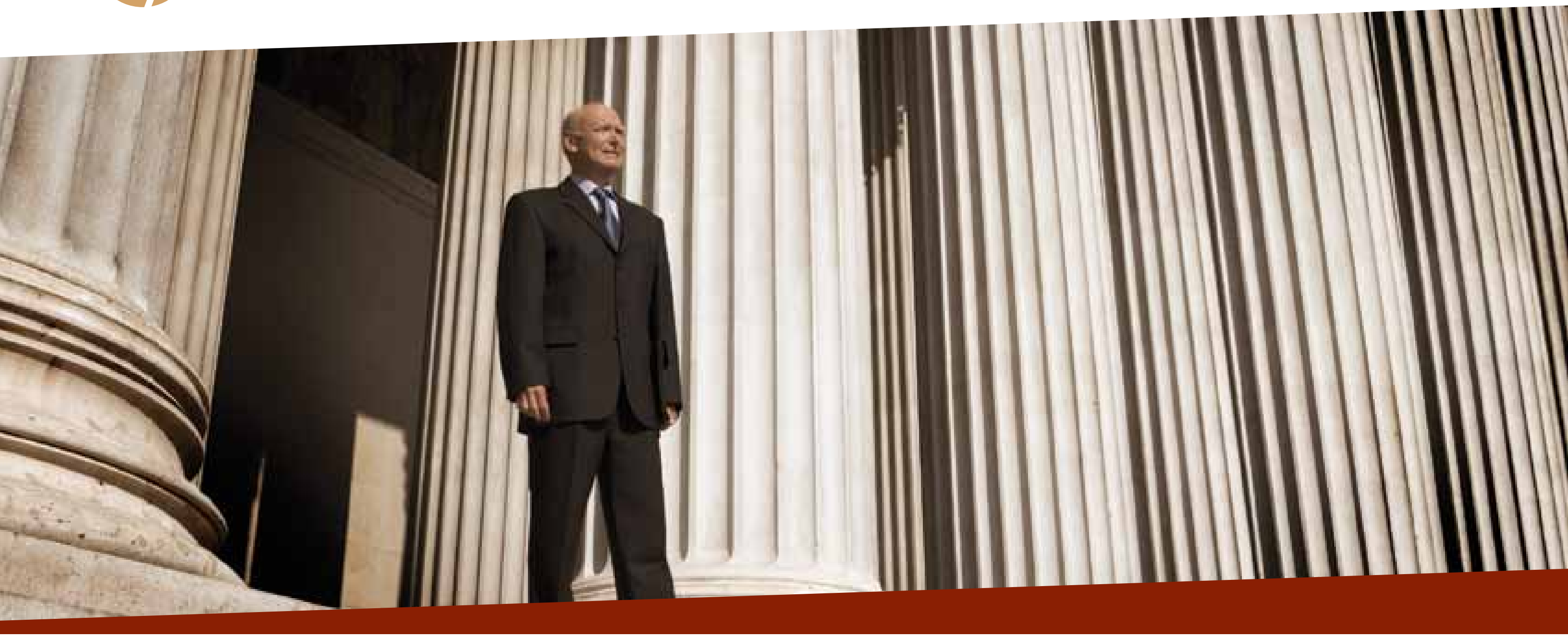

A Look at Fiscal Year 2012 Schedules of Spending

A Preliminary Review, Including Best Practices and Recommendations for Improving Guidance

Executive summary

Making information about federal spending more understandable and useful to the public is a common challenge for government entities. It was one of the goals of the Federal Accounting Standards Advisory Board (FASAB) in 2010 when it recommended that federal entities prepare an annual Schedule of Spending (SOS) and include it in the Consolidated Financial Report (CFR) of the federal government.

CliftonLarsonAllen (CLA) conducted an independent review of the SOSs filed by 23 federal agencies (see Appendix) for the fiscal year ending September 30, 2012. This white paper offers a look at the content and structure of these initial filings, including best practices,

Generally, these published Schedules of Spending provide clarity to stakeholders and other readers on spending by each reporting federal entity.

suggested changes to the guidance for preparing the SOS, and further issues to be considered for improving the clarity and meaningfulness of the SOS.

Background

In August 2012, the Office of Management and Budget (OMB) issued an update to OMB Circular No. A-136, Financial Reporting Requirements, Revised, (A-136), which included a framework for preparing a Schedule of Spending (SOS). Following consultations with the Chief Financial Officers Council (CFO Council), OMB's update established requirements for the 24 *CFO Act* agencies to provide two initial sections of an SOS for inclusion in their Performance and Accountability Report (PAR) or Agency Financial Report (AFR) for the fiscal year ending September 30, 2012.

> In continuing our interest in this financial reporting initiative, we collected published SOSs for fiscal year 2012 and conducted research and analysis.

OMB Circular A-136 included specific requirements:

- Preparation of an annual SOS
- Compilation of the SOS utilizing the same financial data underlying the Statement of Budgetary Resources (SBR), which presents total budgetary resources, gross outlays, and fiscal year-to-date total obligations for the reporting entity
- Presentation of the SOS on a combined rather than a consolidated basis, so that it would not include a line-by-line elimination of intra-entity balances
- Preparation of Sections I and II of the SOS, at a minimum

Federal entities subject to the *Federal Credit Reform Act* (FCRA) (www.fms.treas.gov/ussgl/creditreform/fcra.html#titleV) were allowed to present the SOS in a manner similar to the SBR, which separates the budgetary accounts and non-budgetary credit reform accounts, if credit reform financing accounts are material. A-136 also allows the preparation of Sections III and IV of the SOS as an option for fiscal year 2012 reporting, with an expected mandatory requirement for fiscal year 2013.

Under Circular A-136, federal entities are given the option of preparing comparative SOSs for fiscal years ending in 2012 and 2011; comparative schedules will be required for fiscal year 2013 and thereafter. Also, certain line items of each section of the SOS were required to reconcile to the SBR, for example, the total spending in the SOS should reconcile to gross outlays reported in the SBR.

For additional details concerning requirements for preparing the SOS, please refer to OMB Circular No. A-136, Financial Reporting Requirements, Revised, (A-136) (pages 144 – 149). (http://www.whitehouse.gov/sites/default/files/omb/assets/omb/circulars/a136/a136_revised_2012.pdf)

Suggested improvements to the Schedule of Spending

CliftonLarsonAllen (CLA) conducted an independent review of the SOS guidance, including the illustrative SOS template for fiscal year 2012, to determine if there could be any improvements or clarifications. Based on our review, we suggest that the following be considered when preparing guidance for fiscal year 2013:

1. Provide an overview in the SOS to explain its purpose. In addition, consider explaining the information presented in each section of the SOS.
2. Clarify that the SOS is presented on the same budgetary basis as the SBR, and line items that must be reconciled between these two statements. Furthermore, where the reconciliation of SOS to SBR for specific line items is not readily apparent, consider that a reconciliation be provided as a footnote to the SOS.
3. List the OMB Budget Object Class (BOC) definitions outlined in Section II of the SOS presentation, which would make them more accessible than referring to Circular A-11.
4. Distinguish the most significant BOC codes from the remaining codes as described in Section II of the SOS presentation.
5. Require a further breakdown of the BOC definitions outlined in Section II of the SOS presentation to better accommodate reporting for FCRA agencies. For example, the acquisition of direct loans has different implications than the acquisition of buildings, as collections are expected on the loans.
6. Consider including a statement in the illustrative SOS template to explain the impact of the offsetting collections and receipts on the reported spending for the related categories.
7. Use definitions to clarify the differences between accrued costs, cash/gross outlays, obligations, and spending used throughout the financial statements and related footnotes.
8. Explain the time lag between an obligation and its related outlay, so the reader understands the context of the amounts presented in the SOS.
9. Expand the SOS requirement to include the 11 additional significant reporting agencies listed in Appendix A, page

216, of the 2012 Financial Report of the United States Government (https://fms.treas.gov/fr/index.html). These agencies include:

- Export-Import Bank of the United States
- Farm Credit System Insurance Corporation
- Federal Communications Commission
- Federal Deposit Insurance Corporation
- National Credit Union Administration
- Pension Benefit Guaranty Corporation
- Railroad Retirement Board
- Securities and Exchange Commission
- Smithsonian Institution
- Tennessee Valley Authority
- U.S. Postal Service

CliftonLarsonAllen's research on the Schedule of Spending

In July 2012, CliftonLarsonAllen issued a report that provided technical insight and ideas in promoting the preparation of a Schedule of Spending for federal entities. The report is available at www.cliftonlarsonallen.com/SpendingReport.

In continuing our interest in this financial reporting initiative, we collected published SOSs for fiscal year 2012 (see Appendix) and conducted research and analysis. Based on our research, we determined that:

- Among the 24 *CFO Act* agencies, only the Department of Defense (DOD) did not prepare an SOS.
- All of the remaining 23 *CFO Act* agencies:
  - Included the SOS in the OAI section of the fiscal year 2012 PAR or AFR
  - Fulfilled the minimum requirement by preparing Sections I and II of the SOS
- Some agencies went beyond the minimum reporting requirements:
  - Nine agencies prepared Section III and six agencies prepared Section IV
  - Five agencies presented comparable spending schedules for fiscal years 2011 and 2012
  - Five agencies presented budgetary and non-budgetary credit reform financing accounts separately
- The Government Accountability Office (GAO) voluntarily met the minimum reporting requirement by preparing Sections I and II

SOS preparation by *Federal Credit Reform Act* agencies

The objectives of the FCRA, are to:

- More accurately measure the costs of federal credit programs
- Encourage delivery of benefits in the form most appropriate to the needs of beneficiaries
- Place the cost of credit programs on a budgetary basis equivalent to other federal spending
- Improve allocation of resources among credit programs and between credit and other spending programs

As such, agencies subject to the FCRA use non-budgetary credit reform financing accounts that require special presentation in the SBR to properly capture and report their loan activities.

Based on our review of the SOS and the FCRA, we determined that the following departments and agencies with significant credit reform activities — except as otherwise noted — reported the SOS utilizing the optional reporting permitted by A-136:

FCRA agency	Budgetary and non-budgetary credit reform financing accounts presented separately	Similar presentation to the SBR
Department of Education (DoEd)	Yes	Yes
Department of Transportation (DOT)	Yes	Yes
Department of Housing and Urban Development (HUD)	No	No
Department of the Treasury (Treasury)	No	No
Department of Agriculture (USDA)	Yes	Yes
Agency for International Development (USAID)	No	No
Department of Commerce (DOC)	No	No
Department of the Interior (DOI)	No	No
Department of Energy (DOE)	No	No
Small Business Administration (SBA)	Yes	Yes
Department of Veteran Affairs (VA)	Yes	Yes

Six credit or insurance entities are exempt from FCRA:

1. Federal Deposit Insurance Corporation
2. National Credit Union Administration
3. Pension Benefit Guaranty Corporation
4. National Flood Insurance Program of the Federal Emergency Management Agency
5. Federal Crop Insurance Corporation
6. Tennessee Valley Authority

We concluded that, while the separate presentation of the Budgetary and Non-Budgetary Credit Reform Financing Accounts facilitated the reconciliation of the amounts to the SBR, the key to determining the usefulness and clarity of the information was the line item captions that categorized how the money was spent. A-136 allowed agencies to present its spending by categories (e.g., strategic goal, program, appropriations, sub-agencies, or grouping of sub-agencies). In our view, the tailoring and breakdown of the line item captions at a sufficient level of detail added meaningful value to the SOS presentation.

For example, all of the DoEd's direct loans and loan guarantees were related to only one departmental goal: increase college access, quality, and completion. Related spending was clearly identified through line item captions within that goal, such as credit program loan disbursements and claim payments, credit program subsidy transfers, and federal interest payments. This presentation is more meaningful when credit program activities are significant to the department or agency.

In contrast, USDA used the Acquisition of Assets line item caption to identify both spending under the Budgetary (for items such as short-term non-FCRA loans, commodity inventories, and buildings) and Non-Budgetary Credit Reform Financing Accounts (for items such as direct loans and loan guarantees). Since the acquisition of loans and foreclosed property has different financial reporting implications from the acquisition of buildings (due to expected collections), a breakdown of this caption would provide more useful, readily identifiable information for the stakeholders who are not well versed in FCRA accounting and reporting.

A-136 gave agencies the option to present categories as columns instead of sections. Agencies such as HUD did not use separate columns to present the Budgetary and Non-Budgetary Credit Reform Financing Accounts. Instead, HUD listed the amounts disbursed separately for direct loans and loan guarantees on a line item caption, which does not allow for loans related activities to be presented separately by type (e.g., loan payments, subsidy transfers, and interest payments). Also, the reconciliation of the SOS to the SBR for certain line items, as required by A-136, was not readily apparent due to the lack of a total column in the SBR.

During our review, we observed that some of the FCRA departments and agencies may have considered materiality in determining whether to present their FCRA activity separately. We believe that such materiality considerations should be weighed by all departments and agencies in determining the best presentation for their SOS.

The departments and agencies listed above participate in the Federal Credit Policy Working Group (FCPWG), an interagency council that provides advice and assistance to OMB and the Treasury Department in the development and implementation of credit policy. Although we understand that the FCPWG is not as active now as it was in the 1990s, we recommend that the FCPWG consider holding a meeting to comment on the best presentation of FCRA activity in the SOS.

Best practices in the preparation of the SOS for fiscal year 2012

We reviewed all published SOSs for fiscal year 2012 and identified the federal entities that we believe demonstrated best practices in preparing this schedule.

1. **Department of the Interior (DOI):** Notable best practice in meeting minimum reporting requirements.

- Presented an overview below the SOS highlighting objectives
- Included the same underlying data used to populate the SBR, presenting the information in a comparative grid format by bureau, and for the department as a whole
- Provided a disclaimer informing stakeholders that the SOS is included in the OAI to permit DOI to explore the optimal means of presenting spending of taxpayers' money
- Requested public feedback on the SOS and provided instructions for responding
- Disclosed that comparative schedules are not required for fiscal year 2012; however they will be presented in fiscal year 2013

- Prepared Section III of the SOS, which was optional for fiscal year 2012, displaying federal and non-federal obligations as recommended

2. **Department of Labor (DOL):** Notable best practice in presenting optional requirements and in enhancing the SOS illustrative template.

- Disclosed in a brief overview that the SOS is presented on a budgetary basis, the same as the SBR
- Presented comparative SOSs (i.e., fiscal years 2012 and 2011)
- Included a brief overview in each section of the SOS explaining its purpose
- Prepared Section II, giving due consideration to program materiality in determining the level of detail presented (i.e., aggregated information for programs not deemed individually material)
- Prepared Section III and exceeded the minimum requirement by displaying more detail types of entities receiving money (i.e., individuals, state and local governments, nonprofit organizations, higher education, etc.) and giving special consideration to transfers among agency funds, which are significant and would be misleading if comingled in other categories in the combined SOS
- The line items in the SOS reconciled to the corresponding SBR line items without exception and the reconciliation was readily apparent

We concluded that the key to determining the usefulness and clarity of the information was the line item captions that categorized how the money was spent.

Qualitative assessment of the SOS

We performed a qualitative assessment of the collected SOS based on the clarity of format and presentation, content, and reconciliation.

Overall, the minimum format and presentation requirements for the SOS, as outlined in A-136, were achieved by 23 *CFO Act* agencies and GAO. In addition, each of the SOSs was tailored to some extent around its individual agency. For example:

- Department of Commerce presented its SOS by major budget accounts
- Department of the Interior presented its SOS by bureaus
- GSA and HUD presented their SOSs by department funds and agencies
- NASA and the Department of Education presented their SOSs by different missions and programs that are unique to their entities
- Department of Veteran Affairs presented its SOS by distinguishing between its business lines, using a separate column for the budgetary and non-budgetary credit reform financing accounts for:
  - Veterans Health Administration
  - Veterans Benefit Administration
  - National Cemetery Administration
  - Indirect Program Administration

We determined that each published SOS reconciled to the SBR without any significant discrepancies. However, the reconciliation was not readily apparent for those FCRA agencies that used a one-column presentation in the SOS. GSA was one of the three pilot agencies in fiscal year 2011 to prepare an SOS. For fiscal year 2012, GSA took the initiative to present a reconciliation of its SOS to the SBR in a footnote, which we consider a best practice. Furthermore, several federal entities provided a brief introduction or synopsis of the SOS within their OAI section of the PAR or AFR, explaining to readers the purpose of preparing the statement, its importance in federal reporting, the differences among the four sections, and ways to provide public feedback.

General conclusions

Collectively, 23 of the 24 federal *CFO Act* departments and agencies are complying with federal reporting requirements of the SOS for fiscal year 2012, as outlined in A-136. However, the A-136 guidance and the illustrative SOS template could be enhanced by incorporating some of the best practices discussed above and by resolving the remaining unanswered questions and issues discussed below. Generally, these published SOSs provide clarity to stakeholders and other readers on spending by each reporting federal entity. Certain federal entities provided additional clarity in their SOSs by going beyond the basic format. This additional information was a thoughtful and thorough way to communicate the operations of the agencies.

Unanswered questions and issues

The remaining questions and comments presented below should be considered by OMB for improving the clarity and meaningfulness of the SOS and its relationship to the financial statements:

1. Should there be a reconciliation between outlays reported in the SOS and costs reported in the Statement

of Net Cost? It appears that both cash and accrual basis accounting may be needed to provide more meaningful information to stakeholders. Therefore the SOS may need to address both, perhaps by use of one basis to display the information, with reconciliation to the other basis of accounting.

2. Should there be reconciliation between Total Amounts Agreed to be Spent reported in the SOS, and spending data reported at USASpending.gov?
3. Are there opportunities to obtain expanded benefits from preparing a SOS in relation to other management initiatives of the administration?
4. Should the FASAB, in collaboration with OMB and GAO, consider adding the SOS to its active project list and assess if and how the content of the proposed SOS might be reconciled to other basic financial statements?
5. Should the framework of the *Government Performance and Results Act* (GPRA) be used to develop or expand common definitions for programs across entities to improve consistency, while using clear, distinct guidelines to facilitate accumulation of costs and spending by fund or by major mission of the government? For example, a single program or multiple programs from different entities could be tied to a single objective/strategic goal of the government as a whole (e.g., access to low cost health care for all individuals). Furthermore, it may be possible to group multiple programs to achieve a single objective or a single program achieving multiple objectives.

Overall, the minimum format and presentation requirements for the SOS were achieved by 23 *CFO Act* agencies and GAO.

6. Since citizens appear to be more interested in using the internet to access financial information about the federal government, should the information in audited financial statements correspond with information provided on websites, such as USASpending.gov? The SOS gives the public access to how much is spent in individual communities. Could the benefit from information reported in the SOS be expanded by providing a link between federal taxes paid and spent by the public in a community?
7. Should the FASAB establish the SOS as one of the principal financial statements in the near future, work with the agency's inspector general and external auditor to explore audit implications associated with the preparation of an SOS. Also learn if an agency wishes to obtain a limited scope review of its efforts to prepare an SOS.

Appendix

Listing of agencies for which Schedules of Spending were collected and reviewed:

***CFO Act* agencies**

- Department of Agriculture*
- Department of Commerce*
- Department of Education*
- Department of Energy*
- Department of Health and Human Services
- Department of Homeland Security
- Department of Housing and Urban Development*
- Department of the Interior*
- Department of Labor
- Department of Justice
- Department of State
- Department of Transportation*
- Department of the Treasury*
- Department of Veterans Affairs*
- Agency for International Development*
- Environmental Protection Agency
- General Services Administration
- National Aeronautics and Space Administration
- National Science Foundation
- Nuclear Regulatory Commission
- Office of Personnel Management
- Small Business Administration*
- Social Security Administration

Other agencies

- Government Accountability Office

*Subject to the Federal Credit Reform Act

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About CliftonLarsonAllen

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