/sc3.htm

The EPA mentions the total number of its performance measures (205) but it does not try to present them in the MD&A. For example, no long textual passages or daunting table are presented. The EPA presents percentages for met, unmet, and data not available, and presents a discussion of "key accomplishments" and "challenges by Objective and Strategic Goal" in a "highlights of program performance by goal" (see pages 13-35). Although 22 pages of discussion seem excessive, the EPA presents it effectively.

Federal Aviation Administration

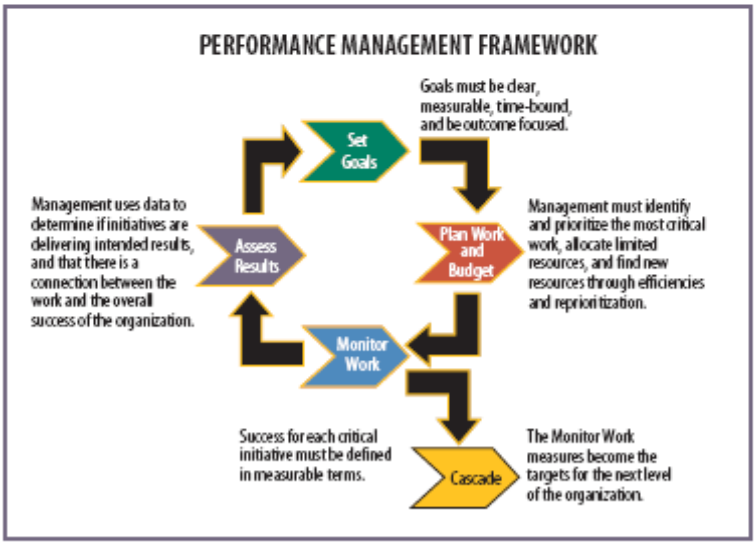
The Federal Aviation Administration's (FAA) MD&A is effective. It presents 31 performance measures for four strategic goals with minimal narrative using an informative table as follows.

PERFORMANCE HIGHLIGHTS

The FAA is charged with promoting the safety and efficiency of the Nation's aviation system. With broad authority to enforce safety regulations and conduct oversight of the civil aviation industry, we maintain the system's integrity and reliability. A strategic plan, annual business plans, human capital plans, and the annual PAR create a recurring cycle of planning, program execution, measurement, verification, and reporting. This strong link between resources and performance shows our accomplishments and reinforces accountability for the way we spend taxpayer money.

Managing Performance

The FAA manages performance by using a four-step framework based on best practices from a number of private and public sector organizations (See chart below).



As we use this framework and instill management discipline into the processes, we anticipate a multiyear journey of learning and change.

YEAR-TO-YEAR PERFORMANCE GOALS ACHIEVED							
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Performance Targets Met (Number)	9 of 12	24 of 30	28 of 31	27 of 30	24 of 30	26 of 29	28 of 31
Performance Targets Met (Percentage)	75%	80%	90%	90%	80%	90%	90%

The first step in the process, Set Goals, includes consulting with management, stakeholders, and customers to identify areas for improvement.

The second step, Plan Work and Budget, focuses on the critical work and resources required to achieve the goals. Following the framework, the FAA created a performance-based budget that links resource requirements to the *Flight Plan* and the DOT Strategic Plan. Our FY 2009 Budget in Brief is available at **http://www.faa.gov/about/budget** and our *Flight Plan* is available at **http://www.faa.gov/about/plans_reports**.

The third step, Monitor Work, develops measurement of the work required to achieve our goals. The FAA has developed organizational business plans for each LOB and staff office. These plans outline the initiatives, activities, and performance targets that link our work directly to the *Flight Plan*. FY 2009 Business Plans for all organizations are available at **http://www.faa.gov/about/plans_reports**.

The *Flight Plan*, the FAA's strategic plan, consists of 31 strategic performance measures in FY 2009. It is carefully designed to make sure that we focus on what is important, and that taxpayer resources are used with the strictest care. The *Flight Plan* measures are categorized into four strategic goal areas—Increased Safety, Greater Capacity, International Leadership, and Organizational Excellence. When setting the goals, the agency strives to increase the challenge each year.

Assess Results is the last and most important step in the performance management process. This year, we continued our practice of reviewing and discussing annual performance goals every month. In addition, we continued to focus more on discussing performance results, root causes of performance issues, and reallocation of resources to correct underperformance.

Our performance measures and targets support the FAA's mission to provide citizens with a safe, secure, and efficient global aviation system. The chart above provides a summary of our year-to-year performance goal achievement trend.

As indicated in the chart above, the FAA has expanded its strategic focus since 2002. As we continue to mature in our strategic management processes and our focus becomes sharper, the number and mix of performance targets shift. On a yearly basis, we review the plan to ensure that we are on track to meet future challenges and to ensure that aviation remains an engine of economic growth.

When we first started preparing our annual PAR in FY 2002, the FAA had 10 performance goals in the strategic areas of Safety, System Efficiency, and Organizational Excellence. In 2003, the FAA refined its strategic plan and launched the first *Flight Plan* (FY 2004–2008). The *Flight Plan* provides the framework to match resources with initiatives for long-term change. The new *Flight Plan* was designed around our current four strategic goals. These goals detail how we will move forward into the future.

In FY 2004, to reflect the increasing emphasis on accountability within the FAA organizations, we added 18 new performance targets. Six of the new performance targets were associated with International Leadership and placed greater emphasis on our role as a leader in the global civil aviation system. In the Safety strategic goal area, we introduced Commercial Space Launch Accidents, marking a new era in space travel, with FAA licensing of the first private manned space vehicle—SpaceShipOne.

In FY 2009—the sixth year of the *Flight Plan's* implementation—the FAA has 31 performance measures and targets that focus our efforts to achieve enhanced aviation safety, increase system capacity, provide international leadership, and ensure organizational success. We met 28—a 90 percent success rate.

GSA

The General Services Administration's (GSA) MD&A and financial report as a whole is fully Web-based. GSA presents several key performance measures for each GSA strategic goal. There are menu selections for "GSA Overview", Key Performance Measures", "Financial Results", and Assurances and Management Challenges". GSA's report is available on the Web at the address listed in Table 1 above.

Justice Department

The Justice Department's FY 2009 MD&A performance section is concise and informative. A table with the 25 "key performance measures" is presented under the menu selection for "analysis of performance information" (see the Web address in Table 1) and is well done, as shown in part immediately below:

[ ] Designates the reporting entity	FY 2009 Target	FY 2009 Actual	Target Achieved/ Not Achieved
Strategic Goal I: Prevent Terrorism and Promote the Nation's Security			
Terrorist acts committed by foreign nationals against U.S. interests within U.S. borders **[FBI]**	Zero	Zero	Achieved
Catastrophic acts of domestic terrorism **[FBI]**	Zero	Zero	Achieved
Strategic Goal II: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
Number of organized criminal enterprises dismantled **[FBI]**	36	39	Achieved
NEW MEASURE: Number of children depicted in child pornography rescued by the FBI **[FBI]** [1]	150	118	Not Achieved[2]
[1] *This measure replaces the former measure: "Number of child pornography websites or web hosts shut down" due to an OMB-led program review in the Spring of 2008.* [2] *The FBI has not met its target for this measure. While the FBI always makes every effort to identify/rescue victimized children, the FBI cannot directly control the number of children identified and/or rescued at any given time through investigative techniques, due to the reactive nature of this measure.*			
Percentage of firearms investigations resulting in a referral for criminal prosecutions **[ATF]**	59%	59%	Achieved
DOJ's reduction in the supply of illegal drugs available for consumption in the U.S. **[ADAG/Drugs]**	Progress toward establishing baseline[3]	N/A	TBD
[3] *Measuring the reduction in the illegal drug supply is a complex process reflective of a number of factors outside the control of drug enforcement. Moreover, the impact of enforcement efforts on the illegal drug supply and the estimated availability are currently not measurable in a single year. However, the Department is intent on achieving an interim goal of setting a baseline by the close of FY 2010. Once the baseline is set, the Department intends to achieve a 6 percent total reduction in the supply of illegal drugs available for consumption in the United States over the next two years.*			

Thus, the Justice Department presents goals that are generally fairly specific and consistent with the Justice Department's five "high priority performance goals" identified during the OMB performance initiative and published in the *Analytical Perspectives* of the FY 2009 Budget, page 82-83. These goals are described as a "subset of those used to regularly monitor and report performance", and are specific and generally quantified, e.g., "White Collar Crime: Increase white collar caseload by five percent concerning mortgage fraud, health care fraud, and official corruption b 2012, with 90 percent of cases favorably resolved." Fewer measures are a best practice in part because they can be easily tracked.

Department of Veterans Affairs

The Department of Veterans Affairs' (VA) Web-based MD&A provides a hyperlink to a summary performance table that provides a great deal of information about strategic goals, performance measures and results, as mentioned in a prior section this report.

The table in combination with the performance overview (see immediately below) communicate this information effectively.

How We Measure Performance

VA employs a **five-tiered performance management framework** to measure performance.

Term	*Definition*
Strategic Goals	The Department's long-term outcomes as detailed in its Strategic Plan and articulated through four strategic goals and one enabling goal.
Strategic Objectives	Broad operational focus areas designed to achieve strategic goals. The Department has 21 strategic objectives.
Performance Measures	Specific measurable indicators used to measure progress towards achievement of strategic objectives. The Department uses different types of measures (i.e., outcome, output, and efficiency) to evaluate its performance and progress.
Performance Targets	Associated with specific performance measures, these are quantifiable expressions of desired performance/success levels to be achieved during a given fiscal year.
Strategic Targets	Also associated with specific performance measures, these are quantifiable expressions of optimum success levels to be achieved; they are "*stretch goals*" that VA strives for in the long-term.

VA's 21 strategic objectives are supported by 104 performance measures, 26 of which were identified by VA's senior leadership as **mission critical**. The Department's performance measures are a mix of program outcomes that measure the impact that VA programs have on the lives of Veterans and their families, program outputs that measure activities undertaken to manage and administer these programs, and program efficiency that measures the cost of delivering an output or desired outcome.

Key Features of the FY 2009 Report

VA's PAR includes several features designed to give our stakeholders more complete information on VA's performance and activities.

Key Feature	*Benefit to VA's Stakeholders*
Cost Per Measure Data	The Department is furthering its integration of performance and budget information. As part of this effort, this year's PAR includes information on the cost of achieving performance targets for ***nine*** measures. We provide this in addition to cost estimates provided by strategic goal and objective, respectively.
Major Management Challenges	This year's report improves how major management challenges are presented. VA's response to each challenge is presented in an easy-to-read tabular format providing an estimated resolution date, a responsible official, a summary of actions taken, milestones planned for FY 2010, and anticipated impacts of actions planned. In addition, the presentation now divides the response into three categories: People, Process, and Policy. Together these elements provide a comprehensive analysis of the challenges facing the Department and what VA is doing to address them.
Web Links	This year's PAR lists more VA Web links compared to last year's PAR.
Data Quality Information	This year's report contains more robust and detailed information on how VA verifies the quality of its performance results data. The report's Key Measures Data Table and the Assessment of Data Quality sections have been restructured to provide more comprehensive data quality information.
Dashboard Style Tables	Selected tables now include more dashboard-like features that convey performance results using easy-to-read tables and "traffic light" color coding to help the reader more quickly and clearly assess VA performance results.
VA Snapshots	Snapshots are short vignettes that give the reader an easy way to understand VA through human interest stories.
Strategic Objective Measures Recap	Our strategic objective chapters in Part II now include a recap of all measures and associated results for a given objective including a statistical recap.

Federal Housing Finance Administration

The FHFA presents an effective "summary of performance" as follows:

Key Performance Indicators for FY 2009

Strategic Goal	Performance Goal	Key Performance Indicator
STRATEGIC GOAL 1 Enhance supervision to ensure that Fannie Mae, Freddie Mac, and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements.	PERFORMANCE GOAL 1.1 Fannie Mae and Freddie Mac (the Enterprises) comply with safety and soundness standards.	PERFORMANCE MEASURE 1.1.1 The percentage of Enterprises with a composite GSE enterprise risk safety and soundness rating of "Limited Concerns" or better. **Not Achieved** Both Enterprises were rated "Critical Concerns" and were in conservatorship.
		PERFORMANCE MEASURE 1.1.2 For both Enterprises, the percentage of GSE enterprise risk categories (governance, solvency, earnings, market, credit, and operational risk) with a safety and soundness rating of "Limited Concerns" or better (1 or 2). **Not Achieved** Ratings for the Enterprises were "Critical Concerns" for earnings, credit risk, and market risk and "Significant Concerns" for governance and operational risk. In conservatorship, the rating for capital was suspended.
	PERFORMANCE GOAL 1. The FHLBanks comply with safety and soundness standards.	PERFORMANCE MEASURE 1.2.1 Percentage of FHLBanks with a composite rating of "1" or "2". **Not Achieved** Sixty-two percent of the FHLBanks (and the Office of Finance) had a composite safety and soundness rating of "1" or "2" at the end of the fiscal year. Heightened concerns about credit risk and governance associated with private-label MBS holdings contributed to the decline in ratings.
	PERFORMANCE GOAL 1.4 The FHLBanks are adequately capitalized.	PERFORMANCE MEASURE 1.4.1 The FHLBanks meet FHFA's determination of capital adequacy. **Substantially Achieved** FHLBanks met all capital requirements at year-end. One FHLBank, failed to meet the risk-based capital requirement for part of the year.

Strategic Goal	Performance Goal	Key Performance Indicator
STRATEGIC GOAL 1 Enhance supervision to ensure that Fannie Mae, Freddie Mac, and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements.	PERFORMANCE GOAL 1.5 Fannie Mae and Freddie Mac comply with applicable laws, regulations, directives, and agreements, including executive compensation, corporate responsibility, and disclosure.	PERFORMANCE MEASURE 1.5.1 Any identified instances of noncompliance with laws and regulations are resolved to FHFA's satisfaction. **Achieved** Enterprises resolved, or are on schedule to resolve, outstanding supervisory issues arising from laws, regulations, directives, and agreements.
	PERFORMANCE GOAL 1.6 The FHLBanks comply with applicable laws, regulations, directives, and agreements, including those regarding executive compensation, cor-porate responsibility, and disclosure.	PERFORMANCE MEASURE 1.6.3 Establish a matters requiring attention-like measure for tracking follow-up recommendations from annual exams. **Achieved** An MRA tracking tool was developed in 2009 and is being used for FHLBank examinations that commenced in 2009. Tracking tools for each FHLBank were backfilled with outstanding 2008 MRAs to log and document remediation efforts in a consistent manner.
STRATEGIC GOAL 2 Promote homeownership and affordable housing and support an efficient secondary mortgage market.	PERFORMANCE GOAL 2.1 Develop proposed and final regulations to implement statutory changes in Fannie Mae and Freddie Mac affordable housing goals effective January 1, 2010, while enforcing existing goals.	PERFORMANCE MEASURE 2.1.4 Enforce Fannie Mae and Freddie Mac 2009 affordable housing goals. **Achieved** Met monthly with each Enterprise to track progress in meeting housing goals.
	PERFORMANCE GOAL 2.2 The FHLBanks foster the development of affordable owner-occupied and rental housing for eligible very low-, low-, and moderate-income households.	PERFORMANCE MEASURE 2.2.2 The FHLBanks address principal affordable housing program examination findings to FHFA's satisfaction prior to the next examination. **Achieved** Conducted all scheduled affordable housing program exams and visitations, assessed status of principal affordable housing program examination findings from prior exam, and obtained management commitment to correct findings from 2009 examinations.

Strategic Goal	Performance Goal	Key Performance Indicator
STRATEGIC GOAL 2 Promote homeownership and affordable housing and support an efficient secondary mortgage market.	**PERFORMANCE GOAL 2.5** Cooperate with other federal agencies on mortgage markets and the nation's housing finance system and regulatory issues.	**PERFORMANCE MEASURE 2.5.1** Respond to requests from other Federal agencies for information about housing finance markets and the Enterprises. **Achieved** Thirty-day standard met on requests related to mortgage market conditions, debt issuance, Making Home Affordable, and Housing Finance Agency assistance.
STRATEGIC GOAL 3 Through conservatorship, FHFA will preserve and conserve the assets and property of Fannie Mae and Freddie Mac and enhance their ability to fulfill their mission.	**PERFORMANCE GOAL 3.1** Preserve and conserve each Enterprise's assets and property.	**PERFORMANCE MEASURE 3.1.1** Financial condition of each enterprise remains liquid and they maintain positive GAAP net worth including Senior Preferred Stock. **Achieved** The Treasury Preferred Stock Agreement continues to support the Enterprises positive net worth and sufficient capacity remains.
	PERFORMANCE GOAL 3.2 Continue to delegate appropriate authorities to each Enterprise's management to move forward with the business operations.	**PERFORMANCE MEASURE 3.2.2** Establish new Boards of Directors at each Enterprise. **Achieved** Both Enterprises reconstituted their Boards of Directors in December, 2008.
RESOURCE MANAGEMENT STRATEGY Manage effectively FHFA's human capital and resources to support our mission.	**PERFORMANCE GOAL 4.1** Maintain a diverse workforce that is skilled, flexible, and performance-oriented to fulfill the goals of the agency.	**PERFORMANCE MEASURE 4.1.3** Percentage of vacancies filled within Office of Personnel Management's 45-day time-to-hire standard. **Achieved** FHFA met the 45-day time-to-hire standard in 73 percent of FY2009 hires.

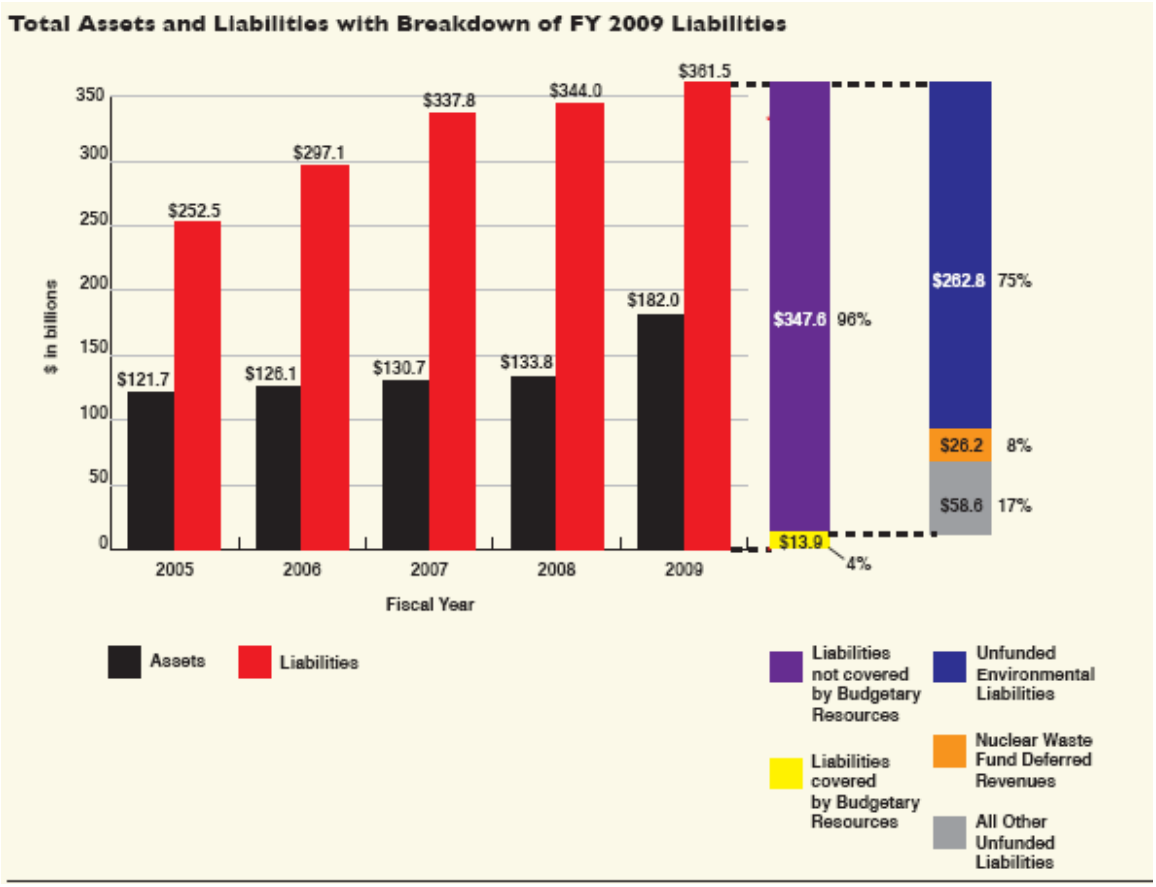
ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION SECTION

For the ***financial statement analysis*** section, the MD&A should focus on the changes in financial position and, thus, the results of operations during the period. It should relate financial results, performance, and costs to strategic goals. It should explain the significant variations from prior years, from the budget, and from performance plans. It should explain what happened and whether what happened is likely to continue in the future. Thus, the financial analysis should do more than merely describe the changes in financial statement line items that are obvious from the information on the face of the statements. In this regard, charts and tables are especially helpful.

Even if the financial statements have been read, often the true import of the data is not well understood by the reader. The MD&A should provide valuable information about financial results and trends that are not apparent from the face of the financials. The following are some examples of effective presentation of financial results.

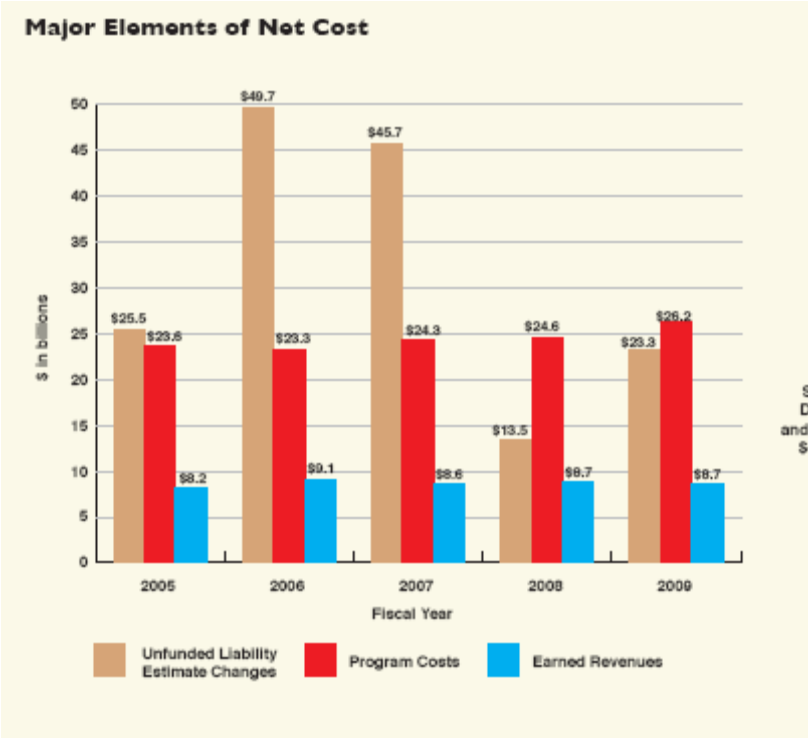
Energy Department

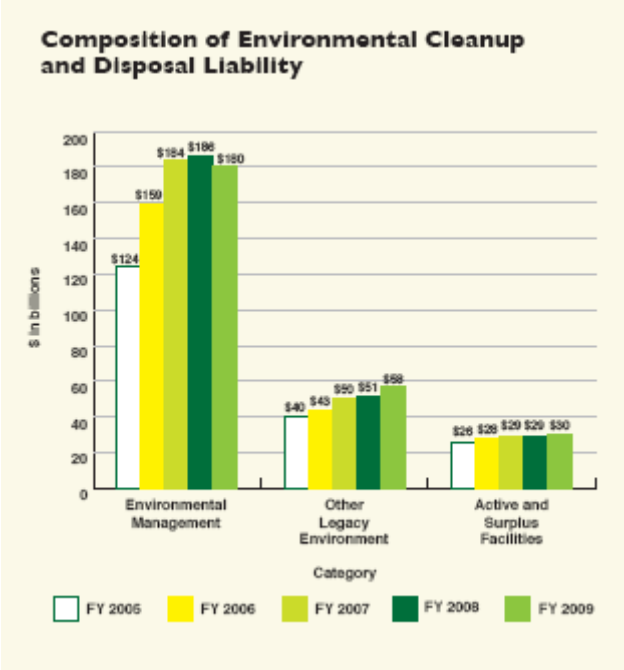
In FY 2009, the Energy Department presented a bar graph on the first page of the financial statement analysis in the MD&A that shows total assets and liabilities since 2005, and a further breakdown by certain asset and liability types for 2009, as follows.



MD&A Best Practices – Analysis of Financial Statements and Stewardship Information

A further graphic decomposition of assets, liabilities and costs, with minimal narrative, is presented, as shown below.





General Services Administration

As mentioned above, the General Services Administration's (GSA) financial report is fully Web-based. GSA presents a concise financial analysis for each strategic goal. See menu selection for "Financial Results" for the MD&A discussion at the Web site provided in Table 1 above.

Federal Aviation Administration

The Federal Aviation Administration (FAA) presents financial results using a good balance of narrative and graphs as follows.

FINANCIAL HIGHLIGHTS

Discussion and Analysis of the Financial Statements

The FAA prepares annual financial statements in conformity with accounting principles generally accepted in the United States. The financial statements are subject to an independent audit to ensure that they are free from material misstatement and that they can be used to assess FAA performance.

FY 2009 Financial Statement Audit

The CFO Act of 1990 (Public Law 101–576), as amended by the Government Management Reform Act of 1994, requires that financial statements be prepared by certain agencies and commercial-like activities of the Federal Government, and that the statements be audited in accordance with Government auditing standards. The FAA is required to prepare its own financial statements under OMB Bulletin No. 07–04, Audit Requirements for Federal Financial Statements. DOT's OIG is statutorily responsible for the manner in which the audit of the FAA's financial statements is conducted. The OIG selected Clifton Gunderson, LLP, an independent certified public accounting firm, to audit the FAA's FY 2009 financial statements.

In 2002, DOT's OIG and CFO, along with the FAA's CFO, established an Audit Coordination Committee to promote and encourage open communication among the OIG, FAA management, and the independent auditors to resolve issues that arise during the audit and to monitor the implementation of audit recommendations. The committee is chaired by the Director of the Office of Financial Management and includes representatives from the OIG, DOT's Office of Financial Management, FAA's Assistant Administrator for Regions and Center Operations, and ATO's Chief Operating Officer. In 2006, committee participation was expanded to include representatives from the Chief Counsel's Office, the Assistant Administrator for Human Resources Management, Information Services, and Airports.

Clifton Gunderson, LLP, has rendered an unqualified opinion on the FAA's FY 2009 financial statements.

Understanding the Financial Statements

The FAA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (beginning on page 96), have been prepared to report the financial position and results of operations of the FAA, pursuant to the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994. The following section provides a brief description of: (a) the nature of each financial statement and its relevance to the FAA; (b) significant fluctuations from FY 2008 to FY 2009; and (c) certain significant balances, where necessary, to help clarify their link to FAA operations.

Balance Sheet

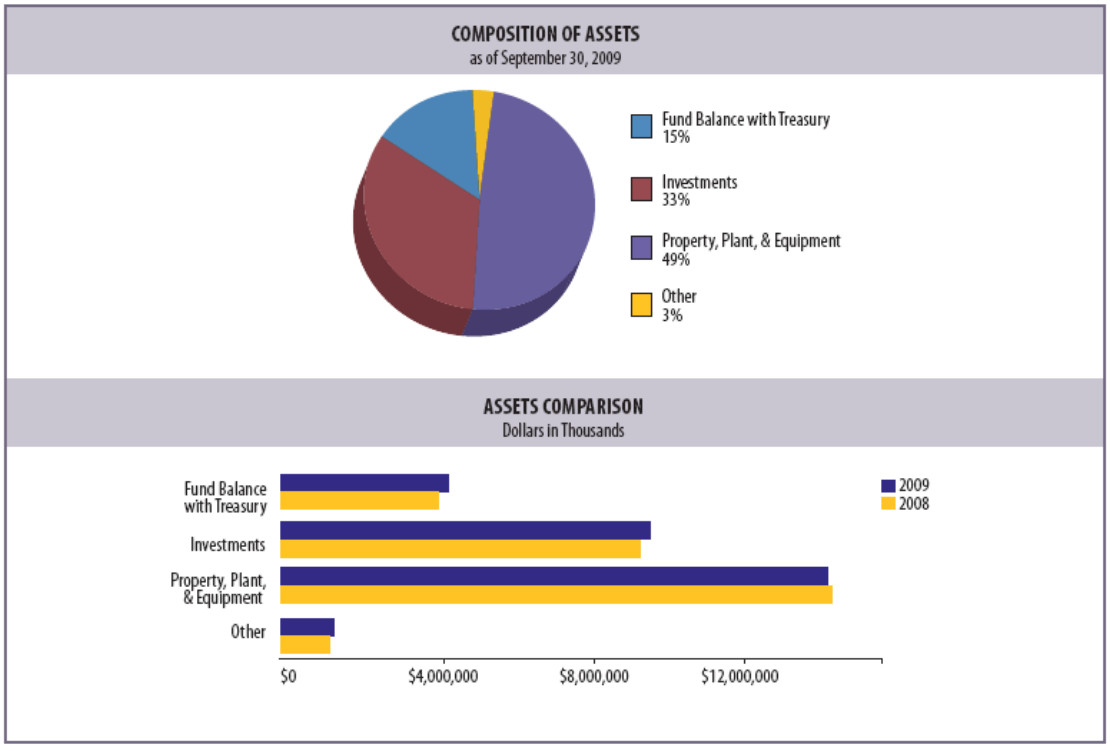
The balance sheet presents the amounts available for use by the FAA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Assets

Total assets were $27.9 billion as of September 30, 2009. The FAA's assets are the resources available to pay liabilities or satisfy future service needs. The Composition of Assets chart depicts major categories of assets as a percentage of total assets. The Assets Comparison chart presents comparisons of major asset balances as of September 30, 2008 and 2009.

Fund Balance with Treasury represents 15 percent of the FAA's current period assets and consists of funding available through Department of Treasury accounts from which the FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise taxes deposited to the Airport and Airway Trust Fund (AATF), but not yet invested. Fund Balance with Treasury increased slightly from $3.9 billion to $4.1 billion.

At $9.2 billion, Investments represent 33 percent of the FAA's current period assets, and are principally derived from passenger ticket and other excise taxes deposited to



the AATF. These amounts are used to finance the FAA's operations to the extent authorized by Congress. Investments increased by $323.8 million.

At $13.8 billion, General Property, Plant, & Equipment represents 49 percent of the FAA's assets as of September 30, 2009, and primarily comprises construction-in-progress related to the development of NAS assets, and capitalized real and personal property. There was a slight decrease of $24.9 million in the total composition of Property, Plant, & Equipment as purchases of equipment and additions to construction-in-progress through the normal course of business were offset by retirements and depreciation.

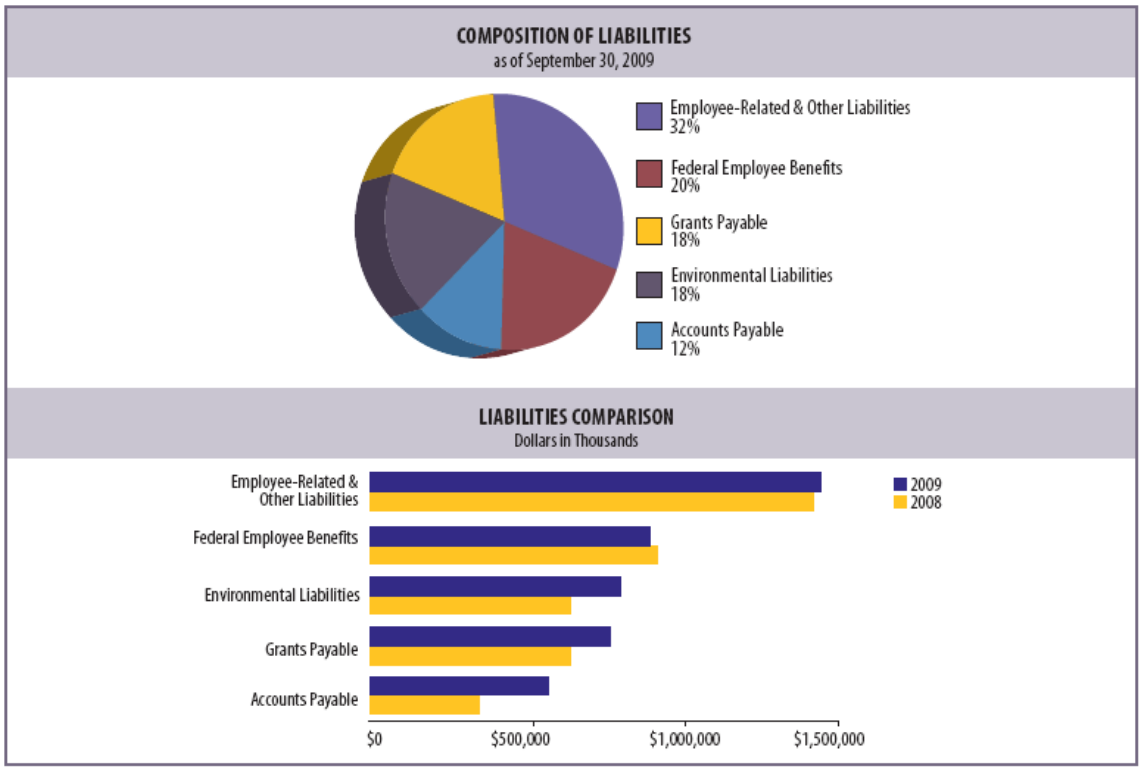
Liabilities

As of September 30, 2009, the FAA reported liabilities of $4.4 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The Composition of Liabilities chart depicts the FAA's major categories of liabilities as a percentage of total liabilities.

The Liabilities Comparison chart presents comparisons of major liability balances between September 30, 2008, and September 30, 2009. Below is a discussion of the major categories.

At $1.4 billion, Employee-Related & Other Liabilities represents 32 percent of the FAA's total liabilities. These liabilities increased slightly by $14.1 million as of September 30, 2009, and are composed mainly of $135.7 million in advances received, $211.0 million in Federal employees' compensation act payable, $337.2 million in accrued payroll and benefits, $481.5 million in accrued leave and benefits, $41.0 million in legal claims liability, and $115.8 million in capital lease liability.

At $901.3 million, Federal Employee Benefits represents 20 percent of the FAA's current year liabilities, and consists of the FAA's expected liability for death, disability, and medical costs for approved workers' compensation cases, plus a component for incurred but not reported claims. The Department of Labor calculates the liability for the DOT, and the DOT attributes a



proportionate amount to the FAA based upon actual workers' compensation payments to FAA employees during the preceding 4 years. This liability is updated an on annual basis at year end.

Environmental Liabilities represents 18 percent of the FAA's total liabilities, $810.8 million as of September 30, 2009, compared with $637.8 million a year earlier. Environmental liabilities includes a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets currently in service. The increase of $173.0 million is due primarily to an increase in the number of assets labeled "Areas of Concern," extending the time for onsite and program management by approximately 10 years.

The FAA's Grants Payable are estimated amounts incurred but not yet claimed by AIP grant recipients and represent 18 percent of liabilities. Grants payable increased $133.7 million primarily due to an accrual of $109.7 million for new grants awarded through the FY 2009 ARRA. Accounts Payable increased $173.9 million and are amounts the FAA owes to other entities for unpaid goods and services.

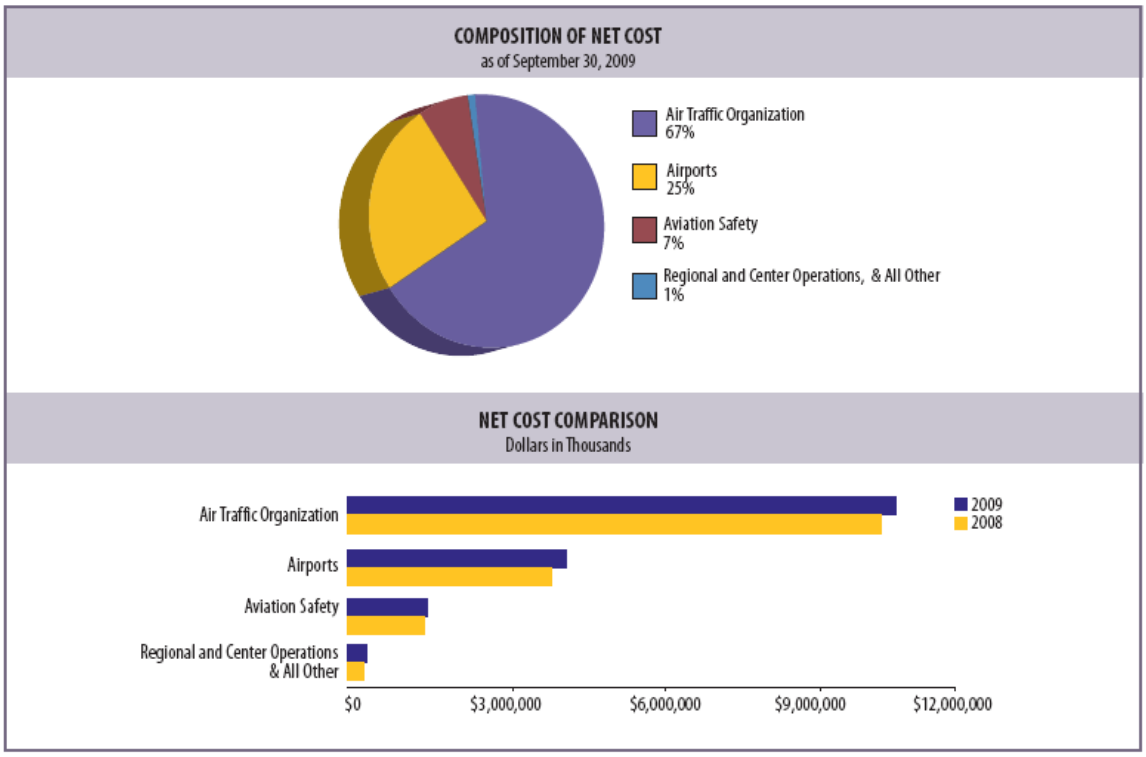
Statement of Net Cost

The Statement of Net Cost presents the cost of operating FAA programs. The gross expense less any earned revenue for each FAA program represents the net cost of specific program operations. The FAA has used its cost accounting system to prepare the annual Statement of Net Cost since FY 1999.

As of September 30, 2009, and September 30, 2008, the FAA's net costs were $16.4 billion and $15.5 billion, respectively. The Composition of Net Cost chart illustrates the distribution of costs among the FAA's LOBs.

The Net Cost Comparison chart compares September 30, 2008, and September 30, 2009, net costs.

With a net cost of $10.9 billion, the ATO is the FAA's largest LOB, composing 67 percent of total net costs. The ATO's net costs increased by $474.9 million, on a comparative basis, primarily from increases in labor costs of $190.0 million, and environmental cleanup and remediation of $173.0 million, which was partially offset



by an increase in reimbursable revenue from work in the NAS Defense Program of $62.0 million.

Airports is the FAA's second largest LOB with a net cost of $4.0 billion as of September 30, 2009, which is 25 percent of the FAA's total net costs. Net costs increased $280.9 million from the prior year and are composed mostly of Aviation Insurance Program grant disbursements.

The net cost of Aviation Safety represents 7 percent of the FAA's total net costs, while Regional and Center Operations and All Other compose 1 percent of total net costs.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and nonexchange revenue, such as excise taxes and imputed financing from costs absorbed on the FAA's behalf by other Federal agencies. The agency's net cost of operations and net transfers to other Federal agencies serve to reduce net position.

The FAA's cumulative results of operations for the period ending September 30, 2009, decreased $1.2 billion, on a comparative basis, due primarily to a combination of increases in net cost of $858.6 million and by decreases in beginning balances of $299.0 million and financing sources of $47.9 million. Unexpended appropriations increased $1.2 billion primarily as a result of an increase in appropriations received of $2.8 billion offset by an increase in appropriations used of $1.3 billion.

Statement of Budgetary Resources

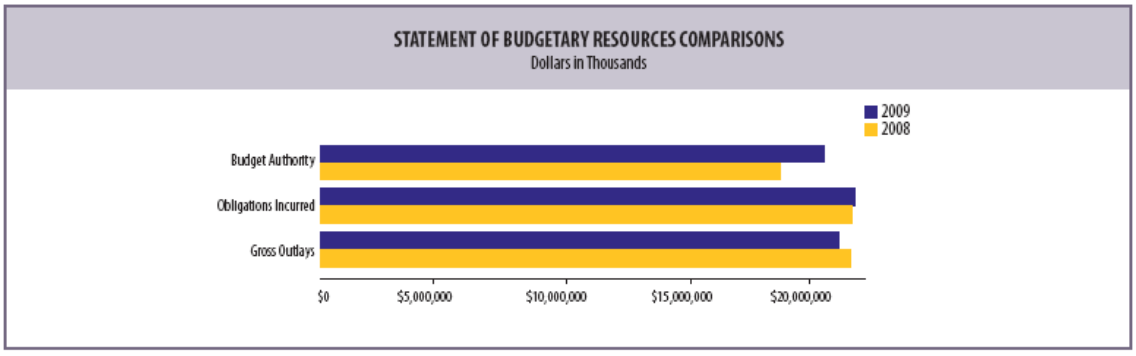
This statement provides information on the budgetary resources available to the FAA as of September 30, 2009, and September 30, 2008, and the status of those budgetary resources.

Budget Authority is the authority provided to the FAA by law to enter into obligations that will result in outlays of Federal funds. Obligations Incurred results from an order placed, contract awarded, service received, or similar transaction, which will require payments during the same or a future period. Gross Outlays reflects the actual cash disbursed by Treasury for FAA obligations. The FAA reported total budget authority of $20.7 billion on September 30, 2009, compared to $19.5 billion on September 30, 2008. Obligations Incurred increased $391.5 million to $22.7 billion. Gross Outlays decreased $402.7 million from $22.0 billion to $21.6 billion.

Stewardship Investments

Stewardship investments are substantial investments made by the FAA for the benefit of the Nation, but do not result in physical ownership of assets by the FAA. When incurred, these amounts are treated as expenses in the Consolidated Statements of Net Cost. Our Required Supplementary Stewardship Information includes disclosure of stewardship investments during the last 5 years. These are disclosures of AIP grants by State/Territory, and research and development investments.

The distribution of total grants expense by State/Territory has been relatively stable during the past 4 years. However, expenses began to increase in FY 2005 largely as a result of a significant increase in grant



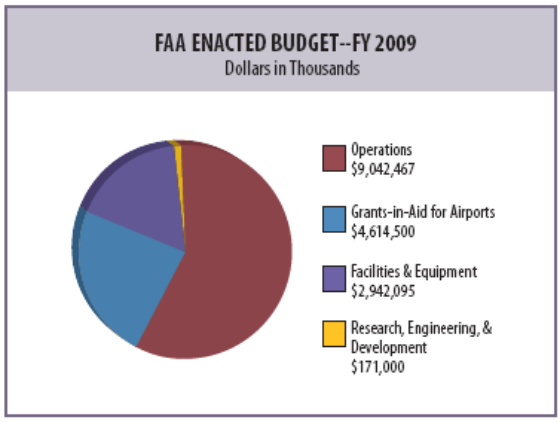
funding levels in FY 2001. Because these AIP projects are typically long-term, and the FAA recognizes the grants expense as the recipient accomplishes the improvement work, the substantial expansion of this program in FY 2001 is resulting in increased expenses in more recent years.

The FAA's research and development expenses increased in FY 2009 by $9.4 million primarily in the category of applied research. Some areas of focus this year included the Commercial Aviation Alternative Fuel Initiative, developing enhanced weather forecasting models for quickly identifying hazardous ceiling and visibility conditions that impact air traffic capacity and the evaluation of replacing incandescent lamps for airfield lighting with light-emitting diodes to save on energy and maintenance costs.

Limitations of the Financial Statements

The FAA has prepared its financial statements to report its financial position and results of operations, pursuant to the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994.

While the FAA statements have been prepared from its books and records in accordance with the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.



These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress, and payment of all liabilities, other than for contracts, can be abrogated by the Federal Government.

Budgetary Integrity: FAA Resources and How They Are Used

In FY 2009, the AATF provided approximately 69.6 percent of the FAA's enacted budget. Created by the Airport and Airway Revenue Act of 1970, the AATF derives its funding from excise taxes and earned interest. It provides a source of revenue to finance investments in the airport and airway system. To the extent funds are available, the fund also covers the operating costs of the airway system. Aviation excise taxes, which include taxes on domestic passenger tickets, freight waybills, general and commercial aviation fuel, and international departures and arrivals, are deposited into the fund. The Department of the Treasury maintains the fund and invests in Government securities. Interest earned is deposited into the fund. Funding is withdrawn as needed and transferred into each FAA appropriation to cover obligations.

The FAA is funded through annual and multiyear appropriations authorized by Congress. The FY 2009 enacted budget of $16.77 billion was 12.4 percent higher than the FY 2008 enacted level. This includes $11.7 billion from the AATF and $5.1 billion from the General Fund. The Combined Statement of Budgetary Resources reflects $15.5 billion enacted by the Omnibus Appropriations Act of 2009 (PL 111-8) and $1.3 billion enacted from the ARRA (PL 111-5).

The FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the AATF. In FY 2009, the AATF provided 58 percent of the revenue for Operations. The AATF is the primary revenue source for the FAA's following three capital investment appropriations:

- Grants-in-Aid for Airports (AIP)
- F&E
- Research, Engineering, and Development (R,E,&D)

Small Business Administration

The FY 2009 Small Business Administration (SBA) annual report provides an example of management effectively explaining financial and operational results as shown below.

Results of Operations

The Results of Operations primarily reflects the costs of SBA credit programs from subsidy expenses during the year for new loans and subsidy reestimates at year end. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives appropriations annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense. In accordance with the Federal Credit Reform Act, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows. Increased reestimated costs are funded in the following year by permanent indefinite authority, while decreased costs are returned by the SBA to a Treasury general fund. During FY 2009, the reestimated cost for the 7(a) and the 504 loan programs significantly increased (guarantied business loan program, Strategic Goal 1). Those increases were the largest components of the change (net increase) in the Agency's net cost. **Chart III** reflects the increases in the reestimates for the Disaster direct programs as well as the guarantied business loan program from FY 2008 to FY 2009.

CHART III

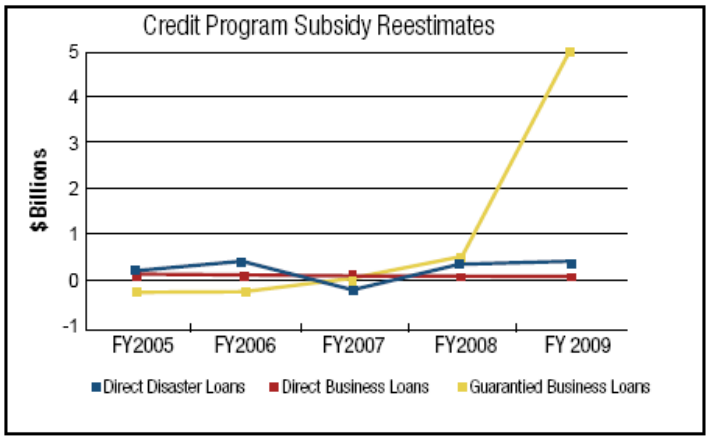
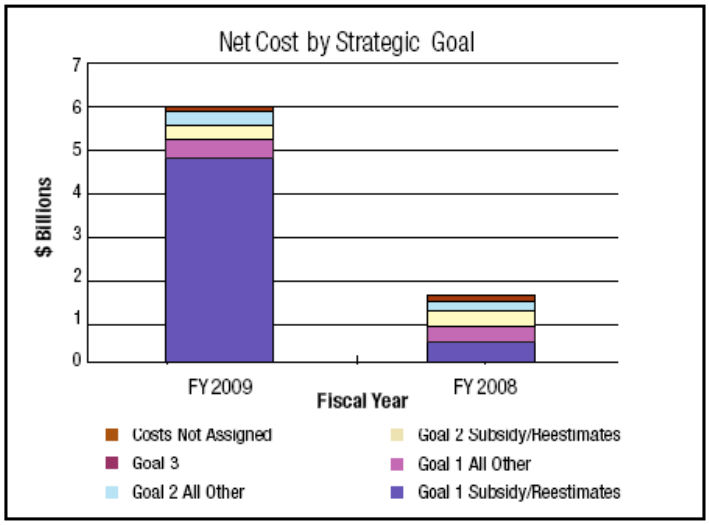


CHART IV



The increase in the overall Net Cost from FY 2008 to FY 2009 (see **Chart IV**) is primarily due to the increase in Strategic Goal 1 from the upward reestimates for the business loan guaranty programs in FY 2009. The 7(a) loan guaranty program and the 504 loan program both had significant upward reestimates as well as a significant change in the SBIC program from a downward reestimate in FY 2008 to an upward reestimate in FY 2009. The 7(a) loan program, SBA's flagship and largest program, had the largest net upward reestimates for the guarantied business loan programs in FY 2009 at $2.03 billion. The 504 Certified Development Companies program had net upward reestimates of $1.57 billion. For both programs, the net upward reestimates were mostly due to the downturn in the economy that resulted in higher than projected purchases during FY 2009 and an increase in projected purchases for the remaining years within the cohorts.

The SBIC debentures program had net upward reestimates of $66.6 million. The reestimates were mostly due to lower than projected recoveries during FY 2009 and a decrease in projected recoveries for the remaining years within the cohorts.

The SBIC participating securities program had a net upward reestimate of $960.2 million. The reestimates were mostly due to the downturn in the economy that resulted in lower than projected recoveries and higher than projected purchases during FY 2009 and an increase in projected purchases for the remaining years within the cohorts.

The secondary market guaranty program had a net downward reestimate of $50.8 million. This downward reestimate was due in part to the lower than projected interest rate paid to investors during FY 2009 and a decrease in the projected interest rate paid to investors for the remaining years within the cohorts.

The 7(a) and 504 Recovery Act programs had net upward reestimates of $72.4 million and $25.2 million respectively. These upward reestimates are mostly due to updated model and economic assumptions since the original budget estimates. The updated assumptions result in an increase in projected

purchases for the remaining years within the cohorts.

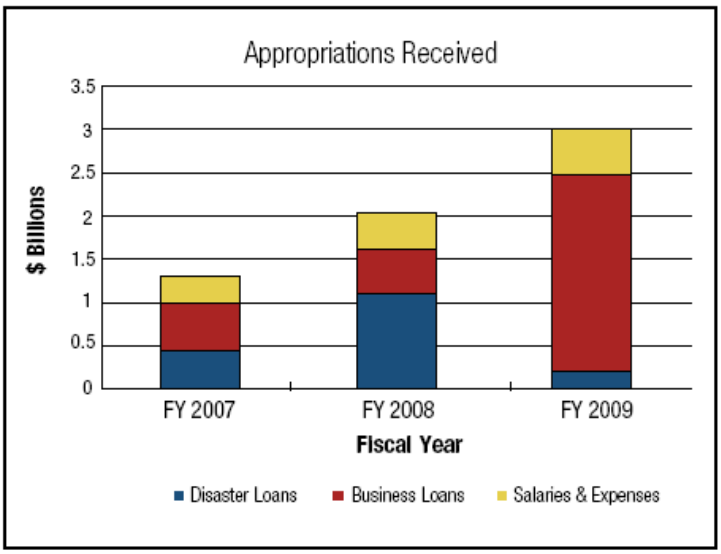
There was also an increase in Strategic Goal 1 in subsidy expense incurred during FY 2009. This is due to the use of subsidy associated with the Recovery Act. The Recovery Act allocated $636 million of subsidy for loan guaranties. In FY 2008, there was no subsidy provided for the guaranteed business loan programs. The reestimates, however, accounted for most of the change in Strategic Goal 1.

Strategic Goal 2 includes a net upward reestimate in the Disaster direct loan program at year end and an increase in administrative expenses during FY 2009 offset by a decrease in subsidy expenses. The Disaster program had net upward reestimates of $231.1 million primarily in the 2006 cohort that mostly consists of loans for the Gulf Coast hurricanes of 2005. Those loans currently account for about 55 percent of the outstanding portfolio of direct disaster loans. The upward reestimates are primarily the result of performance probabilities being updated with actual performance during FY 2009 that resulted in an increase in projected defaults.

Budgetary Resources

Total Budgetary Resources increased $3.2 billion from FY 2008 to FY 2009. This increase is reflected by increases in Borrowing Authority and Appropriations Received. Borrowing Authority increased by $2.1 billion in FY 2009 from FY 2008 as a result of borrowing to cover increases in purchases of defaulted loans. Purchases of SBA's share of defaulted guarantied loans increased from $2.1 billion to $3.9 billion from FY 2008 to FY 2009. Due to this unexpected surge in purchases, the SBA was required to borrow funds from Treasury to cover these purchases (see explanation for Debt with Treasury). Appropriations Received increased $1 billion from FY 2008 to FY 2009. The increase in Appropriations Received correlates with the increase in Unexpended Appropriations due to the funding in the Recovery Act legislation. In February 2009, as part of the stimulus package, Congress allocated $730 million for the SBA to provide new lending incentives including the Agency temporarily waiving its fees and increasing the guaranties it offers banks on 7(a) loans. **Chart V** depicts that the substantial increase in Appropriations Received is for business loans due to the Recovery Act. It also reflects the decrease in funding for disaster loans because, in September 2008, the Disaster Relief and Recovery Supplemental Appropriation Act had provided appropriations of $799 million for the SBA.

CHART V



Status of Budgetary Resources

Total Status of Budgetary Resources increased $3.2 billion from FY 2008 to FY 2009. This increase correlates with the increase in the borrowing authority for business loans to cover the increase in purchases as well as the increase in credit program receivables for defaulted guarantied business loans. The SBA expects to continue to see an increase in obligations related to purchases of defaulted guarantied business loans due to the downturn in the economy.

ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

The fourth MD&A section listed in SFFAS 15, ***systems, controls, and legal compliance***, should briefly discuss the status of systems, controls, and legal compliance and describe material problems revealed by audits or otherwise known to management and the corrective actions taken. The volume of information in this section can become excessive. Being concise here is difficult but essential for communicating effectively

This section should also address any non-compliance with laws and regulations significant to the financial statements (prompt pay, debt collection, anti-deficiency, FFMIA, etc.).

General Services Administration

For FY 2009, the General Services Administration's (GSA) financial report was fully Web-based and presented a very "user friendly" and concise analysis of systems, controls and legal compliance. See the menu selection for "Assurances and Management Challenges" at the Web address listed in Table 1 above, the first page of which is as follows.

Statement of Assurance

The management of the U.S. General Services Administration (GSA) recognizes and fully embraces our responsibility to establish and maintain effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Management assures the effectiveness of GSA's internal controls to support effective and efficient programmatic operations, reliable reporting, and compliance with all applicable laws and regulations. Throughout the year, management conducts extensive evaluation and review of its operations. Based on the results of this effort, GSA can provide reasonable assurance that the objectives of FMFIA are being met, and that no material weaknesses exist in the design or operation of the internal controls as of September 30, 2009.

In addition, GSA conducted an assessment of the effectiveness of internal controls over financial reporting in accordance with Appendix A, Office of Management and Budget's (OMB) Circular A-123, *Management's Responsibility for Internal Contro*l. Based on the results of this assessment, GSA can provide reasonable assurance that its internal controls over financial reporting, as of June 30, 2009, were operating effectively and no

material weaknesses were found in the design or operation of the internal control over financial reporting. The assessment did find that a Federal Financial Management Improvement Act (FFMIA) non-compliance had existed in accounting adjustments being entered at a summary level, resulting in a FFMIA non-compliance with recording the U.S. Standard General Ledger (USSGL) at the transaction level. Subsequent testing through September 30, 2009 identified the remediation of the FFMIA non-compliance due to a successful Lean Six Sigma project implementation. GSA's financial management systems were in substantial compliance with the requirements of FFMIA as of September 30, 2009.

This system of internal controls is also being used to support the American Recovery and Reinvestment Act (Recovery Act) of 2009 awards made at GSA. Relying on OMB guidance, GSA performed an assessment of risks related to the Recovery Act. This assessment, combined with management's assessment of internal controls, enables GSA to provide reasonable assurance that the key accountability objectives of the Recovery Act are being met and that significant risks to meeting these Recovery Act accountability objectives are adequately mitigated.



Paul F. Prouty
Acting Administrator
November 12, 2009

Patent and Trademark Office

The Patent and Trademark Office (PTO) presented a very effective, Web-based analysis of systems controls and legal compliance as follows.

Management Assurances and Compliance with Laws and Regulations

This section provides information on the USPTO's compliance with the following legislative mandates:

- Federal Managers' Financial Integrity Act (FMFIA)
- Federal Financial Management Improvement Act (FFMIA)
- Federal Information Security Management Act
- Inspector General (IG) Act Amendments
- OMB Financial Management Indicators
- Prompt Payment Act
- Civil Monetary Penalty Act
- Debt Collection Improvement Act
- Biennial Review of Fees

Management Assurances

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The FMFIA requires Federal agencies to provide an annual statement of assurance regarding management controls and financial systems. The USPTO management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. The objectives of internal control, as defined by the Government Accountability Office (GAO), are to ensure:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with laws and regulations.

The statement of assurance is provided at right. This statement was based on the review and consideration of a wide variety of evaluations, control assessments, internal analyses, reconciliations, reports, and other information, including the DOC OIG audits, and the independent public accountants' opinion on the USPTO's financial statements and their reports on internal control and compliance with laws and regulations. In addition, USPTO is not identified on the GAO's High Risk List related to controls governing various areas.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The FFMIA requires Federal agencies to report on agency substantial compliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The USPTO complied substantially with the FFMIA for FY 2009.

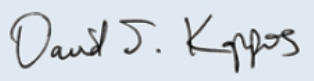
Other Compliance with Laws and Regulations

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The USPTO continues to stay vigilant in reviewing administrative controls over information systems and is always seeking methods of improving our security program. During FY 2009, the USPTO removed the IT security material weakness that was reported in previous years. The material weakness was related to the USPTO IT security program and reflected the need to improve the internal controls and program processes and procedures for C&A of the USPTO and contractor systems. During FY 2009, the OIG indicated that the USPTO's process for certifying contractor and government systems produced sufficient information to enable the authorizing officials to make credible risk-based accreditation decisions.

On the basis of the USPTO's comprehensive internal control program during FY 2009, the USPTO can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2009, was operating effectively. Accordingly, I am pleased to certify with reasonable assurance that our agency's systems of internal control, taken as a whole, comply with Section 2 of the Federal Managers' Financial Integrity Act of 1982. Our agency also is in substantial compliance with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level and with federal financial system requirements. Accordingly, our agency fully complies with Section 4 of the Federal Managers' Financial Integrity Act of 1982, with no material non-conformances.

In addition, the USPTO conducted its assessment of the effectiveness of our agency's internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the USPTO provides reasonable assurance that its internal control over financial reporting as of June 30, 2009 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. In addition, no material weaknesses related to internal control over financial reporting were identified between July 1, 2009 and September 30, 2009.



David J. Kappos
Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office
November 5, 2009

INSPECTOR GENERAL ACT AMENDMENTS

The Inspector General Act, as amended, requires semi-annual reporting on IG audits and related activities, as well as any requisite agency follow-up. The report is required to provide information on the overall progress on audit follow-up and internal management controls, statistics on audit reports with disallowed costs, and statistics on audit reports with funds put to better use. The USPTO did not have audit reports with disallowed costs or funds put to better use.

The USPTO's follow-up actions on audit findings and recommendations are essential to improving the effectiveness and efficiency of our programs and operations. As of September 30, 2009, management had resolved the two recommendations outstanding from a report issued in FY 2008 (USPTO-CAR-18701: "USPTO Has Reasonable Controls Over Personal Property, but Additional Improvements Are Needed"). A summary of audit findings and recommendations follows.

Two new audit reports were issued during FY 2009 (ATL-9999-9-3418: "International Intellectual Property Institute (IIPI), DC, Audit of MOU No. 2006-069-039" and ATL-9999-8-3178/ATL-9999-8-3179: "IIPI, DC, Audit of MOU 2004-141-007"). For details on each audit, refer to page 35. No recommendations were outstanding as of September 30, 2009.

Status of IG Act Amendment Audit Recommendations as of September 30, 2009

Report for Fiscal Year	Status	Recommendation	Action Plan	Completion Date
FY 2008	Closed	Conduct inventories consistent with the requirements contained in the Department Personal Property Management Manual dated October 2007.	The USPTO implemented and communicated USPTO's Standard Operating Procedures (SOP) for the annual physical verification of USPTO's home use assets, including laptops.	October 2008
FY 2008	Closed	Require Property Accountability Officers (PAOs) to inventory the holdings of the Property Custodians (PC) who report them.	PAOs received a notice indicating that, as part of their quarterly certification efforts, they must also verify the accuracy of the property assigned to PCs under their oversight.	October 2008

Financial Performance Measure	FY 2009 Target	FY 2009 Performance
Percentage of Timely Vendor Payments (MTS)	98%	96%
Percentage of Payroll by Electronic Transfer (OMB)	90%	99%
Percentage of Treasury Agency Locations Fully Reconciled (OMB)	95%	100%
Timely Reports to Central Agencies (OMB)	95%	100%
Audit Opinion on FY 2009 Financial Statements (OMB)	Unqualified	Unqualified
Material Weaknesses Reported by OIG (OMB)	None	None
Timely Posting of Inter-Agency Charges (USPTO)	30 days	15 days
Average Processing Time for Travel Payments (USPTO)	8 days	4 days

OMB FINANCIAL MANAGEMENT INDICATORS

The OMB prescribes the use of quantitative indicators to monitor improvements in financial management. The USPTO tracks other financial performance measures as well. The table above shows the USPTO's performance during FY 2009 against performance targets established internally and by OMB and the government-wide Metric Tracking System (MTS).

PROMPT PAYMENT ACT

The Prompt Payment Act requires Federal agencies to report on their efforts to make timely payments to vendors, including interest penalties for late payments. In FY 2009, the USPTO did not pay interest penalties on 99.5 percent of the 7,532 vendor invoices processed, representing payments of approximately $534.0 million. Of the 42 invoices that were not processed in a timely manner, the USPTO was required to pay interest penalties on 39 invoices, and was not required to pay interest penalties on three invoices, where the interest was calculated at less than $1. The USPTO paid only $8 in interest penalties for every million dollars disbursed in FY 2009. Virtually all recurring payments were processed by EFT in accordance with the EFT provisions of the Debt Collection Improvement Act of 1996.

CIVIL MONETARY PENALTY ACT

There were no Civil Monetary Penalties assessed by the USPTO during FY 2009.

DEBT COLLECTION IMPROVEMENT ACT

The Debt Collection Improvement Act prescribes standards for the administrative collection, compromise, suspension, and termination of Federal agency collection actions, and referral to the proper agency for litigation. Although the Act has no material effect on the USPTO since it operates with minimal delinquent debt, all debt more than 180 days old has been transferred to the U.S. Department of the Treasury for cross-servicing.

BIENNIAL REVIEW OF FEES

The Chief Financial Officers Act of 1990 requires a biennial review of agency fees, rents, and other charges imposed for services and things of value it provides to specific beneficiaries as opposed to the American public in general. The objective of the review is to identify such activities and to begin charging fees, where permitted by law, and to periodically adjust existing fees to reflect current costs or market value so as to minimize general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries. The USPTO is a fully fee-funded agency without subsidy of general taxpayer revenue. For non-legislative fees, it uses Activity Based Cost (ABC) accounting to evaluate the costs of activities and determine if fees are set appropriately. When necessary, fees are adjusted to be consistent with the program and with the legislative requirement to recover full cost of the goods or services provided to the public.

In October 2008, the USPTO implemented an increase to patent processing fees, commensurate with the last 12 months' increase in the Consumer Price Index. A study and analysis of all USPTO fees is underway, comparing the average unit costs for all products and services to the fees currently charged. This study is ongoing and is expected to continue through FY 2010.

United States Department of Agriculture

In FY 2009, the Agriculture Department (USDA) presented a summary of the material weaknesses it is working to correct in a concise table as follows.



Federal Managers' Financial Integrity Act Report on Management Control

Background

The Federal Managers' Financial Integrity Act (FMFIA) requires ongoing evaluations of internal control and financial management systems. These evaluations lead to an annual statement of assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, and mismanagement;
- Transactions are accounted for and properly recorded; and
- Financial management systems conform to standards, principles, and other requirements to ensure that Federal managers have timely, relevant, and consistent financial information for decision-making purposes.

USDA annually evaluates its internal controls over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control Over Financial Reporting" (A-123, Appendix A).

The Department operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA and other laws and OMB Circulars A–123, Appendix A, and A–127, "Financial Management Systems." All USDA managers must ensure that their programs operate efficiently and effectively, and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements. In conjunction with OIG and GAO, the Department's management works aggressively to determine the root causes of its material weaknesses so that it can direct resources to focus on their remediation.

USDA remains committed to reducing and eliminating the risks associated with its deficiencies. It also strives to efficiently and effectively operate its programs in compliance with FMFIA.

FY 2009 Results

USDA has three existing material weaknesses: Information Technology, Financial Reporting – Unliquidated Obligations, and Financial Reporting – Credit Reform. There is one system non-conformance: Funds Control Management. Thus, the "Secretary's Statement of Assurance" provides qualified assurance that USDA's system of internal control complies with FMFIA objectives. The following exhibit summarizes the results reported in USDA's Consolidated Financial Statements Audit Report.

An auditor-identified deficiency for Rural Development (RD) was found relating to the assumption curves used in cash flow models to perform the annual reestimate calculations. While various processes are in place to ensure the accuracy and completeness of the assumption curves, the overall controls surrounding these processes need improvements to prevent errors.

Exhibit 4: Summary of Financial Statement Audit

Audit Opinion	Unqualified					
Restatement	No					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Improvement Needed in Overall Financial Management	1					1
Improvements Needed in Information Technology Security and Controls	1					1
TOTAL MATERIAL WEAKNESSES	**2**					**2**

The following exhibit lists USDA's material weaknesses and the financial system non-conformance as related to management's assurance for FMFIA and the certification for FFMIA.

Exhibit 5: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology	1					1
Financial Reporting - Unliquidated Obligations	1					1
Financial Reporting – Credit Reform	1					1
TOTAL MATERIAL WEAKNESSES	3					3
Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
TOTAL MATERIAL WEAKNESSES	0					0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Funds Control Management	1					1
TOTAL NON-CONFORMANCE	1					1

Compliance with Federal Financial Management Improvement Act (FFMIA)				
	Agency		Auditor	
Overall Substantial Compliance	No		No	
1. System Requirements	No		No	
2. Accounting Standards	No		No	
3. United States Standard General Ledger at Transaction Level	No		No	
4. Information security policies, procedures, and practices	No		No	

MATERIAL WEAKNESSES

Summary of Outstanding Material Weaknesses

Material Weakness Existing	1. USDA Information Technology	Overall Estimated Completion Date	FY 2012
	Internal control design and operating effectiveness deficiencies in four areas: logical access controls, configuration management, physical access and environmental protection, and disaster recovery. These deficiencies represent an overall Information Technology (IT) material weakness.		

FY 2009 Accomplishments:	FY 2010 Planned Actions:
• Began implementing whole disk encryption on portable computers; • Implemented a Department-wide end-point management software tool ensure complete and timely weakness remediation, improve client management, and ensure compliance with security standards; • Established secure coding requirements and improved application coding by providing a Department-wide tool to ensure compliance; • Improved access controls through dual-factor authentication for network and remote access; • Improved network and boundary protections through a Department Security Operations Center; • Updated regulations to meet the National Institute of Standards and Technology and other Federal requirements relating to change control processes; • Established an Identity and Access Management team to implement a Department-wide approach toward improving and automating access and segregation of duties controls; and • Conducted a policy gap analysis and revised access control and configuration management policies and procedures.	• Expand encryption to include mobile media such as USB thumb drives by the end of the fiscal year; • Finalize deployment of the Department-wide end-point management tool; • Expand the Department-wide Security Operations Center incorporating 24/7 border protection and monitoring, end point compliance, and improved incident response processes; • Establish improved and sustainable processes and procedures for identity and access management; • Standardize the configuration management and change control processes through improved processes and procedures; • Improve the A-123 and FISMA monitoring and reporting process to ensure weaknesses are timely identified and corrected; and • Establish functional disaster recovery site for mainframe and critical mid-range systems.

Material Weakness Existing	2. Financial Reporting – Unliquidated Obligations	Overall Estimated Completion Date	FY 2010
	Lack of consistent review and follow-up on unliquidated obligations (ULO).		

FY 2009 Accomplishments:	FY 2010 Planned Actions:
• Revised Departmental guidance to require quarterly reviews and certifications for obligations; • Established ULO data mart and aging report for management review and monitoring; • Established ULO Department-wide working group to monitor open obligations, share best practices, and measure agency performance; • Completed statistical sampling of aged ULOs to identify root causes of invalid ones and formulate corrective actions; and • Monitored agency compliance with revised Departmental guidance on quarterly reviews and certifications for obligations.	• Modify systems and related policies, procedures and processes to improve the management, review, and closeout of ULOs; • Conduct training on new processes to manage, review, and closeout ULOs; • Implement automated controls to deobligate invalid ULOs; and • Institute continuous monitoring of controls over ULOs at successive levels of management.

Material Weakness Existing	3. Financial Reporting – Credit Reform	Overall Estimated Completion Date	FY 2010
	Controls are lacking in the credit reform quality assurance process to ensure that cash flow models, data inputs, estimates, and reestimates are subject to appropriate management oversight.		

FY 2009 Accomplishments:	FY 2010 Planned Actions:
CCC: • Established a team to review all model changes to include members of both the budget and the accounting disciplines. Invited OIG to all Configuration Control Board meetings to monitor CCC's efforts; • Established a timeline for all model changes to allow adequate time for testing and review prior to delivery to the auditors; • Tested all model changes/development results to ensure that model outputs properly capture all elements of the cash flow, not just those affected by change(s) in OMB's Credit Subsidy Calculator 2 to ensure that those results do not produce unintended consequences; and • Procured a contractor for Independent Verification and Validation review and oversight for any newly developed models. **USDA:** • Reinstituted the Credit Reform Working Group to improve communication and address issues related to credit reform budgeting and accounting; and • Coordinated consistent application of new credit reform guidance. ***Note**: CCC reported an auditor-identified weakness in controls for the credit reform assurance process in FY 2008. Better procedures were needed to ensure that cash flow models, data inputs, estimates, and reestimates were performed with appropriate management oversight. The material weakness for financial reporting - credit reform has been resolved for CCC.	**RD will:** • Ensure that detailed second party review procedures are performed and documented by personnel independent of those preparing the assumption curves; • Establish process improvements for version control related to the curves; • Evaluate automation support to determine the feasibility of performing curve calculations systematically; • Enhance review procedures over the quality and accuracy of Cohort Sheet materials; and • Determine the reasonableness of the curves for reestimation purposes and also focus on accuracy of the calculations and portfolio trends.

Summary of Outstanding System Non-Conformance

System Non-Conformance Existing	1. Funds Control Management	Overall Estimated Completion Date	FY 2012
	System improvements needed in recording obligations at the transactions level.		

FY 2009 Accomplishments:	FY 2010 Planned Actions:
• Developed functionality in the electronic Funds Management System (eFMS) to process funds control at the time of obligation request from FSA/CCC program applications; and • Began acquisition and planning phase of Farm Program Payment System/Modernize and Innovate the Delivery of Agriculture Systems (MIDAS).	• Enhance the eFMS by incorporating transaction level obligations for the Tobacco Transition Payment Program, Direct Payments, and Conservation Reserve Program (CRP) Annual Rental programs that will check funds availability at the time of obligation; • Implement Web-based Supply Chain Management (WBSCM) to integrate obligation transactions for the Commodity Credit Corporation (CCC) Commodity Operations programs into eFMS; and • Complete planning phase and begin software and acquisition phase of MIDAS project.

Federal Financial Management Improvement Act Report on Financial Management Systems

BACKGROUND

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply substantially with: 1) Federal Financial Management System requirements; 2) applicable Federal accounting standards; and 3) the United States Standard General Ledger (USSGL) at the transaction level. Additionally, FISMA requires that there be no significant weaknesses in information security policies, procedures or practices to be substantially compliant with FFMIA (referred to as Section 4 in the accompanying table).

Exhibit 6: Initiatives To Be Completed

Outstanding Initiatives to Achieve FFMIA Compliance			
Initiative	Section of Non-compliance	Agency	Target Completion Date
Information Technology[1]	Federal financial system requirements, and Information security policies, procedures, and/or practices.	Multiple	9/30/2012
Funds Control Management	Federal Financial System requirements.	CCC	10/31/2012
	U.S. Standard General Ledger at the transaction level, and Federal financial management system requirements.	FS	10/1/2010
	Federal financial management system requirements, Federal Accounting Standards, and U.S. Standard General Ledger at the transaction level.	NRCS	12/31/2009

[1] The information technology material weakness, which is reported in the Federal Managers' Financial Integrity Act Report on Management Control, is comprised of four issues: logical access controls, configuration management, physical access and environmental protection, and disaster recovery.

FY 2009 RESULTS

During FY 2009, USDA evaluated its financial management systems to assess substantial compliance with the Act. In assessing FFMIA compliance, the Department considered auditors opinions on component agencies' financial statements, and progress made in addressing the material weaknesses identified in the FY 2008 Performance and Accountability Report. The Department is not compliant with Federal Financial Management System requirements, Federal accounting standards, and the standard general ledger at the transaction level. Additionally, as reported in the FMFIA section of this report, USDA continues to have weaknesses in information technology controls that result in non-compliance with the FISMA requirement. As part of USDA's financial systems strategy, USDA agencies continue working to meet FFMIA and FISMA objectives.

FS is working to mitigate auditor-identified deficiencies related to its systems and methodologies to comply with USSGL at the transaction level and Federal financial management system requirements.

NRCS is working to mitigate auditor-identified deficiencies. Financial management systems did not substantially comply with Federal financial management system requirements, the USSGL at the transaction level, and applicable Federal Accounting Standards for internal use software (including work in progress), undelivered orders, unfilled customer orders, expense accruals, and capital leases. Deficiencies were also noted regarding proper use of USSGL.

Federal Financial Management System Requirements

CCC continues to develop an integrated funds control system, the electronic Funds Management System (eFMS), within the FSA/CCC Core financial management system. This work includes integration with CCC's general ledger system at the transaction level. eFMS will also provide management with timely information to monitor and control the status of budgetary resources recorded in the general ledger.

FY 2009 accomplishments included:

- Developed functionality in eFMS to process funds control at the time of obligation request from FSA/CCC program applications; and
- Began Acquisition and Planning phase of Farm Program Payment System/Modernize and Innovate the Delivery of Agriculture Systems (MIDAS).

In FY 2010, CCC will:

- Enhance eFMS by incorporating transaction level obligations for the Tobacco Transition Payment Program, Direct Payments, and CRP Annual Rental programs that will check funds availability at the time of obligation;
- Implement Web-based Supply Chain Management (WBSCM) to integrate obligation transactions for CCC Commodity Operations programs into eFMS; and
- Complete Planning phase and begin Software and Acquisition phase of MIDAS.

In FY 2011 CCC will:

- Complete Proof of Concept and System Design for MIDAS.

In FY 2012, CCC will:

- Complete software modifications to program applications to send obligation transactions for CCC Farm, Foreign, and remaining commodity operations programs;
- Implement Financial Management Modernization Initiative and FSA's Modernize and Innovate the Delivery of Agricultural Systems packages; and
- Begin Initial Operating Capability for MIDAS.

FORWARD-LOOKING INFORMATION, TRENDS, AND MANAGEMENT CHALLENGES

"***Forward-looking information***" in the MD&A is arguably the most useful information management can provide. The MD&A should discuss the expected future effects of current demands, risks, uncertainties, events, conditions, and trends, and it should discuss the expected future effects of anticipated events, conditions, and trends, which SFFAS 15 encourages but does not require. Forward-looking information may be in any of the four MD&A sections.

Federal Housing Finance Agency

In the performance section of the Federal Housing Finance Agency's (FHFA) FY 2009 MD&A, the FHFA use forward-looking information as follows.

Mortgage Delinquencies and Defaults

Rapidly rising levels of serious delinquencies and defaults, further aggravated by high levels of unemployment and severe declines in home prices, continue to stress the Enterprises. As of June 30, 2009, Enterprise serious delinquencies had increased nearly 200 percent year-over-year to 2.89 percent for Freddie Mac and 3.94 percent for Fannie Mae. Real estate owned (REO) acquisitions for the first three quarters of FY 2009 at Fannie Mae were 57,469, an approximate 30 percent increase year-over-year. Freddie Mac had 35,987 REO acquisitions, approximately 60 percent higher than the year before.

To mitigate the impact of continued serious delinquencies and defaults, the Enterprises expanded loan modification efforts and took leadership roles in the MHA program. The FHL Banks that participate in mortgage purchase programs developed borrower assistance programs that enhance the foreclosure prevention efforts for mortgage loans owned by the FHL Banks.

The Enterprises are recording historic levels of modifications and refinances. For borrowers unable to continue homeownership, the Enterprises offer foreclosure alternatives, including short sales, deeds in lieu of foreclosure, and REO rental programs. The impact of the HAMP and HARP elements remains uncertain as unemployment and house prices continue to deteriorate, interest rates rise from historic lows, other initiatives are set to expire, and operational difficulties in implementing foreclosure prevention programs arise.

Operational Challenges Facing the Enterprises

FHFA placed both Enterprises into conservatorship in September 2008 because deteriorating market conditions threatened the companies' ability to fulfill their mission. The Enterprises continue to be challenged by operational constraints both internally and by counterparties. To handle high numbers of loan modifications, loan servicers are making significant changes in their operational systems. In addition, servicers are increasing personnel to meet the intensive labor demands needed to manage and reduce foreclosures. The Enterprises are working with the government and servicers to accelerate loan modifications and

refinancing, but they also must improve systems within their own operations and coordinate changes with servicers.

In 2008 Treasury established three finance facilities (GSE Credit Facility, MBS Purchase Program, and Senior Preferred Stock Purchase Agreement) to support the ongoing business operations of the Enterprises and meet conservatorship objectives. These facilities support the Enterprises' capital and liquidity to provide confidence to investors in the Enterprises' debt and MBS. Some of these facilities expire at the end of this year, so the Enterprises and FHFA are working with Treasury to ensure investor confidence is maintained through appropriate government support coupled with strengthened liquidity and asset liability management within the Enterprises.

Postal Service

The Postal Service revenue must cover expenditures and therefore the Postal Service must project future activity and set rates. The following is from the "Risk Factors" section of the Postal Service financial report preceding the MD&A but would be suitable for the MD&A. .

Adverse changes in the economy directly impact our business, negatively affecting our results of operations.

The demand for postal services is heavily influenced by the economy. We are now in the early stages of a recovery, though most economists believe that it will be slow and prolonged. However the nature of the recovery is not universal. U.S. national unemployment, on the increase since January 2008, reached 9.8% by the close of our fiscal year on September 30, 2009, and 10.2% in October, the highest level since 1983. Unemployment may continue to rise for the next several quarters in spite of the anticipated growth in gross domestic product (GDP). The lingering effects of turmoil in the financial markets have resulted in a crisis of confidence among consumers, which raises economic risk significantly. Uncertain market conditions are expected to have an adverse impact on retail sales, investment, consumer spending and consumer confidence. Negative trends in these areas are likely to depress the demand for postal services.

And from the Postal Service MD&A per se:

CAUTIONARY STATEMENTS

Forward-looking statements contained in this report represent our best estimates of trends we know about, trends we anticipate and trends we believe are relevant to future operations. However, actual results may be different from estimates. Certain forward-looking statements are included in this report and use such words as "may," "will," "could," "expect," "believe," "plan" or other similar terminology. These statements reflect current expectations regarding future events and operating performance as of the date of this report. These forward-looking statements involve a number of risks and uncertainties.

The following are some of the factors that could cause actual results to differ materially from those expressed in, or underlying, forward-looking statements: effectiveness of operating initiatives; success in advertising and promotional efforts; changes in national and local business and economic conditions, including their impact on consumer and business confidence; fluctuations in currency exchange and interest rates; labor and other operating costs; oil, fuel and other transportation costs; the effects of war and terrorist activities; competition, including pricing and marketing initiatives and new service offerings by our competitors; consumer preferences or perceptions concerning our service offerings; spending patterns and demographic trends; availability of qualified personnel; severe weather conditions; effects of legal claims; cost and deployment of capital; changes in laws and regulations; costs and delays associated with new regulations imposed by the PRC; and changes in applicable accounting policies and practices. The foregoing list of important factors is not all-inclusive. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

From the Postal Service MD&A, page 35:

We believe that our liquidity and cash flows will cover operation through most of 2010, but we remain highly uncertain regarding the availability of cash in an amount that is sufficient to fund our required $5.5 billion PSRHBF payment on September 30, 2010. If sufficient cash is not available, we will not be able to make the full payment. The legal and/or regulatory consequences of failing to make the required PSRHBF payment cannot be known with certainty. We will continue to inform the Congress on our financial outlook and on legislative changes that would help ensure the availability of cash at September 30, 2010. However, there can be no assurance that adjustments to the PSRHBF payment schedule will be granted by September 30, 2010, or at all.

Patent and Trademark Office

The Patent and Trademark Office's (PTO) presents forward-looking information in the MD&A section entitled "Management Challenges and What's Ahead", as follows.

Management Challenges and What's Ahead

The USPTO will continue to lead the world in IP policy by optimizing patent and trademark quality and timeliness, and improving IP protection and enforcement domestically and abroad by addressing the following challenges:

MAKE EFFICIENCY GAINS FOR THE FUTURE, WHILE KEEPING QUALITY HIGH

The Patent and Trademark organizations will build on their accomplishments and work toward meeting the objectives of the ***2007-2012 Strategic Plan*** while working with customers to ensure that the objectives remain aligned with their needs.

The Patent organization's biggest challenge is to address the growth of pendency and the backlog of patent applications waiting to be examined while maintaining high patent quality. The Patent organization must address the dual challenges of heavy workloads and a shift of applications from traditional arts to more complex technologies. Consequently, the Patent organization will continue to hire, train, and retain additional examiners, and explore and implement process improvements. These actions will help to make the Agency even more responsive to the ever-increasing demand for patents.

The Trademark organization must strike a proper balance between forecasting levels of new filings, existing inventories, and managing an appropriately sized staff to ensure sufficient resources are available to maintain pendency goals on a consistent basis. The Trademark business' biggest challenge is to maintain the gains it has made in quality and pendency given the uncertainty of trademark filings, future revenues, and controlling costs. Efficiency gains have been realized through process improvement and cost reduction along with greater use of information technology. First-action pendency has reached the long-term target range of 2.5 to 3.5 months. Maintaining first-action pendency on a consistent monthly basis, given monthly fluctuations in filings, the unpredictability of projecting new filings given the continued uncertainty of the economy and the need to secure congressional approval for funding to support a high quality operation presents any number of challenges that must be carefully managed.

The Trademark organization will continue to assess the efficiency of its operations going forward, and incorporate process improvement in the incremental redesign of the electronic workflow and file management system. Completing the electronic workflow and file management system throughout the entire process will provide better automated tools and consistency for managing workloads and yield better services to its customers. The USPTO will also continue to use e-government as the primary means of doing business with applicants and registrants, and as a means of processing work within the Trademark organization. Continued high quality actions and consistent low first-action pendency will ensure low disposal pendency which translates to certainty for business owners in making investments in new products and services.

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ECONOMIC AND FINANCIAL UNCERTAINTY

The financial crisis that began last year in the U.S. has created challenges for the USPTO as the world economy has fallen into a recession. The USPTO derives its budgetary resources from user fees and the recent economic downturn impacted patent and trademark operations and revealed vulnerability in the method for financing the Agency. The downturn in patent allowance, maintenance, and application fees stems directly from the financial constraints that even the nation's most innovative companies face.

Patent and Trademark application filings, which historically increase year after year, declined between FY 2008 and 2009. Filing forecasts were lowered in expectation that the downturn in the economy would impact filings and revenues – specifically as they relate to the gross domestic product (GDP) and financial indicators such as venture capital. Continued uncertainty exists for the next two to three years in planning and managing staffing and budget requests that are supported by fee revenues, especially if current fee rates remain unchanged.

The USPTO sought legislation to enable it to temporarily use Trademark unobligated balances through June 2010 to forestall the need for a furlough, if needed. The USPTO is also exploring the use of new financing tools, such as fee setting authority, borrowing authority, operating reserves, and investment authority that would permit adjustment for volatility in the economy and/or demand for products and services without putting the Office in an operational crisis. Such tools would also permit the USPTO to undertake long-term strategies for improvement in a financially reasonable way.

And also, further on in the section --

ENSURING PROPER FEE RATES

Under current authority, any change to statutory fees requires legislation.[1] This limits the USPTO's ability to adjust its fees in response to changes in market demand for patent and trademark services, in processing costs or in other factors. To assure adequate funding levels for the long term, the USPTO needs authority to set and adjust fees administratively, so that it can properly establish and align fees in a timely, fair and consistent manner to recover the actual costs of USPTO operations and without going through the inherently long delays in the legislative process.

Any fee adjustments could be subject to oversight, review and comment by the USPTO's Public Advisory Committees, its stakeholders and Congress. This would provide assurances that the USPTO has all the necessary oversight, checks, and balances.

Department of Veterans Affairs

Among the MD&A sections provided by the Department of Veterans' Affairs' (VA) Web-based presentation is one on "most important achievements and current challenges." The sample shown immediately below is for VA's strategic goals 1 and 2. It is an effective, frank discussion by strategic goal. Another section is on "performance shortfall analysis", which is also presented immediately below for goals 1 and 2 only. Both sections provide excellent forward-looking information.

Strategic Goal 1

RESTORATION AND IMPROVED QUALITY OF LIFE FOR DISABLED VETERANS

Most Important Achievements

SUICIDE PREVENTION PROGRAM: Further **expansion** of the Veterans **Suicide Hotline** has allowed for an average of over 350 callers a day to access the Hotline and these numbers continue to grow. The addition of the Internet-based Veterans Chat feature has expanded the reach of the Suicide Prevention program to our newer Veterans who may choose to communicate via the Internet. Over **5,000** rescues have been sent out as a result of this outreach program and more importantly almost 20,000 referrals from callers have been sent to the local suicide prevention coordinators in the first 2 years of operation.

TRACKING TOOL FOR SEVERELY ILL AND INJURED: VA implemented a tracking tool for care management of **severely ill** and injured **OEF/OIF Veterans.** The new application, known as the Care Management Tracking and Reporting Application (CMTRA), is a robust, **Web-based** tracking system that allows care managers to specify a **care management** schedule for each individual Veteran and to identify specialty care managers such as Polytrauma Case Managers, Spinal Cord Injury Case Managers, and others. CMTRA also allows the OEF/OIF Care Management team to designate a Lead Case Manager when multiple case managers at the facility level are involved in the Veteran's care. As of August 2009, VA is caring for more than 2,300 severely ill or injured OEF/OIF Veterans.

COMPLETION OF THE GERIATRICS AND EXTENDED CARE STRATEGIC PLAN: This plan will guide **VA service delivery for frail elderly and disabled Veterans through the year 2020.** The plan is based on 82 recommendations, input of 6 workgroups convened in over 100 conference calls over a 4-month period.

EXPANDING THE DISABILITY EVALUATION SYSTEM PILOT PROGRAM: VA expanded the DES pilot program **from 3 sites** in the National Capitol Region **to 21 sites nationwide**. The pilot program, in cooperation with DoD, involves administering **a single medical examination** and assigning a single disability evaluation for active duty persons entering the Medical Evaluation Board process. The goal of the pilot program is to **reduce the overall time** it takes a servicemember to progress through DES from time of referral to the Medical Evaluation Board to receipt of VA benefits.

SURVIVOR BENEFIT CLAIMS PROCESSING CONSOLIDATED: VA completed its consolidation of all survivor benefit claims processing to the three Pension Management Centers in Milwaukee, St. Paul, and Philadelphia. This will **reduce wait time for beneficiaries** and **increase the accuracy and consistency** of VA's claims decisions.

25 PERCENT INCREASE IN SPECIALLY ADAPTED HOUSING GRANTS AWARDED: 1,270 severely **disabled Veterans and servicemembers** now live in new housing or have adapted an existing dwelling to meet their adaptive **housing needs** enabling them to live more independently. This is a **25 percent increase** from 2008.

Strategic Goal 1

RESTORATION AND IMPROVED QUALITY OF LIFE FOR DISABLED VETERANS

Most Important Achievements, *cont'd*

VETERANS' QUALITY OF LIFE IMPROVED THROUGH MORE OUTREACH: The following initiatives were:

- Improved VA's VetSuccess.gov Web site: Veterans can now browse job listings, post resumes, and apply for positions online. VetSuccess.gov allows Veterans to access more than 500,000 job openings. An estimated 27,000 Veterans and 200 employers are registered on VetSuccess.gov.
- Increased outreach to National Guard and Reserve members by collaborating with DoD on two new initiatives: The Post Deployment Health Reassessment Program (PDHRA) and the Yellow Ribbon Reintegration program (YRRP).
  - PDHRA events are **health screening events** designed to address post deployment-related health concerns and readjustment concerns. Servicemembers and Veterans receive evaluations and referrals for follow-up and care.
  - YRRP activities focus on **reconnecting Servicemembers and their families with service providers** and the resources that are available to help them overcome the challenges of reintegration.

Challenges

SUICIDE PREVENTION PROGRAM: Reaching Veterans of all ages requires a variety of approaches and multi-modal outreach strategies. **Communicating with Veterans via the Internet and social networking sites** presents new security problems as well as the development of new types of intervention strategies.

CLAIMS WORKLOAD TO INCREASE: VA received over one million disability compensation and pension claims in 2009. This represents **a 14 percent increase in workload** from 2008 to 2009.

CLAIMS COMPLEXITY: The complexity of claims received continues to increase as more **Veterans are claiming 8 or more chronic progressive conditions** such as orthopedic, mental health, cardiovascular, etc.

DES REQUIRES EXTENSIVE CHANGE: The DES pilot program requires significant changes to business processes and extensive, complex coordination between VA and DoD. For example, **service treatment records are transferred to VA in hard copy** because the infrastructure to transfer the records electronically has yet to be built.

MORE TRAINING AND CONTINUAL TRAINING NEEDED: Consolidation of survivor claims processing requires **ongoing dedication to training newly hired staff** before improvements in efficiency are fully realized.

CONTINUED INCREASE IN SAH WORKLOAD ANTICIPATED: The number of SAH grants **approved increased 75 percent** from 2007 levels because of changes in Public Laws 109-233 and 110-289. These changes included **increased grant amounts**, multiple use provisions, and yearly adjustments to the grant maximums based on a cost-of-construction index.

Strategic Goal 2

SMOOTH TRANSITION TO CIVILIAN LIFE

Most Important Achievements

HOUSING FOR HOMELESS VETERANS: VA, in partnership with the Department of Housing and Urban Development, **provided 20,000 units of permanent supportive housing to homeless Veterans**. As of the end of August 2009, more than 6,300 Veterans have been placed in permanent housing.

31 VA LIAISONS PLACED IN 17 MILITARY TREATMENT FACILITIES: VA now has **31 VA Liaisons** strategically placed at 17 Military Treatment Facilities (MTF) with concentrations of recovering servicemembers returning from Afghanistan and Iraq. The VA Liaisons **facilitate the transfer of servicemembers and Veterans** from the MTF to the VA medical center closest to their home or most appropriate for the specialized services their medical condition requires.

RESTORED VISION FOR HOMELESS VETERANS: Through this pilot program **more than 620 homeless Veterans received vision care and eye glasses** through donations from Faith-Based and Community Organizations and foundations.

POST-9/11 GI BILL IMPLEMENTED: On August 1, 2009, the **Post-9/11 GI Bill became law**. VA's successful implementation was made possible because of the following achievements:

- Published 359 pages of new regulations and modified ten existing information technology systems.
- Hired and trained approximately 760 term Veterans Claims Examiners.
- Began accepting applications on May 1, 2009, well before the fall enrollment.
- Started accepting enrollment certifications and processing awards on July 7, 2009.
- Began making payments for the Post-9/11 GI Bill on August 3, 2009.

Challenges

GREATER WORKLOAD AND AUTOMATING GI BILL WORK: With the implementation of the Post-9/11 GI Bill, VA faces operational challenges including those listed below:

- Managing the increased workload associated with the implementation of the Post-9/11 GI Bill.
- Achieving timeliness targets with limited automation and less experienced claims processing staff.
- Transitioning from an interim IT solution to a long-term IT solution for processing Post-9/11 GI Bill claims.

PREPARING STAFF FOR NEW CHALLENGES: VA must continue to **prepare our military service coordinators for future challenges**, particularly expansion of the DES pilot, expansion of the Benefit Delivery at Discharge and Quick Start programs, and potential deployed support to service personnel in combat zones.

Performance Shortfall Analysis

Shown below (sorted by strategic goal) are brief explanations of the reasons for significant deviations between actual and planned performance for those measures where there were significant shortfalls. Also provided are resolution strategies that are being implemented to ensure goal achievement in the future. These results are coded "red" in the measures tables beginning on page II-144.

Strategic Goal 1 Restoration and Improved Quality of Life for Disabled Veterans			
Measure		**Target**	**Result**
National Accuracy Rate for Compensation Rating Claims		**90%**	**83%** (R)
Causes	• Accuracy declined because newly hired employees are not yet fully proficient in analyzing and processing claims. New staff undergo intensive, curriculum-based training that occurs over several months. Not all new staff has completed the full training curriculum and, although training is critical, even when fully completed, new hires need time to achieve maximum proficiency.		
Resolution Strategies	• Once training is completed, new employees are able to gain proficiency with oversight of completed work by more experienced staff. Accuracy will improve as more of the newly-hired employees become fully trained and gain experience and proficiency through the review process. • In 2009, VA began to consolidate survivor benefit claims to the three Pension Management Centers, while Veterans' compensation claims continue to be processed at the regional offices. • Employees at the regional offices will therefore concentrate solely on Veterans' compensation claims. This specialization is expected to improve claims processing accuracy.		
National Accuracy Rate Compensation & Pension Fiduciary Work (This measure supports SG1 and SG3.)		**88%**	**82%** (R)
Causes	• FY 2009 was the first full year that all fiduciary activities for regional offices in the Western Area were consolidated to the Western Area Pilot Fiduciary Hub in Salt Lake City. • Additionally, VBA hired over 20 new Legal Instruments Examiners during FY 2009. • The combination of a large group of new incoming employees and the reorganization of workflow resulted in only a slight gain in accuracy (up from 81 percent in FY 2008).		

Resolution Strategies	• Consolidation provides increased oversight and coordination of one standard for quality for the entire Western Area. VA will document gains in accuracy and efficiencies to determine best practices to use in the other Areas. • Additionally, VA finalized the transition of all fiduciary activities to paperless processing in FY 2009. This transition, along with the additional experience gained by newly added employees, should result in increased accuracy in FY 2010.

Strategic Goal 2 **Smooth Transition to Civilian Life**		
Measure	**Target**	**Result**
Number of new enrollees waiting to be scheduled for their first appointment (electronic wait list)	<200	543 (R)

Causes	• The majority of Veterans on the EWL are related to Primary Care (PC). PC serves as a gateway into VA health care, and the increase may be due to the economic downturn and continued influx of newly discharged Veterans from the current conflicts. VHA is seeing an increase of newly enrolled Veterans. • An increase in new enrollees waiting over 30 days is evident in Primary Care. Most new enrollees are initially seen in Primary Care; therefore, there would naturally be a wait in those clinics, especially when enrollment numbers continue to increase.
Resolution Strategies	• We continue to impress upon our providers and clinic staff the need for continued vigilance in practicing and implementing the Advanced Clinical Access (ACA) initiative. • ACA promotes the smooth flow of patients through the clinic process and seeks to minimize wait times by anticipating patient needs at the time of their appointment and taking steps to: ○ Ensure specific equipment is available. ○ Arrange for tests that should be completed either prior to or at the time of the visit. ○ Align patient, provider, and all necessary health information.

Strategic Goal 2 Smooth Transition to Civilian Life			
	Measure	**Target**	**Result**
Telephone activities - Blocked call rate (Education)		**10**	**38** (R)
Causes	The implementation of the Post-9/11 GI Bill created a 15.6 percent increase in claims received from FY 2008 to 2009. The increase, coupled with limited automation for processing claims under the new program and lower efficiency in the greatly expanded workforce, resulted in longer processing times and a higher inventory of pending claims. This, in turn, prompted an increase of 270 percent in telephone traffic for the period April-September 2009 over the corresponding period in 2008.		
Resolution Strategies	In order to reduce processing time and inventory, an additional 760 FTE have been added at the Regional Processing Offices. The number of personnel assigned to the Education Call Center in the Muskogee Regional Processing Office was increased by more than 25 percent. Physical and financial resource constraints prevented further increase in Call Center staffing.		
Telephone activities - Abandoned call rate (Education)		**5**	**11** (R)
Causes	The implementation of the Post-9/11 GI Bill created a 15.6 percent increase in claims received from FY 2008 to 2009. The increase, coupled with limited automation for processing claims under the new program and lower efficiency in the greatly expanded workforce, resulted in longer processing times and a higher inventory of pending claims. This in turn prompted an increase of 270 percent in telephone traffic for the period April-September 2009 over the corresponding period in 2008.		
Resolution Strategies	In order to reduce processing time and inventory, an additional 760 FTE have been added at the Regional Processing Offices. The number of personnel assigned to the Education Call Center in the Muskogee Regional Processing Office was increased by more than 25 percent. Physical and financial resource constraints prevented further increase in Call Center staffing.		

Current Federal MD&A Standards

FASAB Standards

Current MD&A standards and concepts provide guidance and establish minimum requirements.[5] SFFAC 3 provides the basic MD&A concepts while SFFAS 15 establishes the requirement that an entity present an MD&A with required components in its general purpose federal financial report (GPFFR).

SFFAC 3 provides that MD&A should address the entity's program and financial performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems. The discussion and analysis of these subjects may be based partly on information contained in reports other than the GPFFR. In addition, MD&A also should address significant events, conditions, trends, and contingencies that may affect future operations.[6]

SFFAC 3 notes that financial reports have two key roles: feedback and prediction. Managers have the knowledge and should explain what the report is communicating. MD&A makes the GPFFR understandable.[7] Due to the complexity of the federal government and the lack of user familiarity with federal financial and performance concepts, MD&A may be more important in the federal government than in the private sector.[8] A third key role is that financial reports require the accumulation and compilation of auditable and therefore reliable information, which agencies would not otherwise do, and which results in the agency personnel gaining an understanding of their agency's financial condition and operations that they would not otherwise have.[9]

SFFAC 3 lists five subjects an MD&A should address[10]:

1) the entity's structure, mission, goals, and objectives, with indicators of its performance;
2) actions taken or planned to improve performance, when appropriate;
3) the financial statements;
4) systems, internal controls and legal compliance, including corrective action taken or planned; and
5) the future effects of existing, currently-known demands, risks, uncertainties, events, conditions and trends. MD&A may also address the possible future effects of anticipated future demands, events, conditions, trends, etc. that management believes would be important to the reader of the report. MD&A should explain future effects if there is a

[5] The table in Appendix A provides a comparison of MD&A concepts, standards, and requirements from SFFAC 3, SFFAS 15, and Circular A-136, and shows the similarities and differences between these documents. It illustrates the brevity of SFFAS 15.
[6] SFFAC 3, par. 1.
[7] SFFAC 3, pars. 3-5.
[8] SFFAC 3, par. 7.
[9] SFFAC 3, par. 17.
[10] SFFAC 3, par. 9.

reasonable prospect of occurrence.[11] "Future effects" should be quantified, if possible, and ranges are useful in discussing future effects.[12]

SFFAS 15, the FASAB's MD&A standard, establishes the basic requirements for an MD&A and requires that each of the above subjects be addressed.[13]

In addition, SFFAC 3 explains that the MD&A should discuss each topic even if basic information on that topic is in a non-GPFFR report. The MD&A concepts included referencing such material.

Regarding financial statement analysis – item 3 in paragraph above – SFFAC 3, the MD&A concepts, provides that management should give readers the benefit of its understanding from both a short- and long-term perspective. Management should discuss the significance and potential effect of variations in assets, liabilities, costs, revenues, obligations, and outlays; of particular balances and amounts in the financial statements; and of stewardship information.[14] The MD&A should explain significant variations from prior years, from the budget, and from plans, and the potential effect of these factors, of changed circumstances, and of expected future trends.[15] The discussion should include only those variations of potential interest to readers who are not part of agency management.

Not all material changes are sufficiently important to be included in MD&A. Thus, the MD&A should summarize the most important items, explain the relevant causes and efforts, and place them in context.[16]

Regarding performance, SFFAC 3 calls for the entity to explain what it does and how well it is doing it. The MD&A should provide information readers need to gauge success. It should explain how the entity measures success and what the measures show.[17]

To assess a government entity's performance, readers need to know more than simple financial information.[18] Reporting performance in government is different than in the private sector.[19] The financial statement analysis should answer questions such as: What is the entity's financial position and condition? How did this come about? MD&A should relate the strategic plan to the entity's results, include both positive and negative results, explain what needs to be done and what is planned, and note the limitations of performance reporting.[20]

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[11] SFFAC 3, par. 34.
[12] SFFAC 3, par. 35-36.
[13] SFFAS 15, pars. 2-4.
[14] SFFAC 3, 26-7.
[15] SFFAC 3. par. 14.
[16] SFFAC 3, 26-7.
[17] SFFAC 3, par. 11.
[18] SFFAC 3, par. 13.
[19] SFFAC 3, par. 42.
[20] SFFAC 3, par. 45-9.

Regarding systems and controls, the MD&A should tell the reader whether the internal accounting and administrative controls are adequate.[21] The GPFFR may include summaries of information about systems, internal legal compliance from other reports, e.g., FMFIA and FFMIA reports or incorporate them by reference. The MD&A, in turn, should discuss the most important aspects of this information.[22]

OMB Circular A-136

OMB Circular A-136, *Financial Reporting Requirements*,[23] defines the form and content for the federal agency PARs and Pilot Program reports required to be submitted to the OMB and the Congress.[24] Circular A-136 provides a framework within which individual agencies have flexibility to provide information useful to the Congress, agency managers, and the public.[25]

Circular A-136 MD&A Provisions

The MD&A provisions of Circular A-136 cite SFFAC 3 and SFFAS 15. Thus, the Circular A-136 requires MD&A sections wherein the entity is to discuss and analyze:

1) mission and organizational structure
2) performance goals, objectives, and results
3) financial statements and stewardship information
4) systems, controls and legal compliance.[26]

Also as in SFFAS 15 (par. 3), Circular A-136 includes the requirement for forward-looking information.

Circular A-136 MD&A Performance Reporting

In addition, Circular A-136 includes extensive MD&A instructions with respect to performance reporting. The Circular provides that the MD&A should include (in no specific order) highlights of performance goals and results (positive and negative) related to and consistent with major goals and objectives in the entity's strategic and performance plans, including trend data where available. These performance highlights should:

1) provide a clear, objective picture of the entity's program results compared to its goals and objectives;

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[21] SFFAC 3, par. 15.
[22] SFFAC 3, pars. 18-22.
[23] June 10, 2009.
[24] See the Chief Financial Officers Act of 1990 ("CFO Act") (Pub. L. 101 – 576), as amended by the Reports Consolidation Act of 2000 (Pub. L. 106-531); the Accountability of Tax Dollars Act of 2002 ("ATDA") (Pub. L. 107–289); and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.). The PARs and AFRs are in addition to the reports submitted to OMB for purposes of monitoring budget execution.
[25] See Circular A-136, Section I.1, *Guide to the Circular*.
[26] Circular A-136, Section II.2.4, Scope.

2) indicate the extent to which its programs are achieving their intended goals and objectives, and explain performance trends;
3) discuss the strategies and resources the entity uses to achieve its performance goals;
4) evaluate the significance of underlying factors that may have affected the reported performance. These may include information about factors that are substantially outside the entity's control as well as information about factors over which the entity has significant control;
5) include an explanation of plans and timelines to improve performance where targets were not met;
6) summarize the procedures management has designed and followed to provide reasonable assurance that reported performance information is relevant and reliable; and
7) discuss important limitations and difficulties associated with performance measurement and reporting should be noted to the extent relevant.[27]

Circular A-136 encourages entities to provide information in the PAR that helps the reader assess the relative efficiency and effectiveness of entity programs/operations. Efficiency is defined as the ratio of an "effective or useful" outcome or output to the total input resources of a system. Effectiveness means having an intended or expected effect.[28]

Entities are instructed to strive to articulate efficiency and effectiveness by developing and reporting objective measures that, to the extent possible, indicate results achieved and relate major goals and objectives in their strategic plan to cost categories (i.e., responsibility segments) presented in the entity's statement of net cost. Entities should be engaged in strategic management, including recognizing that the dual objectives of and the occasional trade-offs between efficiency and effectiveness (e.g., the most effective solution or process is not always the most efficient, nor is the most efficient always the most effective). Entities should focus on tracking and reporting the most appropriate and meaningful measures that show program effectiveness, efficiency, and results.

Circular A-136 MD&A Financial Statement Analysis

With respect to financial statement analysis, Circular A-136 incorporates SFFAS 15 paragraphs.[29] Thus, MD&A should help users understand the entity's financial results, position and condition conveyed in the principal financial statements. The MD&A should include comparisons of the current year to the prior year and should provide an analysis of the agency's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. It should give users the benefit of management's understanding of the:

[27] Circular A-136, Section II.2.6, *Performance Goals, Objectives, and Results*.
[28] Ibid.
[29] Circular A-136, Section II.2.7, "Analysis of the Entity's Financial Statements and Stewardship Information."

1) Major changes in types or amounts of assets, liabilities, costs, revenues, obligations, and outlays;
2) Relevance of particular balances and amounts shown in the principal financial statements, particularly if relevant to important financial management issues; and
3) Entity's stewardship information.

This section should also include a discussion of key financial-related measures emphasizing financial trends and assess financial operations.

Circular A-136 MD&A Systems and Controls

Circular A-136 requires agencies to provide assurances related to the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA)[30] in a separate section of the MD&A entitled "Management Assurances." The Circular instructs the agencies that the FMFIA assurance statement should:

1) Provide management's assessment of the effectiveness of the organization's internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations (FMFIA § 2); and whether the financial management systems conform to financial systems requirements (FMFIA § 4).
2) Provide a separate assessment of the effectiveness of the internal controls over financial reporting as a subset of the overall FMFIA assurance statement (i.e., separate paragraph within the FMFIA Assurance Statement).
3) Include a summary of material weaknesses (FMFIA § 2) and non-conformances (FMFIA § 4), and a summary of corrective actions to resolve the material weaknesses and non-conformances. Illustrative assurance statements and further guidance on corrective action plans can be found in the CFOC Implementation Guide, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting located at: (http://www.cfoc.gov/documents/Impementation_Guide_for OMB_Circular_A-123.pdf).

Management is also directed to include its FFMIA compliance assessment in this section. FFMIA requires management to assess the organization's compliance with Federal financial management systems requirements, standards promulgated by FASAB, and the U.S. Standard General Ledger (USSGL) at the transaction level. Further guidance on the financial systems requirements can be found in OMB Circular No. A-127, *Financial Management Systems*. Circular A-11, Part 2, Section 52, *Information on Financial Management* outlines requirements for agency's plans for bringing its systems into substantial compliance.

[30] Pub.L.No.104-208.

Management is to review its FMFIA assurance statements and its FFMIA compliance determination for consistency with the findings specified in the annual financial statement audit report(s). The Office of Inspector General or auditor is to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report and document any differences. The reports could, in fact be different, but they should not be in direct conflict. When conflicting discrepancies exist, it is management's responsibility to ensure that outstanding issues are appropriately reported.

A review of agency reporting reveals some noteworthy aspects of FMFIA reporting. What appears to be happening is that management reports material weaknesses in internal control using criteria different than the auditors use to determine material weaknesses and system non-conformances in the accounting and financial reporting systems. The result is that some of the management-determined material weaknesses are different than what the auditor reports and some are the same. However, no instances were found where the auditor reported that a material weakness in internal control in financial systems that management did not report.

The review found different results for FFMIA than for FMFIA. Several instances were found where the auditor reported non-compliance with the FFMIA but management felt that the agency complied. Management frequently tried to justify its position rather than state what it will do to remove the auditor's finding.

Circular A-136 MD&A Other Provisions

In addition, Circular A-136 affords management the discretion to include a summary in the MD&A of other information, initiatives, and issues it identifies. This could include summarizing entity progress in implementing key administration management initiatives.[31].

Circular A-136 requires the MD&A to include a section articulating the limitations of the principal financial statements, and provides the specific wording.[32]

Circular A-136 Non-MD&A PAR Sections

Circular A-136 directs that Sections 2, 3 and 4 of the PAR be for performance reporting, financial statements, and other accompanying information, respectively. The instructions for performance reporting in Circular A-136 are taken from Circular A-11, Section 230, *Preparing and submitting the Annual Performance Report, the Performance Portion of a Performance and Accountability Report*. Circular A-11 takes precedent if there is any inconsistency between Circulars A-11 and A-136.[33] Agencies are instructed to refer to Circular A-11 for a comprehensive discussion on performance. The annual performance

[31] OMB Circular A-136, Section II.2.9.
[32] OMB Circular A-136, Section II.2.10.
[33] OMB Circular A-136, Section II.3.1, General, fn. 20.

report required by GPRA provides information on an agency's actual performance and progress in achieving the goals in its strategic plan and performance budget.

Agencies prepare one annual performance report for a fiscal year. For most agencies, this is the “Performance Section” of its PAR. For those agencies participating in the pilot, the APR is to accompany the Congressional Budget Justification (CBJ).

Appendix 2 – MD&A Task Group

MD&A Task Group

Name	Federal Agency
Regina Kearney, Chairperson	Office of Management and Budget
Carmen Pearlstein	Commerce Department
Shirley Watt	National Science Foundation
Lisa Hemmer	Department of Homeland Security
Cynthia Simpson	Labor Department
Scott Bell	Treasury Department
Joseph Donovan	Labor Department
Melissa Evans	Department of Homeland Security
Mike Swanchara	General Services Administration
Molly Dawson	Department of Health and Human Services
Charles Fox	Government Accountability Office
Kevin McFadden	KPMG
Richard Fontenrose	Federal Accounting Standards Advisory Board