MAKING SENSE OF THE NUMBERS: IMPROVING THE FEDERAL FINANCIAL REPORTING MODEL

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY AND FINANCIAL MANAGEMENT OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
ONE HUNDRED TWELFTH CONGRESS
FIRST SESSION
FEBRUARY 16, 2011
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MAKING SENSE OF THE NUMBERS: IMPROVING THE FEDERAL FINANCIAL REPORTING MODEL

WEDNESDAY, FEBRUARY 16, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,
EFFICIENCY AND FINANCIAL MANAGEMENT,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:56 p.m., in room 2203, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Lankford, Amash, Gosar, Towns, Cooper, Connolly, and Norton.

Staff present: Michael R. Bebeau, assistant clerk; Molly Boyl, parliamentarian; Katelyn E. Christ, research analyst; Gwen D’Luzansky, assistant clerk; Linda Good, chief clerk; Hudson T. Hollister, counsel; Tabetha C. Mueller, professional staff member; Ronald Allen, minority staff assistant; Beverly Britton Fraser, minority counsel; Carla Hultberg, minority chief clerk; and Suzanne Sachsman Grooms, minority chief counsel.

Mr. PLATTS. This committee will come to order.

I certainly would like to welcome my fellow Members, as well as our witnesses and guests, to this first hearing of our Subcommittee on Government Organization, Efficiency and Financial Management. I certainly am honored, Mr. Chairman, to be working with you again. For those who don’t know, when I was last in the majority and had the privilege of chairing this subcommittee, Mr. Towns was my ranking member for those 4 years; and when he went into the majority, I got to be his ranking member. So we are playing musical chairs here, but the same commitment of working together for just good government issues. So, again, I am delighted to be reunited with you.

I am going to offer an abbreviated opening statement because we appreciate our witnesses’ patience in holding down the fort here while we finished up votes on the floor. But we are anxious to get your testimony.

Our focus here today is really to look at a specific issue: financial information of the Federal Government, and particularly how that information is reported and then acted upon, and specifically the Consolidated Financial Report and how we can make it more useful. The question we are asking is how we take that information and make it more useful not just to Congress, but to the American
people. And certainly given the deficit spending that we see year in and year out and a $14 trillion debt, we know the American people care deeply about this issue, about how we are handling their money, responsibly or not.

I want to certainly applaud the Federal Accounting Standards Advisory Board for taking a very important first step in convening a task force to look at the Federal financial reporting model and how we can improve that model and make it more beneficial to, again, the public, as well as Members of Congress.

Delighted to have three wonderful witnesses here today. First, Mr. Tom Allen, Chairman of FASAB. I understand this is the first time that FASAB has been invited to testify before Congress. We are glad to have you here.

Mr. Jonathan Breul, executive director of the IBM Center for The Business of Government. And we are pleased to have you testifying before the subcommittee again. Mr. Towns and I certainly benefited from your expertise in the 108th and 109th sessions of Congress, and know we will again benefit and blessed by your information and your expertise.

Finally, Mr. Mike Hettinger, executive director with Grant Thornton. It is really great to see you here on the other side of the table. For those of you who don't know, Mike was our subcommittee staff director for 4 years and did an outstanding job, as well as other positions here on the Hill, and kind of brings the perspective of both a staff person, as well as now in the private sector.

As we speak, the Government Accountability Office is releasing its biannual high risk list. Many of the issues identified by GAO have to do with sound financial management, more likely a lack thereof. Though this may seem somewhat dry, some of the topics our subcommittee will deal with, it is incredibly important. Nothing is more important than being effective stewards of the taxpayers’ funds, particularly in difficult financial times as we see facing our Nation today.

This hearing will set the stage for our agenda over the coming 2 years and will especially provide us an opportunity as subcommittee members to prepare for our next hearing, when we will have Treasury, OMB, and GAO before us to testify about the Consolidated Financial Reports, and what we hope to glean from you is ideas we can share with those witnesses in a few weeks and get their input on your recommendations of how we can make the information more valuable and useful to all parties. That hearing will be on March 9th.

With that, I am going to submit the rest of my statement for the record and yield to Mr. Towns, if you would like to make an opening statement.

Mr. Towns, Mr. Chairman, I am going to place my statement into the record, and I want to get to the witnesses.

[The prepared statement of Hon. Edolphus Towns follows:]
Statement of
Edolphus “Ed” Towns, Ranking Member
Subcommittee on Government Organization, Efficiency and Financial Management
Hearing on February 16, 2011 at 1:30 p.m.
“Making Sense of the Numbers: Improving the Federal Financial Reporting Model”

Mr. Chairman, it is a pleasure to be able to serve with you on this subcommittee. You and I share a long and committed interest in improving the efficiency of our government. We have worked together for many years to make government more accountable to Americans. I am excited to continue our work enhancing the effectiveness, efficiency and management of our government.

This is very important and timely hearing. With our budget released just two days ago, there is a lot of discussion about our country’s financial health. Unfortunately, much of the information about such an important issue is reaching Americans through 30 second media sound-bites that only convey limited information. As you know, to get a complete understanding of the state of our finances, we must examine both the budget and Consolidated Financial Statements. But when it comes to interpreting the actual documents, too much complex information can lead to confusion. Too little information can be misleading. It is time to start “Making Sense of the Numbers.”

From our experience, we know that understanding federal government financial statements and reports can be difficult, even for the experts. We need to have more
readily available, simplified financial information in order to help both us here in the legislative branch, as well as the public.

Our witnesses today have accumulated years of experience in government and the private industry, setting standards and simplifying complex information about our government’s finances. They have done a study, conducted focus groups, and made recommendations to improve the public’s understanding of the federal government’s financial position. I am looking forward to their testimony and exploring their suggestions.
Mr. PLATTS. OK. Thank you, Mr. Chairman.

All Members will have 7 days to submit written statements for the record.

We will now go to our witnesses. It is the policy of the sub-committee to always swear in our witnesses. If I could ask you to stand and raise your right hands.

[Witnesses sworn.]

Mr. PLATTS. Thank you. Appreciate your affirmation.

And we will begin, Mr. Allen, with your testimony and, again, thanks for your presence here and sharing your expertise.

STATEMENTS OF THOMAS ALLEN, CHAIRMAN, THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD; JONATHAN D. BREUL, EXECUTIVE DIRECTOR, IBM CENTER FOR THE BUSINESS OF GOVERNMENT; AND MICHAEL J. HETTINGER, EXECUTIVE DIRECTOR, GRANT THORNTON LLP

STATEMENT OF THOMAS ALLEN

Mr. ALLEN. Thank you very much, Mr. Chairman, Congressman Towns. I appreciate the opportunity to testify today. I want to convey five key messages in my comments.

The first of those is that citizens want to receive directly information about their government’s finances. The second of those is that accrual-based financial statements do contain information that is a good indication of the current financial health of the government and of future financial health.

The third issue is that the Federal Government is such a complex and large organization that it is challenging to convey its financial information in an easily understood manner. The fourth key point is that Internet tools can help in overcoming these challenges, and the other witnesses will talk about that. No. 5, the task force developed a series of recommendations that will be considered in the coming months by FASAB and others to better improve Federal financial reporting.

Exceptional work has gone into improving Federal financial reporting since the passage of the Chief Financial Officers Act in 1990. The Federal Accounting Standards Advisory Board, FASAB, plays a key role by providing generally accepted accounting principles, referred to as GAAP standards, and has been recognized by the accounting profession as meeting the criteria necessary for a standard-setting body. Accrual-based financial reporting standards issued by FASAB call for recognizing commitments and obligations as they occur, rather than when cash may flow in or out of the Federal Government. This same measure applies to all companies or organizations in the United States that have audited financial statements.

Since the Federal Government has, for a number of years, prepared accrual-based financial statements, I decided to look back 10 years, to fiscal 2000, to see if accrual-based information was helpful in better understanding the financial condition of the government at that time and to see if that financial information was of predictive value in looking forward. As you know, fiscal 2000 is remembered as the last of the great surplus years with a $237 billion surplus.
budget surplus, and fiscal 2000 was a very positive year when compared to more recent fiscal years.

However, information gleaned from the financial statements and the disclosures indicated that even though there were cash surpluses in the years from 2008 to 2010, the debt, subject to the debt limit, actually increased by $152 billion during that time. This increase is attributable to the intragovernmental debt, which is issued when Social Security and other trust fund debt are not needed to pay benefits for that period and are loaned to the government. The real financial stress for the government would come in future years, as those intragovernment borrowings needed to be repaid.

To discover when repayment may be necessary, I looked further. I looked at the financial statements and back on page 56 I found stewardship information talking about the present value of long-term actuarial projections called actuarial deficits. It was $13 trillion in fiscal year 2000, and increasing by an average of $2 to $3 trillion each of those years. These amounts are not reflected in the balance sheet or operating statement of the Federal Government, but they do impact the financial condition of the Federal Government. The financial statements in 2000 included the message from then Comptroller David Walker noting the unsustainability of those programs and the need to reform them at the earliest opportunity.

These comments are not to imply any inappropriateness of the above-stated transactions or noncompliance with Federal GAAP but, rather, to note that there was information to help financial statement readers better understand the broad financial condition of the government at that time, including fiscal challenges that would need to be dealt with in the future. However, citizens and other readers would probably have difficulty in understanding these transactions and what the numbers in those financial statements represented.

Despite the much progress that has been made, FASAB has recognized the difficulty of communicating often complex Federal financial information and the need to improve the understandability of Federal financial reporting. The question of how to better communicate this financial information has also been a challenge.

Accordingly, the Federal reporting model project was added to the FASAB agenda. Beginning in the year 2008, we undertook a user study. We found that citizens do want to know more about the financial health of the Federal Government, but they often did not know that financial statements even existed and, when shown the financial statements, had trouble understanding what they meant.

Our sponsors from Treasury, OMB, and GAO are also seeking to better inform citizens regarding the financial condition of the Federal Government. Their efforts have resulted in the schedules of key amounts in the financial statement management discussion analysis. These schedules are illustrated in my written comments.

For fiscal year 2000, additional long-term projections have been added to the financial report. These long-term projections help inform readers about the challenge of continuing current financial policy without change. The task force provided a list of 10 recommendations for consideration by FASAB and its sponsors. I want
to thank them for the expertise they brought together and their excellent recommendations. I am hopeful that these recommendations and our other efforts will lead to a better informed citizenry.

I look forward to answering your questions. Thank you.

[The prepared statement of Mr. Allen follows:]
Statement of
Tom Allen
Chairman
Federal Accounting Standards Advisory Board

before the

House Committee on Oversight and Government Reform
Subcommittee on Government Organization, Efficiency and Financial Management

February 16, 2011

Good afternoon, Mr. Chairman and Members of the Subcommittee.

Thank you for the opportunity to testify regarding the recent report of the Federal Accounting Standards Advisory Board (FASAB) Financial Reporting Model Task Force.

I am currently Chairman of the FASAB. FASAB develops federal accounting standards to meet the information needs of citizens, congressional oversight groups, executive agencies, and other users of federal financial information. Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democracy.

My comments today represent my personal opinions, not those of the FASAB, which only formally acts after appropriate open due process and formal vote.

FASAB was established in 1990 by the Department of the Treasury (Treasury), the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) following the passage of the Chief Financial Officers Act. FASAB is recognized by the accounting profession – through the American Institute of Certified Public Accountants – as the source of generally accepted accounting principles, or GAAP, for the federal government. For those of you who are less familiar with accounting, GAAP represents the current, accepted accounting rules that are followed to enable a reporting entity to prepare an auditable set of financial statements. To maintain our standing as the GAAP standard setter, we must be independent, have authority within our domain, be adequately resourced, follow due process procedures, and develop comprehensive and consistent principles.

After twenty years of hard work by the federal community, much good financial information is contained within the annual Financial Report of the United States Government. The size and complexity of the federal government requires financial statements rich with information from varying perspectives—such as budgetary, accrual, and prospective. This makes financial statements complex. While they contain most of the information needed to answer key financial questions that citizens, legislators, or agencies have about the federal government, the inherent complexity raises unique challenges in conveying the information. These challenges can not be overcome solely through information requirements and are, therefore, sometimes beyond the
purview of FASAB. For example, the dominant focus on the cash (or near cash) budgetary information for the federal government means users are not made aware of accrual-based financial statements. Public discussions on deficits and debt are extensive while comprehensive measures of financial position and condition are only occasionally discussed. Many users do not have the training or educational resources needed to understand how accrual information can be used to answer questions different than those intended to be addressed through the more often quoted budgetary numbers.

Accrual-based financial statements recognize economic events and transactions when they occur, rather than when resulting cash flows may take place. They are the mainstay of GAAP-based reports for all types of entities in the United States. I will first briefly touch on the value of accrual-based financial statements for state and local governments based on my experience in that arena and then discuss accrual-based federal financial reporting for the federal government.

Accrual Based Financial Statements for States and Local Governments

During the time I chaired the Governmental Accounting Standards Board (GASB), which establishes GAAP for the approximately 80,000 state and local governments in the United States, we completed work on an accrual-based reporting model for state and local governments. It was a long and controversial process and a major change for governments whose focus had been on short-term financial resources. After the model was finalized in 1999 and state and local governments began reporting under that model, a citizen could find answers to key questions such as (1) how much did services cost and who paid the cost; and (2) how much of costs during that year were paid by taxes that year and how much would be paid by future tax payers.

In addition, the accrual-based financial statements resulted in state and local governments accounting for their infrastructure and long-term obligations, and clearly stating their financial position. Many concerns were expressed by state and local government officials regarding recognizing long-term obligations in their balance sheet and what impact that may have on their bond rating. The response from the bond rating community was that the financial position was not nearly as important as the direction the government was heading (what they were doing about their financial position).

Federal Financial Reporting Challenges

Despite twenty years of experience with the CFO Act the full benefits of providing accrual-based federal financial information to legislators, managers, and citizens are yet to be realized. How to integrate and explain key financial information and how to communicate it in a more user-friendly manner are issues at the heart of the Reporting Model Project.

We gathered some ideas about the extent of the challenge in presenting federal financial information when we asked citizens directly. They wanted to know first-hand about the fiscal health of the federal government, rather than having to get the information from other sources like the news media. Also, when we presented them with a financial report, they did not understand terms that we hear discussed in the media practically everyday, like “debt held by the public,” and they were not familiar with the organizational structure of the federal government or the missions of the various agencies. But one message was clear. They wanted understandable financial information about the federal government and its agencies.
Some of this challenge may be addressed through educational efforts. The task force recommended electronic, Web-based reporting which could help better deliver financial information to citizens. With Web-based reporting, educational tools can be incorporated into the presentation. Citizens suggested a video presentation with graphics showing trends and explanations of key measures.

Another federal financial reporting challenge is how to apply accrual accounting to some of the unique and complex transactions and circumstances involving the federal government. To illustrate the challenge of how to apply accrual accounting to some of the federal government's resources and obligations to clearly communicate the financial position and results of operations of the federal government I looked to the last "surplus" year--fiscal year 2000. I also chose fiscal year 2000 because accrual accounting, by recording events and transactions as they occur, complements cash flow information and reflects impending fiscal challenges in advance.

The 143-page fiscal year 2000 Financial Report of the United States Government can be used to answer many financial questions. However, one sometimes needs to search and even add or subtract numbers to arrive at answers. I attempted to answer two basic questions—what was the financial position of the federal government and how much did it change during that year. From then Treasury Secretary O'Neill's opening message, it was clearly a good year, particularly on a cash flow basis. Federal debt held by the public had been reduced by $223 billion. The message also noted an accrual-based surplus of $46 billion. The Statement of Operations and Changes in Net Position reflected that the net negative position of the federal government had declined but still reflected a $5.937 trillion negative net position. I also noted in the Management's Discussion and Analysis (MD&A) that the budget (cash and near cash) surplus for the year was $237 billion.

Despite all the positive information, I noted the management warning on page 13 that "debt held by the public has been reduced by over $300 billion since 1998; however, total debt subject to the limit has risen by $152.2 billion over the same period." I also noted on the chart showing federal debt subject to the debt limit that "Intragovernmental Holdings" increased by $244 billion during fiscal 2000. Intragovernmental holdings increase when dedicated collections from trust funds, such as Social Security and Medicare, are not needed in the current period and are instead loaned to the federal government. As these dedicated collections are combined with general revenues, one could surmise that budgetary and accrual surpluses during fiscal 2000 primarily resulted from trust fund dedicated collections not needed to pay benefits that year. The real financial stress would come in future years as these borrowings are repaid.

To discover when those repayments might occur, I looked further. Looking at the Stewardship Information on page 56 of the 2000 report, I noted the "Present Value of Long-Range Actuarial Projections." When added together they reflect "Benefit Payments in Excess of Contributions and Earmarked Taxes" of $13.038 trillion. I wondered how much these shortfalls, often called actuarial deficits, had changed during the fiscal year. Since fiscal year 2000 was the first year that social insurance programs were included in Stewardship Information the equivalent amounts for 1999 were not available. Instead, I then read the 2001 financial statements. The amount had increased in 2001 by $3.993 trillion to $17.021 trillion, so the assumption is that there was also a fairly large increase in these commitments during fiscal year 2000. These amounts are not reflected on the Balance Sheet or Operating Statement of the federal government, but do impact the financial condition of the federal government. The financial statements included the message
from then Comptroller General David Walker noting the unsustainability of these programs and the need for reform at the “earliest opportunity.”

These comments are not to imply any inappropriateness in the above noted transactions or non-compliance with federal government GAAP. But to note the difficulty that citizens and others may have in understanding these transactions and what numbers on the federal financial statements represent. Even with fiscal year 2000 being a very positive year compared to recent fiscal years, one could be left wondering how did the federal government’s financial condition change during that year.

Because of the many perspectives represented and the challenges of appropriately presenting information regarding social insurance commitments, the federal financial statements have no single bottom-line for annual operating results or financial position. FASAB recently settled on a financial highlights schedule in MD&A to assist users of the reports. The highlights schedule will include key amounts from the individual financial statements including amounts for social insurance commitments and is required in fiscal year 2011.

Progress over the years makes it clear that key federal officials are seeking to inform financial statement readers of the financial condition of the federal government especially with regard to social insurance programs. These efforts resulted in schedules of key amounts in the MD&A of the financial report. Two different examples of ways used to communicate this information are attached as Illustrations 1 and 2. In addition, a Citizens Guide to the Financial Report of the United States Government was issued starting in 2007 to make key financial information available and more understandable to citizens and others.

As FASAB struggled with how to best report on social insurance commitments, it was suggested by some Board members that the long-term sustainability of the entire suite of federal programs was the most important information that could be communicated. Accordingly FASAB started a project in 2007 and the resulting schedule of long-term fiscal projections was included for the first time in the fiscal year 2010 financial statements (see Illustration 3).

The benefit of comprehensive long-term fiscal projections is that they report on what would happen if current policy were continued without change. In addition, information about the reasons for changes in the projections from year to year will be provided. Such projections help inform readers of the magnitude of fiscal challenges facing the nation.

In mid-2008, the FASAB launched a project to study the financial statements, terminology, and methods used to communicate basic federal financial information (the federal reporting model) and determine how to improve the usefulness of federal financial reports. Recognizing that much of the challenge of conveying information is in preparing and delivering the information, FASAB did not constrain its study to the areas accounting standards can influence. Any findings or recommendations beyond FASAB’s purview, will be communicated to the appropriate parties.

FASAB studied the federal financial reporting information needs of citizens and others interested in the financial condition of the federal government (“users”). Following completion of its user needs study in April 2010, the FASAB organized a task force of well-regarded experts to examine the current federal financial reporting model and make actionable recommendations to increase users’ understanding, access, and use of federal financial information while avoiding costly requirements that do not add value.
Members of the task force are:

- Jonathan D. Breul, Executive Director, IBM Center for The Business of Government, and Partner, IBM’s Global Business Services, and former Senior Advisor to the Deputy Director for Management in the Office of Management and Budget (OMB)
- Patricia E. Healy, Executive Consultant, CGI, and former Deputy Chief Financial Officer, U.S. Department of Agriculture
- Michael J. Hettinger, Executive Director of Practice Planning and Marketing, Global Public Sector, Grant Thornton LLP, and former staff director of the House Committee on Government Oversight
- John H. Hummel, retired Partner and Federal Segment Leader, KPMG LLP, and Chair, Certificate of Excellence in Accountability Reporting program sponsored by the Association of Government Accountants
- Edward J. Mazur, Senior Advisor for Public Sector Services, Clifton Gunderson, LLP, and the first Controller of the Office of Federal Financial Management, OMB, and former FASAB member
- Marvin Phaup, Director, Federal Budget Reform Initiative, The Pew Charitable Trusts, and former Deputy Assistant Director, Congressional Budget Office
- Al Runnels, Deputy Chief Financial Officer, Department of the Treasury
- Jeffrey C. Steinhoff, Executive Director, KPMG Government Institute, and Managing Director, KPMG LLP, and former Assistant Comptroller General of the United States for Accounting and Information Management and Managing Director for Financial Management and Assurance at the Government Accountability Office
- Sheila A. Weinberg, founder and CEO, the Institute for Truth in Accounting

FASAB is most appreciative of the significant efforts and contributions of the task force. They have presented their recommendations to the Board and spent time answering our questions. Also of great importance is their willingness to continue to provide feedback as the Board moves forward with this project. The two task force members here today will discuss their specific recommendations. Next week, the FASAB will be identifying priorities from among the task forces recommendations and making plans to further improve the reporting model. I will use this opportunity to invite your feedback at any time on this reporting model project. FASAB views members of the legislative branch as key users of federal financial statement information.

I want to thank the Subcommittee on Government Organizations, Efficiency and Financial Management for your interest in improved federal financial reporting. I will be happy to answer questions you may have. I would also like to publicly thank one of your members, Congressman Jim Cooper, for his efforts in the past to help improve federal financial reporting and invite his and your continued input.
### Illustration 1: Overall Perspectives Chart

#### 2004

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Additional</th>
<th>Combined</th>
<th>Balance</th>
<th>Additional</th>
<th>Combined</th>
<th>Need</th>
<th>Future</th>
<th>2005</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory, cash</td>
<td>$358 $</td>
<td>-</td>
<td>$359</td>
<td>$372 $</td>
<td>-</td>
<td>$372 $</td>
<td>(14)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant &amp; equipment</td>
<td>853</td>
<td>-</td>
<td>853</td>
<td>456</td>
<td>-</td>
<td>908</td>
<td>(5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans receivable</td>
<td>221</td>
<td>-</td>
<td>221</td>
<td>224</td>
<td>-</td>
<td>221 (9)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>186</td>
<td>-</td>
<td>186</td>
<td>184</td>
<td>-</td>
<td>164</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$1,367 $</td>
<td>-</td>
<td>$1,367</td>
<td>$1,455 $</td>
<td>-</td>
<td>$1,428</td>
<td>(3)</td>
<td></td>
<td></td>
</tr>
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</table>

#### 2005

<table>
<thead>
<tr>
<th>LIABILITIES &amp; NET RESPONSIBILITIES</th>
<th>2005</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>$24,615</td>
<td>-</td>
</tr>
<tr>
<td>Other (unemployment)</td>
<td>(12,552)</td>
<td>(12,552)</td>
</tr>
<tr>
<td>Federal debt held by the public</td>
<td>(3,945)</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(746)</td>
<td>(746)</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>(36,954)</td>
<td>(36,954)</td>
</tr>
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</table>

#### BALANCE (Total Assets minus Total Liabilities & Net Responsibilities)

<table>
<thead>
<tr>
<th>2004</th>
<th>2005</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>$37,374</td>
<td>$34,250</td>
<td>$3,124</td>
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</table>

**Notes:**
2. Details may not add to totals due to rounding.


<table>
<thead>
<tr>
<th>Table 1</th>
<th>The Federal Government's Financial Position and Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dollars in Billions</td>
</tr>
<tr>
<td>Gross Cost</td>
<td></td>
</tr>
<tr>
<td>Less: Non-Fee Revenue</td>
<td></td>
</tr>
<tr>
<td>Net Cost of Operations</td>
<td></td>
</tr>
<tr>
<td>Less: Taxes and Other Revenue</td>
<td></td>
</tr>
<tr>
<td>Net Operating Cost</td>
<td></td>
</tr>
<tr>
<td>Assets:</td>
<td></td>
</tr>
<tr>
<td>Cash &amp; Other Monetary Assets</td>
<td></td>
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<tr>
<td>Loans Receivable and Mortgage-Backed</td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Other:</td>
<td></td>
</tr>
<tr>
<td>TARP Direct Loans &amp; Equity Investments, Net</td>
<td></td>
</tr>
<tr>
<td>Property, Plant &amp; Equipment, Net</td>
<td></td>
</tr>
<tr>
<td>Other Assets</td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td></td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Federal Debt Held by the Public</td>
<td></td>
</tr>
<tr>
<td>Federal Employee &amp; Veterans Benefits</td>
<td></td>
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<tr>
<td>Other Liabilities</td>
<td></td>
</tr>
<tr>
<td>Total Liabilities</td>
<td></td>
</tr>
<tr>
<td>Net Positions (Assets minus Liabilities)</td>
<td></td>
</tr>
<tr>
<td>Social Insurance Net Expenditures:</td>
<td></td>
</tr>
<tr>
<td>Social Security (OASI)</td>
<td></td>
</tr>
<tr>
<td>Medicare (Parts A, B, &amp; DI)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Total Social Insurance Net Expenditures</td>
<td></td>
</tr>
<tr>
<td>Social Insurance Net Expenditures as a % of Gross Domestic Product (GDP):</td>
<td></td>
</tr>
<tr>
<td>Social Security (OASI)</td>
<td></td>
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<tr>
<td>Medicare (Parts A, B, &amp; DI)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Total Net Expenditures as % of GDP</td>
<td></td>
</tr>
</tbody>
</table>

1 Source: Statement of Operations and Change in Net Position. Net Operating Cost includes adjustment for Unearned Transactions and Balances.
2 Source: Balance Sheet.
4 Social Insurance ratio is reported as the average of Social Insurance GDP ratios from 2000 Social Security and Medicare Trust Fund Reports. Represents the present value of GDP over the 75-year projection period.

Illustration 3: Illustrative Statement of Sustainability

Long-Term Fiscal Projections for the U.S. Government

<table>
<thead>
<tr>
<th>RECEIPTS</th>
<th>As of XXXX, 20XX</th>
<th>% of the PV of GDP</th>
<th>As of XXXX, 20XX</th>
<th>% of the PV of GDP</th>
<th>Change from Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Current Year)</td>
<td></td>
<td>(Prior Year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PV Dollars in trillions</td>
<td></td>
<td></td>
<td>PV Dollars in trillions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare</td>
<td>$ XXX X.X%</td>
<td>$ XXX X.X%</td>
<td>$ XXX X.X%</td>
<td>$ XXX X.X%</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td></td>
</tr>
<tr>
<td>All Other Receipts</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td></td>
</tr>
<tr>
<td>Total Receipts</td>
<td>$ XXXXX X.X%</td>
<td>$ XXXXX X.X%</td>
<td>$ XXXXX X.X%</td>
<td>$ XXXXX X.X%</td>
<td></td>
</tr>
</tbody>
</table>

NON-INTEREST SPENDING

<table>
<thead>
<tr>
<th>NON-INTEREST SPENDING</th>
<th>As of XXXX, 20XX</th>
<th>% of the PV of GDP</th>
<th>As of XXXX, 20XX</th>
<th>% of the PV of GDP</th>
<th>Change from Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Current Year)</td>
<td></td>
<td>(Prior Year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PV Dollars in trillions</td>
<td></td>
<td></td>
<td>PV Dollars in trillions</td>
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<tr>
<td>Medicare</td>
<td>$ XXX X.X%</td>
<td>$ XXX X.X%</td>
<td>$ XXX X.X%</td>
<td>$ XXX X.X%</td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td></td>
</tr>
<tr>
<td>Major Program A</td>
<td>XX X.X%</td>
<td>XX X.X%</td>
<td>XX X.X%</td>
<td>XX X.X%</td>
<td></td>
</tr>
<tr>
<td>Major Program B</td>
<td>XX X.X%</td>
<td>XX X.X%</td>
<td>XX X.X%</td>
<td>XX X.X%</td>
<td></td>
</tr>
<tr>
<td>Rest of Federal Government</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td>XXX X.X%</td>
<td></td>
</tr>
<tr>
<td>Total Non-Interest Spending</td>
<td>$ XXXXX X.X%</td>
<td>$ XXXXX X.X%</td>
<td>$ XXXXX X.X%</td>
<td>$ XXXXX X.X%</td>
<td></td>
</tr>
<tr>
<td>Non-Interest Spending in Excess of Receipts</td>
<td>$ XXX X.X%</td>
<td>$ XXX X.X%</td>
<td>$ XXX X.X%</td>
<td>$ XXX X.X%</td>
<td></td>
</tr>
</tbody>
</table>

To maintain the current (or desired) level of U.S. Treasury debt held by the public to GDP, actions would need to be taken to increase receipts or decrease non-interest spending by a net present value of $X.X trillion or X percent of GDP.

Source: Statement of Federal Financial Accounting Standards 36, Comprehensive Long-Term Projections for the U.S. Government
STATEMENT OF JONATHAN D. BREUL

Mr. BREUL. Good afternoon, Mr. Chairman and Ranking Member Towns. I am pleased to have the opportunity to testify this afternoon regarding the report of the FASAB Financial Reporting Task Force.

Late last year the government released its annual financial report, and although that report presents information that is important to citizens as they form judgments about the fiscal future of the government under current policy, it is unlikely that Americans are even aware of its existence or its availability. And because the Nation is currently engaged in crucial debates about the appropriate role in the near term and the long-term fiscal imbalance, the annual financial report is now more relevant than ever before to citizens, political leaders, and analysts.

Further, the recent celebration of the 20th anniversary of the Chief Financial Officers Act offers a clear reminder of the considerable improvement and financial reporting over the past two decades. However, the challenge of effectively delivering that information to users remains unfinished.

I served as a member of the FASAB task force. The objective of that task force was to increase users' access, their understanding, and their use of financial information, while avoiding costly requirements that do not add value. To do so, the task force focused on the Consolidated Financial Report, largely because that is where we judged the public would start in order to learn about the fiscal health of the Federal Government as a whole.

And the FASAB user studies, as Mr. Allen indicated, showed that citizens and, indeed, many executives and managers in government, have difficulty understanding the information in that report. Indeed, many of whom believe the document is written by accountants or economists, which it is. Consequently, they believe the government should adopt a Web-based method of communicating information about the fiscal condition and performance of the Federal Government.

Since four of the task force's recommendations focus on methods to enhance this communication of governmentwide financial information, I want to devote the balance of my remarks just to highlighting those four items.

The first task force recommendation was to move away from paper-based reporting and to adopt an electronic Web-based reporting method. The public relies increasingly on digital devices, whether it is BlackBerrys and other devices which we all are carrying, and interactive media to obtain their information on demand. Accordingly, financial reporting information needs to switch from a paper-based static reporting model to an electronic, dynamic, and readily available online availability.

The task force's second recommendation urged FASAB to explore how to best report additional governmentwide program performance in the management discussion and analysis [MD&A], section of the consolidated report or in other electronic governmentwide presentations. The Nation is engaged in deliberations to determine
the Federal Government’s future role in the economy and society, and program performance measures presented in the consolidated report could potentially help inform that debate, especially if they were structured to provide such information about the government’s effectiveness in achieving its planned goals, as well as the economy and efficiency of government operations.

And I should point out that this recommendation now very nicely aligns with the recently enacted GPRA Modernization Act, which, as you know, strengthens the existing requirements for the reporting of performance information and calls upon the Office of Management and Budget to develop a governmentwide performance plan.

The third recommendation of the task force is to present net cost and spending by function. The current statement of net costs is presented by agency. PASAB focus group discussions with citizens indicated that users are much more likely to focus on the government’s functions, such as health care, social services, national security, those kind of functions, rather than the agencies which are administering them. And, as you know, that is the kind of information which the budget is currently presented and it is a breakdown which many in Congress and the Federal Government are already familiar and use on a regular basis.

The task force’s final recommendation was to establish a central Web site for Federal financial information and to aggressively inform the public of its availability. Ultimately, the success of the previous recommendations requires making the public aware of these financial reports and the information they provide. A central Web site would enable the Federal Government to take advantage of existing technology and to help identify improvements that may be needed.

The static paper-based reports that the Federal Government delivers today contain important information about the fiscal health of the Federal Government; however, those reports are not presented or available in a way that makes them easy to use or easy to understand, thereby limiting their impact. The government needs to use modern technology to inform the presentation of that information and adapt to the way users want to receive the information and are much more likely to use that information.

Thank you.

[The prepared statement of Mr. Breul follows:]
Statement of
Jonathan D. Breul
Executive Director
IBM Center for The Business of Government

before the
House Committee on Oversight and Government Reform
Subcommittee on Government Organization, Efficiency and Financial Management

February 16, 2011

Good afternoon, Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to testify before the Subcommittee regarding the recent report of the Federal Accounting Standards Advisory Board (FASAB) Financial Reporting Model Task Force.

I am Executive Director of the IBM Center for The Business of Government and a Partner in IBM’s Global Business Services. The IBM Center connects public management research with practice. Since 1998, we have helped public sector executives improve the effectiveness of government with practical ideas and original thinking. We sponsor independent research by top minds in academia and the nonprofit sector and host a weekly radio show “The Business of Government Hour” which presents in-depth stories on government executives and public managers who are changing the way government does its business.

Consolidated financial report

On December 21, 2010, the United States government released its annual financial report. Although the report presents information that is important to citizens as they form judgments about the fiscal future of the federal government under current policy, it is unlikely that many Americans will be aware of its existence and availability. Because the nation is currently engaged in crucial debates about the appropriate response to its near-term and long-term fiscal imbalance, the annual financial report is now more relevant to citizens, political leaders, and analysts than ever before. Further, the recent celebration of the 20th anniversary of the Chief Financial Officers (CFO) Act offers a clear reminder of the considerable improvement in federal financial reporting over the past two decades. However, the challenge of effectively delivering the information to users remains unfinished.
FASAB Financial Reporting Model Task Force

I recently served as a member of the FASAB Financial Reporting Model Task Force. The objective of the Financial Reporting Model Task Force was to increase users’ access to and understanding and use of financial information about the federal government, while avoiding costly requirements that do not add value. To do so, the task force focused on the Consolidated Financial Report of the U.S. Government (CFR) because the public would likely start with the CFR to learn about the fiscal health of the federal government as a whole. The task force also reviewed FASAB’s user needs study and considered the questions, suggested lines of inquiry, and ideas of FASAB members.

The task force recommendations were intended to considerably strengthen the presentation, availability, and usefulness of critical financial information about the federal government to citizens. Our recommendations built on the existing financial reporting model and would lead to easier access to more understandable federal financial information.

The user needs study showed that citizens and some executives and managers noted difficulty understanding information in financial reports. They believed that the documents are intended for accountants or economists rather than citizens and managers. Consequently, citizens believe that to best meet FASAB’s objectives and the public’s needs for transparency and accountability, the federal government should adopt an electronic, web-based method of communicating information about the financial condition and performance of the federal government. The task force noted that this method would enable the federal government to meet more user needs more quickly and at a lower cost than the paper-based method currently used. The task force envisioned that the electronic, web-based method would involve a central website for financial and performance information with multimedia presentations to help educate users about the significance of the information. In addition, the site should include: the ability for users to “drill-down” to the appropriate level of detailed material; machine-readable data to enable users to conduct searches and download data for analysis; and the ability to report cost and accomplishments in a variety of ways based on user preferences.

The task force also recommended reporting additional financial and non-financial measures and changes in the presentation of information in existing reports to assist users in understanding the financial condition and performance of the federal government. Since four of the task force’s ten recommendations focus on methods to enhance communication of government-wide financial information, I will devote the balance of my statement to highlighting these recommendations.

Adopt an electronic, web-based reporting method

The task force’s first recommendation was to move away from paper-based reporting and adopt an electronic, web-based reporting method. Technology has fundamentally changed the way information is communicated. Print media are losing ground to the electronic media. The public relies increasingly on digital devices, complex networks,
and interactive media to obtain information on-demand. The task force expects this pattern in how people obtain information will continue to accelerate. Accordingly, financial reporting needs to switch from a paper-based, static reporting model to an electronic, dynamic form that is readily available online. It should also link the financial performance of the federal government in the CFR to that of its component agencies by providing all federal financial statements and program performance measures through a central web site that enables users to quickly find the information of greatest interest.

Explore how best to report additional government-wide performance information

The task force’s second recommendation urged FASAB to explore how best to report additional government-wide program performance in the management’s discussion and analysis (MD&A) of the CFR or in another electronic government-wide presentation. The nation is engaged in deliberations to determine the federal government’s future role in the economy and society. Program performance measures presented within the CFR could potentially help inform the national debate, especially if structured to provide information on such matters as: the government’s effectiveness in achieving planned goals, and the economy and efficiency of government operations.

Present a functional statement of net cost in the CFR with departmental net cost by function as required supplementary information

Third, the task force recommended presenting net cost and spending (outlays) by function as a basic financial statement and present net cost by function and department (or agency) in required supplementary information. The current statement of net cost in the CFR presents net costs by agency. FASAB focus group discussions with citizens indicated that users are more likely to focus on the government’s functions rather than the agencies responsible for administering them. Functions present information in terms of the principal national need the programs are intended to serve, and each program is related to a single functional category that best represents its major purpose, regardless of the entity that administers it. In addition, Congress and federal government leaders are familiar with the function classifications.

Establish a federal financial information web site and raise awareness of federal financial information

The final task force recommendation was to establish a central web site for federal financial information and inform the public of its availability. Ultimately, the success of the previous recommendations requires raising public awareness of federal financial reports and the information they provide. Currently, the public is not aware that financial reports exist and some groups are building their own federal financial information Web sites to inform public debates. Diverse web sites and information sources that report “federal” financial information can be confusing to the public. A web site would enable the federal government to take advantage of existing technologies and help identify improvements that may be needed. In addition, the government should undertake an initiative to increase awareness of the new federal web site.
Conclusion

The static, paper-based financial reports that the federal government delivers today contain important information about the financial health of the federal government. However, the reports are not presented and available in a way that engenders use, thereby limiting their impact. The federal government needs to make full use of modern technology to improve the presentation of information and adapt to the ways users want to receive information and are more likely to use the consolidated financial report.

I would again like to thank the Subcommittee members for this opportunity to speak before you today and would be pleased to respond to any of your questions.
Mr. PLATTS. Thank you.
Mr. Hettinger.

STATEMENT OF MICHAEL J. HETTINGER

Mr. HETTINGER. Chairman Pllatts, Ranking Member Towns, and members of the subcommittee, thank you for the opportunity to testify today. As you mentioned in your opening remarks, I served from 2003 to 2006 as the Staff Director of this subcommittee. I am currently an executive director with Grant Thornton’s Global Public Sector Practice, but I am here as a witness today based on my experience serving as a member of the financial reporting model task force to the FASAB.

I applaud the committee for holding this hearing today and for your ongoing interest in government efficiency and effectiveness.

Since the enactment of the CFO Act in 1990, we have seen a steady and significant improvement in the quality and availability of information about the Federal Government’s finances. That information, contained in individual agency financial statements, Performance and Accountability Reports, the Consolidated Financial Report, and other reports, provides a sound baseline for decisionmakers and citizens alike to better understand how the Federal Government is using their hard-earned tax dollars.

The issuance of the CFR in mid-December each year should set off a chain of events where Congress, the administration and the general public have an opportunity to look at the financial condition of the government prior to the issuance of the President’s Budget. All too often, however, the issuance of the CFR goes largely unnoticed.

About 6 years ago, when I worked on this subcommittee, I participated in an effort led by the Department of Treasury to improve the usefulness of the CFR. That effort, among other things, led to the development of the Citizen’s Guide to the Financial Report of the U.S. Government. This document provides an effective high-level summary of the highlights of that year’s CFR, useful for citizens seeking a basic understanding, but not necessarily useful for Congress or other decisionmakers.

Last spring, FASAB conducted a user needs study to assess the financial information needs of the Congress. This study follows a mid-1980 study by GAO. The GAO Federal Government Reporting Study conducted in 1986 found, with respect to legislators, that Congress needed specialized agency information for the conducting of committee business, but summary level information for use in communicating with constituents, providing a means for the Federal Government to demonstrate its accountability.

The spring 2010 FASAB study confirmed that many of these same needs are applicable today and fall into four broad categories: budgetary integrity, operating performance, stewardship, and systems and control.

From my experience, these broad categories accurately reflect the information needs of Congress. Members and staff attain this information from a variety of sources, including the news media, agencies directly, legislative support organizations such as CRS, inspectors general, or via your own research and oversight.
There is also a wealth of information contained in statutorily required reports, including the CFR, as well as agency PARs, and I believe Congress and the general public would benefit greatly from making that information more readily available and understandable.

With the creation of Web sites like USASpending.gov, Data.gov, the Federal Procurement Data System, and private Web sites looking at the financial condition of the government, citizens now have access to more information than ever before and clearly more interest in the information contained in those sites. Ease of use and the relevance of the information housed on these sites drives visitors. However, the completeness and accuracy of the data contained within is essential for those government-owned sites.

The mission of the Financial Reporting Model Task Force, as Jonathan mentioned in his statement, to increase users’ access to and understanding and use of financial information in the CFR, while avoiding costly requirements that don’t add value, sought to address this very issue. I was pleased to be a part of this effort because I believe that mission gets to the heart of where we stand on Federal financial management 20 years after the enactment of the CFO Act. We have a great deal of information, but that information is not understandable by the general public or useful for decisionmakers.

The Task Force, as Jonathan also mentioned, makes 10 key recommendations, ranging from adopting a Web-based reporting model, to presenting a functional statement of net cost, to establishing a Federal financial information Web site and raising awareness of the availability of Federal financial information.

Recommendation 1, asking Treasury to move away from a paper-based reporting model by adopting an electronic, Web-based reporting model, is essential if we are move in the direction of improving the availability and transparency of government information. This recommendation, combined with recommendation 10, which calls for the establishment of a Federal financial information Web site to help raise awareness of the government’s financial information, go a long way toward improving the ease of access to information.

Recommendation 3, regarding a functional statement of net cost, would present net cost and spending by function, as Jonathan mentioned, such as health care, rather than by agency, such as HHS. This recommendation I believe is essential if we are to truly understand the cost of government.

And there are a number of other recommendations that I have highlighted in my written statement, and I will skip over those because I think they have been addressed by the other witnesses.

I will close by saying there is a wealth of really important financial information contained in the CFR, as well as in agency financial statements, but to make that information relevant, it must be timely, accurate, understandable, and usable.

Thank you again for the opportunity to be here today, and I am happy to answer any questions that Members may have.

[The prepared statement of Mr. Hettinger follows:]

Chairman Platts, Ranking Member Towns, and Members of the Subcommittee, thank you for the opportunity to testify today.

As you know, from 2003 – 2006, I served as Staff Director of this Subcommittee, then known as the Subcommittee on Government Management, Finance and Accountability. I am currently an Executive Director with Grant Thornton’s Global Public Sector practice, but I am here as a witness today based on my experience serving as a member of the Financial Reporting Model Task Force to the Federal Accounting Standards Advisory Board (FASAB). My testimony does not necessarily reflect the views of Grant Thornton LLP.

I applaud the committee for holding this hearing today and for your ongoing interest in government efficiency and effectiveness.

Since the enactment of the Chief Financial Officers Act of 1990, we have seen steady and significant improvement in the quality and availability of information about the federal government’s finances. That information, contained in individual agency financial statements, Performance and Accountability Reports (PARs), the Consolidated Financial Report (CFR), and other reports, provides a sound baseline for decision-makers and citizens alike to better understand how the federal government is using their hard earned tax dollars.
The issuance of the CFR in mid-December each year should set off a chain of events where Congress, the Administration and the general public have an opportunity to look at the financial condition of the government prior to the issuance of the President’s Budget. All too often however, the issuance of the CFR goes largely unnoticed.

About six years ago, when I worked on this committee, I participated in an effort led by the Department of Treasury to improve the usefulness of the CFR. That effort, among other things, led to the development of the Citizen’s Guide to the Financial Report of the U.S. Government. This document provides an effective high-level summary of the highlights of that year’s CFR – useful for citizens seeking a basic understanding, but not necessarily useful for Congress or other decision-makers.

**Congressional User Needs**

Last Spring, FASAB conducted a user needs study to assess the financial information needs of the U.S. Congress.¹ This study follows mid-1980s study by GAO.

The GAO Federal Government Reporting Study (FGRS), conducted in 1986 found with respect to legislators that Congress needed specialized agency and programmatic information for the conducting of committee business, but summary-level information for use in communicating with constituents, providing a means for the federal government to demonstrate accountability.

The Spring 2010 study confirmed that many of these same needs are applicable today and fall into four broad categories: budgetary
integrity, operating performance, stewardship, and systems and control.

From my experience, these broad categories accurately reflect the information needs of Congress. Members and staff attain this information from a variety of sources, including the news media, agencies directly, legislative support organizations such as CRS, inspectors general, or via your own research and oversight.

There is also a wealth of information contained in statutorily required reports, including the CFR as well as agency PARs, and I believe Congress and the general public would benefit from making that information more readily available and understandable.

**Interest in government financial information has increased**

With the creation of websites like USASpending.gov, Data.gov, the Federal Procurement Data System, and private websites looking at the financial condition of the government, citizens now have access to more information than ever before and clearly more interest in the information contained in them. Ease of use and the relevance of the information housed on these sites drive visitors. However, the completeness and accuracy of the data contained within is essential for those government-owned sites.

The mission of Financial Reporting Model Task Force: To increase users’ access to and understanding and use of financial information in the CFR of the federal government, while avoiding costly requirements that do not add value, sought to address this very issue. I was pleased to be a part of this effort because I believe that mission gets to the heart of where we stand on federal financial management, 20 years
after enactment of the CFO Act: We have a great deal of information, but that information is not understandable by the general public or useful for decision-makers.

The report of the Financial Reporting Model Task Force makes 10 key recommendations, ranging from adopting an electronic web-based reporting model (Recommendation #1) to presenting a functional statement of net cost in the CFR (Recommendation #3) to establishing a federal financial information web site and raising awareness of federal financial information (Recommendation #10).

Recommendation 1, asking Treasury to move away from a paper-based reporting model by adopting an electronic, web-based reporting method is essential if we are to move in the direction of improving the availability and transparency of government financial information. This recommendation, combined with Recommendation 10, which calls for the establishment of a federal financial information web site to help raise awareness of the government's financial information go a long way toward improving the ease of access to information.

Recommendation 3, regarding a functional Statement of Net Cost, would present net cost and spending (outlays) by function (i.e. health care) rather than agency (i.e. HHS). This recommendation is essential to understanding the true cost of government.

Other recommendations, such as Recommendation 8, seeking a re-orientation of the balance sheet display and enhancing the related MD&A discussion and Recommendation 9, calling for explanatory text to be added to the balance sheet to explain the difference between net position and fiscal gap, would go a long way toward making the
information understandable to decision-makers and the general public alike.

In closing, thank you again for the opportunity to appear before the Subcommittee today. There is a wealth of important information contained in the Consolidated Financial Report and agency financial statements, but to make that information relevant it must be timely, accurate, understandable and usable. I am happy to answer any questions the Committee members may have.

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1 Survey was conducted in May 2009, with FASAB contacting the majority and minority staff of each House and Senate Committee, except the Senate Committee on Rules, Senate Select Committee on Ethics, House Committee on Rules and House Committee on Standards of Official Conduct. FASAB received only three responses. Consequently FASAB reviewed publicly available information including the Clerk of the House January 2007 Reports to be Made to Congress report.
Mr. PLATTS. Thank you again for the testimony of all three of you, and your written statements will be made part of the record as well.

I am delighted to have been joined by one of our freshman Members, Congressman Gosar, from Arizona. Delighted to have you with us on committee. And returning senior Member, Mr. Cooper, from Tennessee. So thanks for both of you being with us.

We are going to do a round of questions of basically 5 minutes and rotate, and then if we have need for a second, third, fourth round, we will come back around.

Mr. Allen, I would like to start. In your role with FASAB, you certainly, in setting accounting standards for the Federal Government, you have to kind of please a lot of different communities; the bond rating agencies, auditors, citizens, Members of Congress, Federal managers. When we talk about some of the recommendations that the task force has made and going to a Web-based reporting model for financial statements, going to that model seems to be kind of mutually beneficial to all communities, whether it be Members of Congress or the public at large.

But is it different when we talk about how the information that is on that Web-based model is reported? Is there a difference in what is going to be useful to the public at large versus how it needs to be presented for Members of Congress or other policymakers within the Federal Government? Are they mutually exclusive in how the information is presented within the Web model?

Mr. ALLEN. Clearly, as you indicated, the needs of somebody who is managing an agency are probably very specific. They have to be very timely, in fact, real-time; they can't wait until after the end of the year to prepare financial statements.

So I think the recommendations are very positive in terms of electronic data base allows you to actually drill down and access the level of detail that you want. There are challenges of getting it real-time for some people and others who look at it at the end of the year and say, OK, here is a broad overview.

But the efficiencies that need to take place in the Federal Government that I think would be significant is if we had the same financial statements that provided the information to manage were also the same financial systems that were used to generate the numbers that would prepare the financial statements after the end of the year and would have audit coverage. That gives credibility to everyone who is using that system.

The challenge right now is often that is not the case in agencies. So that is one of the things that I would encourage you and your committee to encourage and look forward to. But, yes, the technology and the drill-down capacity would be beneficial.

Mr. PLATTS. And what you envision when you talk about the drill-down opportunities is you have the CFR and kind of the overall report, but if it is a Web-based model, then you can link through that Web-based model down into NASA or DOD or Commerce and get into the nitty-gritty of that individual department or agency's financials pretty easily.

Mr. ALLEN. And even beyond what they are now reporting, because what we heard from citizens, for example, everyone was interested in the cost of defense, but what they were interested in is
a lot lower detail than anything that is reported now. They wanted to know the cost of a war in a particular country or something like that.

So I think as we gather the data electronically—now, obviously there is going to be some work in sort of how you cut and dice that information, but you would clearly be able to answer the detailed questions people want. Not too many people say just tell me the total cost of defense and I am happy to know that.

Mr. Platt. Is it fair to say that what FASAB and the task force recommendations are about is we already have right to know laws and we have a right to know the information, but it is getting access to it in a usable, time-sensitive manner? Your recommendation is not changing the right to know, but the access to what you do have a right to know, and through a better resource tool such as a Web-based model.

Mr. Allen. Yes. That is a very good summary. Thank you.

Mr. Platt. Mr. Hettinger and Mr. Breul, when the task force looked at major recommendations, what was maybe the most significant limitation in the way we are doing it now and was it lack of data or how we are presenting the data, or just the public’s lack of knowledge that the data is out there for them to get and use?

Mr. Breul. The Consolidated Financial Report is not a best seller. You couldn’t go to the local bookstore and find one. I recall one of our meetings we looked around and we had a hard time finding one at our meeting.

So I think the problems are pretty basic. They have to do with the availability of that information and then, second, the presentation, the readability and understanding. It is a public document full of spreadsheets, and they are hard-printed spreadsheets, they are not searchable, they are not readily understandable, and they are not the kind of thing that an average citizen could quickly lay their eyes on and understand; it takes some attention and some skill.

Mr. Hettinger. I think that certainly sums up the general thoughts on it. In a way, it is almost too much information. As Jonathan talked about, if you were to pull one out—and I am guessing no one has one—but if you were to pull one out, it is this big and it has an awful lot of detailed information in there, and your average citizen is not going to look at that document and, quite honestly, understand much of anything that is in it.

What we tried to do as we looked at this electronic reporting model is say, OK, what can we put at a summary level that citizens will use, but then those who are decisionmakers and others will be able to drill down deeper and find the type of information they need. I think that is what interesting about both the Treasury effort I mentioned from 5 or 6 years ago, as well as the user needs study, because there is a balance.

One of the things we learned in that Treasury effort is the bond rating agencies, Moody’s and Standard & Poor’s and those folks, are actually very interested in the detailed data that is contained in the Consolidated Financial Report. Your average citizen doesn’t want to see the same type of information that Moody’s and Standard & Poor’s want to see. So we try to provide a vehicle that will
allow for some summary level information, but then a drill-down that won’t overwhelm people.

Mr. PLATTS. Before I yield to the ranking member, I think what we have seen over the years, and Mr. Cooper certainly has been a leader in trying to raise awareness within the public at large of the importance of these issues, and, as Mr. Breul said, it is not necessarily a best seller, the CFR, but it is really one of the most critical reports that is done for the American people when it comes to how we are spending their money.

And I have joked in the past, when I have last chaired the subcommittee, in getting attention to this issue of the information and access to the information. You know, I have gotten to the point where I think that maybe we need, along with the three of you experts, is to have maybe a baseball player who is doing steroids be here to show an interest in the Consolidated Financial Reports. That would help generate interest in this very important information. So we are going to keep trying to raise awareness and work with you and others on better access to this critical important information.

With that, I yield to the ranking member, Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman. When you get that baseball player, just make certain he is not a Yankee.

Mr. PLATTS. Well, as a diehard Orioles fan, no problem there.

Mr. TOWNS. Let me again thank you very much for holding this hearing and let me begin by we keep talking about the word user, user-friendly. What can we do to sort of make this more user-friendly, so people can sort of understand it in terms of Members of Congress and the general public in particular? What can we do? Do you have any ideas of some things that we might be able to do to make it a little more user-friendly?

Mr. HETTINGER. I will throw out a couple ideas. I mean, obviously, as Jonathan mentioned in his prepared testimony, people get information quicker, they get information electronically primarily. It is one of these things, in this age, the information comes so much quicker.

So I think recognizing that information comes in different forms, the government, FASAB, and some of the recommendations in the task force, but primarily the Department of Treasury issues a report, need to recognize the different ways that people get information. And that moves you in a lot of different ways in the recommendations, I think, to go to an electronic reporting model just like that.

It is important to recognize this is not information contained in the Consolidated Financial Report that everyone has an interest in. When you look at USASpending and some of the other Web sites that are out there, there is very specific information to congressional districts and spending that goes on in those congressional districts, and I personally believe a lot of the information and the reason people are driven to those sites is because they want to see how much of their tax dollars are getting returned to their own congressional district. The information in here is a little bit different.

So not everyone is going to have an interest in it, but if you get it out there electronically, usable, findable, if it pops up on Google
when you do a search for the Federal Financial Report or U.S. Government Financial Report, folks are going to start to pay more attention.

Mr. BREUL. Let me offer two quick suggestions. One is to use many more charts and graphs and colorful displays. The document right now has many spreadsheets and tables, as you might expect, but USA Today, the newspapers, you read the front page of the paper today, bars and charts and graphs are often a more effective way of communicating, particularly to citizens. So more use of devices like that would be helpful. And, again, the Web-based tools would be helpful in that regard.

The second and also in the Web-based category is this idea of having it machine-readable. Right now that is a hard document in which you have usually it is called a PDF file, which is a true copy of the document reproduced for you in hard form or viewable on the screen.

But if it was machine-readable data, such as Recovery.gov had been in the past for the Recovery Act money, you could search by a county or a title or a period of time and come up with the data that particularly corresponded to your particular interests, and would make it a much more user-friendly and user customized tool for people to begin to dig in. And I think that is indeed why Recovery.gov has been so popular; it is getting millions, hundreds of millions of hits, because citizens are able to dig in, where the financial statements don't have that ability right now and could change.

Mr. ALLEN. I think, Congressman, one of the challenges is that even people who understand how to read financial statements, when they look at the financial statements of the Federal Government, it is confusing to them. Traditional financial statements have a very clear bottom line and they have a clear operating statement that shows how much that financial position changed in a period of time.

Now, because of the complexities, and it starts with the way things are budgeted, and when you look at the financial statements of the Federal Government, you see I have information on social insurance, it is in a separate financial statement; I have information on long-term projections, that is in a separate financial statement. I really don't have a bottom line. If you were to ask me how did we do last year, just like in my testimony, my written comments. If I ask you how did we do in 2007, off the top of your head, you would say great. But, in reality, once you start looking at some of the information that I laid out, how great was it? And that is something that you would start asking yourself in your mind. It was great, but we were increasing our debt. How do those two things reconcile together?

So that is the challenge that we have with the complexity of the Federal Government, and that probably would require more than just standards that we would set; that would require the concerted effort of Congress and the way they approach things and the way they budget things and the way it is reported to citizens. That would be a very comprehensive challenge, but would be a challenge worthy to at least look at to get to an understandable bottom line.

Mr. PLATTS. Dr. Gosar.
Mr. Gosar. Thank you very much, gentlemen, for being here today. It is a two-way street. I think it is also from the legislators to having quick synopses of what we are actually seeing and being able to convey that to people as well. The non-profits do this very, very well in some cases, where you see for every dollar we put in, how many cents are actually derived to the source that we are trying to adjudicate for.

So with that in mind, I think we have to look introspectively, and from your perspective what is the best way from an accounting perspective to determine if a government program is using its dollars efficiently?

Mr. Allen. Do you want to talk about the recommendations on uniting the performance information with the financial? Do you want to go ahead and address that initially or was that directed to me?

Mr. Gosar. All of you.

Mr. Breul. I will just start it off, then. The second of the recommendations was to include performance information; that cost alone was not a sufficient perspective, you really need to know what you got for that money. And, again, that is why I mentioned the recent enactment of the GPRA Modernization Act, which is a renewed attention by the administration and Congress that you need a complete picture of not only what we spend, but what we are getting for that spending, and understanding the performance and results that are being paid for with this money during that particular period of time. To me, that is the essential pairing of information that is needed to really make an informed judgment of whether we are getting the value that we are expecting.

Mr. Hettinger. I will associate myself with Jonathan’s remarks. There are lots of ways to try to understand how a Federal program, whether it is achieving its results. When I worked on the subcommittee, Chairman Platts and I worked together to try to promote a bill which looked somewhat like what the GPRA Modernization Act looked like.

That bill changed over time. The intent was to take a programmatic approach to looking at the performance of programs basically line by line, program by program, building on the Bush administration’s program assessment rating tool; and I think it is effective.

What you then have to do, as Jonathan talked about, is to tie that program, performance information back to budget; and that is really the key in assessing the performance, but then demonstrating some budgetary changes as a result of a program’s performance. Easier said than done in a lot of ways, I think, but that is how I would approach it. That is how I think it has been approached. And there have been many, as you know, many efforts by Congress and others over the years to try to understand exactly how effective these programs are being.

Mr. Allen. I would add I guess you talked about not-for-profit organizations, and even there the standard setter identified what it is you need to report, cost of raising money versus program services you are delivering. But there is no requirement from an accounting standpoint of tell us how effective you are, so it is a challenge.
In fact, that probably is an area that is best addressed by those who are managing those programs, the agencies themselves. And I think from a standard setter standpoint we can say you should include program information. But how to effectively present it is probably going to reside with those agencies, with models that may be presented by the task force or others.

Mr. GOSAR. A followup question, because I want to make sure that we are getting the right information in regards to the proper accounting. So, in your opinion as accountants, and following through and financial statements, in last year's health care bill, did Congress follow its due process in properly accounting for funds and cost analysis in a transparent and accurate accounting method?

Mr. ALLEN. I don't see the 10-foot pole, but my understanding is that there will be a presentation of those people who prepared the financial statements for 2010 and who audited those financial statements, and that will be a presentation that they believe is most appropriately addressed by them, as opposed to us as standards setter. Is that a bailout? It is.

Mr. PLATTS. And, Doctor, sorry, that is March 9th when we will have Treasury and OMB before us.

Mr. GOSAR. I yield back the rest of my time.

Mr. PLATTS. Thank you.

Before I yield to Mr. Cooper, is it safe to say, when we talk about getting more performance information in the report and more easily understood, that if you go to that Web-based model and have more performance, one of the true intents of moving the CFR up into December is so that it can be used in drafting the subsequent year's budget? In the current model it doesn't lend itself very well, especially the lack of performance and easy access to performance information. Is that a fair statement?

Mr. BREUL. I think that is true. And I would simply point out that with the new GPRA Modernization Act, at least for the high level, high priority goals, the Congress asked for quarterly reporting so in fact you could begin to build up a more periodic reporting and have information not only at the end of the year, but during the year, when there is some opportunity to make some course corrections or changes if you want to accelerate or decline the trend that you are currently on. So I think that is exactly right.

Mr. PLATTS. Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman.

Let's be honest. This is one of the most important and most boring hearings in congressional history. We are lucky if this is even on C-SPAN 3. There are about maybe 20 live people in this room, and half of them are asleep, because we are not speaking a language the average American voter understands. So let me put the cookies on a low shelf and, especially, I would like to get Dr. Gosar's attention on this, because as a new member perhaps he can rescue us.

We are now sitting in a room of the only large enterprise left in America that is exempt from using real accrual accounting. This violates the first plank of the Contract with America back in 1994–95, in which Congress was supposed to live by the laws it passes for the rest of the people. It is my understanding that every enter-
prise in this country with revenues of about $5 million has to use, in addition to cash accounting, also real accrual accounting.

But somehow the Federal Government is exempt. We are hypocritical. Now, why is that? Well, first of all, I still can't find one lobbying enterprise in this town, and Lord knows there are thousands of them, there are between 30 and 60 lobbyists for every one of us. Not one of those folks, to my knowledge, is for real accrual accounting for the Federal Government. Isn't that interesting?

When the average civic club member back home has to use real accrual accounting for their business, whether they are for-profit or non-profit. State and local governments have to use real accrual accounting. It prevents them from hiding their unfunded pension liabilities and things like that. So why isn't the Federal Government using it?

This is a mystery that you gentlemen can help us solve, because while we are talking here about electronic display of information or fine-tuning these facts, there is not a lack of information, there is a willful blindness to that information. The rating agencies, Moody's and Standard & Poor's, have already said maybe we have 1 or 2 years left before we face a possible downgrade of the Treasury bond, because we are so mismanaging our Nation's finances.

Now, how are we mismanaging it? According to cash accounting, our debt is on the order of $14 trillion. But if you look at our unfunded obligations, programs like Medicare, Social Security, things like that, it is more like unfunded obligations of 50, 60, who knows how many trillion dollars? Many times larger. Our debt this year isn't at $1\frac{1}{2} trillion or so, it is more like $2 trillion. So when are we going to get real on these numbers? And that is why I think it is important to be somewhat blunt, be simple without being simplistic to help the average American understand the situation we are in, because it is very convenient here today for Federal officials to hide the real numbers.

You are talking about electronic displays for the average citizen. The Treasury Department has never held a press conference about the release of the Financial Report of the U.S. Government. Our own Treasury officials in both parties, whether it was the Bush administration or the Obama administration. They deliberately hide the release of this document, the only one compiled according to law passed by Senator John Glenn, that uses the real numbers.

So forgive me for being frustrated, but the business mantra is if you can't measure it, you can't manage it. We are refusing to measure the dimensions of our problem. A historian will look back years hence and say they had the tools to do a good job, but they refused to use the tools. The tool is real accrual accounting, because that enables us to see what is not only in the national checkbook, but what is on the national credit card.

So I know Mr. Allen knows these issues cold. I appreciate his great service on FASAB. I appreciate the other pioneers who have worked on it, but somehow we have to break the gridlock on this issue. Let's find one business lobby in America that is willing to support real accounting for the Federal Government. Where is the Chamber of Commerce? Where is the Business Roundtable? Where is the NFIB? For that matter, where is The Wall Street Journal?
I have a chart in my office, I have had it for years: What is the debt? What is your share of the debt? We are using cash numbers. We need the real numbers. And you gentlemen, while you are doing all the fancy fine-tuning stuff, you can help us understand the plain, blunt truth. We are not using honest accounting standards, not using real accounting standards, not using accrual accounting standards for the Federal Government. So this is more of a statement than a question.

I appreciate your efforts, Mr. Chairman, to highlight these issues, but I think it is important to make this a less boring and to put the cookies on a low shelf so that perhaps there is somebody out there in C-SPAN 3 land who will make this a cause and bring this to light. Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Cooper. Your statement is one of the reasons I am delighted to be back on the committee with you and, as I said, your efforts over many years to raise this very, very important issues. As you say, maybe boring, but ever, ever important. And look forward to working with you as we go forward in these 2 years to do a better job in having the American people truly understand the financial crisis facing us, because, as you said, the real numbers are tens of trillions of dollars of unfunded liabilities out there.

Mr. COOPER. Thank you, Mr. Chairman.

Mr. PLATTS. Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman. And I want to express to you my delight in being on this subcommittee. I picked a third subcommittee because you were chairing it. So thank you.

Mr. PLATTS. I am honored.

Mr. CONNOLLY. And, of course, you can imagine how thrilled I was that our first hearing was on accounting, a wonderful subject.

First of all, Mr. Allen, you should know that I was, for a long time, a consultant for FASB, and I didn’t lobby for FASB, but I helped represent FASB here in Washington, working with other representatives of yours in a consulting status, and enjoyed very much working with FASB and going to Connecticut and debating green eyeshade issues and how they might translate into public policy.

I want to ask two questions. The first is do you all ever look, though, at the costs of your decisions? Mr. Allen, for example, I can’t remember the exact number, I used to know it by heart, but I was in local government for 14 years, and a new GASB standard added gazillions of dollars to the cost of local government, or eliminated even the option of expanding benefits because of the actuarial implications that GASB required us, all in the name of a new and more transparent accounting standard.

And I think it depends on where you sit how helpful that is. And my question is does FASB and do others, and the other panelists could certainly feel free to comment, ever take into account the cost implications of your decisions, both on the Federal and State and local government levels, or, for that matter, on the private sector?

Mr. ALLEN. Can I go ahead and start? Well, thank you. It is nice to see a welcoming face here understanding the challenges of standard setting. I suspect I know what standard you are talking about that was passed. That was probably the last standard that
I was involved in before I retired from GASB, and that probably had to do with recognizing the cost of health care promises for your employees.

Mr. CONNOLLY. Was that GASB 76 or something like that?

Mr. ALLEN. Fifty-six, I think. However, when one thinks about that, what has resulted from that decision? In other words, as accountants, we try to be non-political; we provide you information that you make decisions. In that particular case, we received letters back that were disconcerting: if you make us report this in our financial statements, they won’t continue that benefit.

And, in fact, in the State of Utah, where I am now a visiting professor at a university, I don’t earn any benefit for health care because the State of Utah legislators, when faced with the decision of do I put that on the face of my financial statements and recognize that, decided that cost was too great for them to assume.

So when you look at the role of accounting, it isn’t to make decisions about what one should do, but it is to provide you clearly the information that you have to make a decision understanding the full cost of that. And I think that is what Mr. Cooper was also addressing, this issue of you put something on the face of the financial statement and recognize it. Would you make the same decision that you would make if you don’t have to put it on the face of the financial statement?

Mr. CONNOLLY. Mr. Allen, if I may, I am not sure that is really true. When GASB came out with that standard, we didn’t have a choice. The bond rating houses weren’t going to accept our financial statements if we didn’t do what you in fact set out for us. As a result, it wasn’t just a matter of making sure the public knows the transparency of the transaction; that meant that when I wanted to give, on an annual basis, because everything is appropriated on an annual basis, that is not an applied commitment for tomorrow, maybe I wanted to increase retirees’ health care offsets because of the rise in health care costs, I couldn’t just do that on an annual basis, as we always had done before that new GASB standard, I now had to account for the actuarial life of each recipient forever. And that cost suddenly went from whatever it was, X, to 30 times X.

Well, Mr. Cooper may think that is a good thing, but I can tell you, as someone who spent 14 years managing a county government that was selected as the best managed in the United States, we didn’t think it was such a good thing. And it hurt our firefighters and our retirees because we could no longer provide that extra benefit that they deserved and that they had earned.

So my point is that this is a two-sided coin, that when you make certain standards, it has implications and suddenly jettisons cost upward even though nothing has changed other than your accounting requirement.

Mr. ALLEN. And I apologize to any affect that may have caused to individuals or to organizations. Nevertheless, the issue becomes not that GASB has any ability to make a government do anything, like FASAB doesn’t have any ability. The only question was—and many governments still provide that benefit and still don’t fund health care. Most fund pensions; many still don’t fund that health care.
But they do have, on the financial statements, the recognition of the obligation that is there under a concept called intergenerational equity. In State and local governments, that became the driving force that the cost of someone providing services ought to be recognized in the period that service is provided, not recognized years later, when somebody else paid the cost of those services. So that is the sometimes disconnect that happens between budgeting on a more cash basis and recognizing that cost on a more accrual basis. That is the challenge.

Mr. CONNOLLY. Thank you.

My time is up, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Connolly.

Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

Well, I wanted to be a member of this subcommittee because I have long had an interest in government efficiency, so that is one of the things we are supposed to be dealing with and I hope these reports deal with. I ran a Federal agency with a very serious underlying mission, but immediately became interested in the inefficiency of the mechanisms because they weren't able to deliver the strong substantive mandate they had.

Now, Mr. Cooper speaks about making what you do and a CFR that is boring. Anything with numbers alone is always boring. When I look at a graph, I always read some text, even though a graph is pretty picturesque. I don't even know if you use graphs. But the notion of making the work understandable to laypeople could not be more important today, because when we hear some of what masquerades in what I can only call propaganda for what is what is right or wrong with the government, you can understand that it must be that there is no objective, understandable information out there.

I mean, some things are a little bit easier to understand than others, for example, Social Security, where people still have to be told that the trust fund will last X number of years; and that does give them some sense, a little bit of an understanding of Social Security. Although it is kind of lumped together with everything else that needs cutting, it does need cutting, but the distinction is an important one.

But if you take another program that I have always found very, very difficult to understand, which is even more seriously running out of money, Medicare, I don't think the average person for whom that means everything has any way to fasten on whether or not it will—you know, if you are young, whether or not Social Security will be available: if it is not there, you know Medicare certainly won't be there. But what you don't know is Medicare is more seriously running out of money than Social Security is.

Now, Mr. Allen's testimony, on page 4, mentions a Citizens Guide to the financial report that began in 2007, and then at the bottom of the page is the task force necessary still to make recommendations on how to make this more understandable and more accessible. What was there about the Citizens Guide that I take it caused the formation of the task force? Would you reconcile the notion that there was a Citizens Guide and what it did, right or
wrong, so that we understand why a task force of experts to increase user understanding, access, etc., was later formed?

Mr. Allen. The Citizens Guide was an excellent effort not by a standards setter, it was by Treasury, OMB, and GAO getting together, as Mike indicated, and coming up with what they thought would be a better way to communicate. It has the same limitations these two gentlemen have talked about, which is I can look at a summary total of something, but if I want to know any detail about that, I can’t go down to the details to better understand that. So that——

Ms. Norton. Because?

Mr. Allen. Because I show one number. I may show the Department of Defense——

Ms. Norton. I see.

Mr. Allen. Well, what if that isn’t what I want? I want to know some detail about that. And that is why this electronic delivery of information and how to organize the information, again, back to Mr. Cooper’s comment. If you look at some of the illustrations, the 2004 illustration, for example, that came from the Treasury Department, it actually side-by-side and then combined the Social Security and other obligation information, and that was very pleasing to some people and very disconcerting to others.

But there has been an attempt to try and provide information in these reports that help you understand better the financial statements. All the Citizens Guide comes from the financial statements. What they are talking about is giving additional information even beyond the summary information you see in the financial statements.

Mr. Hettinger. I will say just a couple things. One interesting thing is the Citizens Guide is a paper-based document as well, and Jonathan Breul made the point earlier when the government puts, whether it be the CFR or other documents, on a Web site, it is a static document; they essentially copy it, put a PDF up there, and you can read it, but you may as well be reading the hard copy. And what we are talking about is trying to get a document on there that you can go in and work with and drill down and look at this information, the information that you find important to you, and really understand that information.

The Citizens Guide is a 10-, 12-, 15-page summary of a 350-, 400-page Consolidated Financial Report. It is very helpful, and I was part of the effort when I worked on the subcommittee, working with the folks at Treasury that came up with the Citizens Guide model. I thought that was a great first step. I think what we are suggesting here, and as Tom points out, from a standards setting standpoint, is that we take it beyond that to something that gets you better access to more information in a more understandable, usable fashion.

And as I mentioned in my statement, some of the recommendations really allow you to understand the true cost of government by function, not just necessarily by agency, and I think that is particularly important going forward as you look at the things that you are looking at.

Mr. Platts. Thank you, Ms. Norton.

Ms. Norton. Thank you.
Mr. PLATTS. We are going to have a second round, and I will kick it off.

Mr. Allen, I am going to go back to a little bit of your work with GASB and setting those accounting standards for State and local governments. In addition to, I think, as you referenced, intergenerational equity, are there lessons learned from your work at GASB with State and local government reporting that you think we can well apply to the Federal Government in what we are doing?

Mr. ALLEN. I guess the first two that come to mind are probably some that I have already mentioned, the challenge to, as you know, State and local governments focus very much on short-term financial resources, and even the thought of adding these obligations to their financial statement was very disconcerting, and we sought feedback from the bond rating agency that basically said what is important isn't what you report; we already know you have those things and we already add those up.

What is important is that you clearly communicate where you are at and then present information that shows where you are going from there. And I actually think that is applicable to the Federal Government. I think people who have concerns about reporting stuff, the point isn't that we don't know there are obligations are not obligations out there; the point is what are you doing about it as you go forward. I think that is a very important focus to look at.

The other was very consistent with the report. We found that State and local governments report, as Mr. Connolly would tell you, on a fund-by-fund basis. People didn't want to know what was in a particular fund; they wanted to know what the cost of those services were and who paid that cost. So we had to change the whole operating statement to do that, and that will be one of the challenges of meeting the cost-based information that they are talking about.

So, yes, I think we learned the information that people want about the Federal Government is very similar to what they wanted about State and local governments.

Mr. PLATTS. Thank you.

Mr. Breul, the 10 recommendations of the task force, we are still looking at the budget release this week. Are you aware of any of those recommendations being incorporated into what has been put forth by the administration on the 2012 budget?

Mr. BREUL. Mr. Chairman, I am not, but I would doubt very much that there is a cost. In fact, we were hopeful some of these recommendations would in fact save cost by moving away from paper-based printing and distribution. And I don't think any of them really are costers, I think they are pretty much cost-neutral. And our recommendations were so recent, I would doubt very much that the OMB has had an opportunity to incorporate them in any of their thinking quite yet. In fact, they were made to the FASAB and they will get to OMB shortly when they come to the next FASAB meeting.

Mr. PLATTS. OK. Thank you.

Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.
Let’s talk about how strong the government’s financial statements are for a minute. I guess I will start with you, Mr. Allen. Your organization sets accounting standards for the Federal Government. That is accurate, right?

Mr. ALLEN. Yes.

Mr. TOWNS. Isn’t it true that every year there are government agencies with financial statements that cannot meet government standards?

Mr. ALLEN. Yes. Most of them do. I don’t know this last year, but there is normally maybe three or four that don’t. But most of the major agencies do meet those standards.

Mr. TOWNS. Isn’t it basically the same ones each time?

Mr. ALLEN. That is my understanding, yes.

Mr. TOWNS. Will any of the recommendations made here today help these agencies create more reliable financial statements?

Mr. ALLEN. No. The issue is once you provide the information that is asked for, these recommendations will help discuss how it ought to be more effectively communicated, how it can be more effectively accessed. I can tell you, for example, that one of those, as you well know, is the Department of Defense accounting for their assets. We have issued additional standards beyond that says to that and say, well, if you don’t have the information, make estimations, then; do something to try and move forward.

So we recognize that there is value in information. We don’t want people to spend tons of time researching all costs, so we are trying to be cost-effective, but that agency still has to arrive at some point in time of having the information, and then you can talk about how better to communicate it.

Mr. TOWNS. Right.

Mr. Breul, if an agency publishes unreliable financial statements on a central Web site, that can lead to all kinds of confusion. So what can we do to avoid that kind of situation? The point is that once that gets out there, and if it is not correct, that can create some serious problems.

Mr. BREUL. Well, I am not sure the information is unreliable. It hasn’t passed the audit standards, but I think it is just as important to have that disclosure, what we do know about that situation. It might add a little shame and humiliation to the situation so that might get people’s attention to insist that they do adhere to the standards.

So, again, I think the idea of a little disclosure is helpful by making it known that is the condition, and it is a condition that doesn’t satisfy the auditors yet, and that ought to upset the public and give some an opportunity to insist that the matter be corrected.

Mr. TOWNS. In closing, is there anything on this side that we need to do as Members of Congress to make this work, these 10 recommendations? Anything we need to do?

Mr. HETTINGER. I mean, I think, obviously, drawing attention to the issue, as we are doing today, is an important first step. I mean, the recommendations, I think, speak for themselves, but there are a lot of recommendations in there. These are recommendations that we have made to FASAB. There is absolutely no reason that, as you look at legislation, as you conduct your oversight, that you—I mean, you should look at these recommendations, and some of
them may be things that you all could incorporate into a legislative proposal. Some may not, and some would have to be tweaked to be incorporated into a legislative proposal.

But certainly the transparency, the things that call for the centralized Web site and the Web-based reporting, those are all things, quite honestly, that Congress could do through legislation. USASpending, all of those things have been legislated, so certainly you could do that. Beyond that, you certainly want to take a look at them, and there may be partial solutions to some issues, full solutions to others, but I think you want to take a look at that. And certainly those of us who were on the task force and others who have been involved in this process would be happy to help.

Mr. TOWNS. Thank you, Mr. Chairman.

Mr. PLATTS. Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman. By the way, I would ask unanimous consent to enter my statement into the record.

Mr. PLATTS. Without objection.

Mr. CONNOLLY. I thank the Chair. I said I had two questions, so now I go to my second one.

We hear a lot about what more transparent and accurate accounting could do for the Federal Government. I wonder what your thoughts are about the critique that is sometimes raised, but what we don't do very well, and you alluded to it, Mr. Breul, or maybe you, Mr. Allen, with respect to the Pentagon, accounting for assets. But in the public sector we are not always good at differentiating between consumption spending and investment, which we do do in the private sector. And we are not always good at accounting for what is an asset. Especially in the public sector; it is a little squishier sometimes than it is in the private sector, for good reasons.

But, in any event, I would like your views on that. How do we get our arms around assets and spending that constitutes investments versus some other kinds of spending?

One of the concerns I have, and we have the continuing resolution on the floor of the House right now, is almost a mindless approach to spending: it is all bad and it is all the same. Well, it isn't. The spending on the interstate highway system, which was initiated by a Republican president, had a return on it that is impossible to calculate it was so great, and aren't we glad we made that spending decision? Yes, it cost money, but it is different than purchasing a bottle of water and consuming it.

I wonder what your thoughts are on those two issues and how we can better account for them and how they would perhaps perfect that picture.

Mr. BREUL. Well, Mr. Connolly, I think your point is exactly the one that is addressed by this new GPRA Modernization Act, which is recognizing the need to marry the information about cost with information about what the results or performance is that you are buying them for. Is it just water you are consuming or is it a long-term investment that is going to accrue benefits over time? And having that kind of performance information visible alongside the cost so you can make a judgment as to whether that dollar is more or better spent here rather than there.
And that is why one of the recommendations of this task force to inform those kind of decisions was to have performance information highlighted in the consolidated report as well, so that citizens would have some more information about what they are getting for those dollars that are being spent.

Mr. Hettinger. I will just add real quick the property plan equipment, the asset issue is one that I am sure, as the committee conducts its oversight and you begin to look at individual agency financial statements, you are going to see a recurring theme, and part of that recurring theme is going to be it is very difficult, as part of the financial statement process, to properly account for assets.

And in particular you are going to see that problem, I think, as it relates to places where they have huge assets like the Department of Defense, where you have aircraft carriers and ships, or NASA, where you have satellites and things like that. Those are assets, from my experience—and I am not an auditor, but I did work on the committee for 4 years—those are the things that as we looked at financial statements when I was on the committee, repeatedly we heard concerns about.

So to back to Mr. Towns' question, as you are looking at these things and looking at agency financial statements, one of the things you probably ought to take a look at is there a way to better account for assets for property, plant, and equipment in a way that it is not property, plant, and equipment that is drawing down the entire financial statement but something that can be dealt with and allows those agencies to effectively manage their finances without having that pull it down.

Mr. Allen. And I would just add that property, plant, and equipment is not the most important thing to account for in the Federal Government absolutely. I think, from my personal opinion, and everything I say obviously is my opinion, not FASAB's opinion, but from my personal opinion, the most important thing is to decide what are you going to do.

Should we expense all of these things when we buy them? Should we capitalize? And it almost doesn't matter. What matters is that you apply something. You make a decision, you apply it consistently going forward from that point. Then you can measure its impact on the rest of the operations of the Federal Government.

Is this truly something that has long-term benefits that we want to capitalize and use up over the long-term? If it isn't really significant because the Federal Government is sure significant, maybe we would be better off just expensing it in the year that we make that expenditure.

Mr. Connolly. And, Mr. Chairman, I know my time is up, but I do think this is a very important aspect of what we are talking about, and I hope some day we can expand on it. I can just tell you my own local government, when I first got elected, there was no ROI analysis on certain investments.

So it was the clipboard method. Someone went around and said, OK, Jonathan, what do you think you need this year for technology? Well, I think I need six computers and maybe I should have eight, just because government being government, who knows when I will get replacements. And there was no question of, well,
but wait a minute, let’s match your request against Mike’s because he actually can show ROI and we know he is productive, and you need to compete with him. For us to make that investment, you are going to have to justify it. At the time, a completely alien concept. Today I am proud to say we do it very rigorously and everybody understands they are going to have to justify that and other kinds of investments, and that they are in competition with other agencies. And I am just wondering—I mean, we haven’t got time to do it, but it is my fervent hope that we can have a similar appreciation in the Federal Government so that we are actually looking at return on investment when we make investments.

Thank you, Mr. Chairman.

Mr. PLATTS. I want to thank our witnesses again, both for your expertise that you shared and your knowledge, but also your patience here with hearing, because the floor votes didn’t start for about almost an hour and a half late. And we look forward to continuing, as a committee, working with each of you individually and collectively as we go forward, and helping to set the stage today for our March 9th hearing when we do shed some light on the consolidated financial report.

And as Mr. Cooper said, there may not have been a press conference held when it was released, but we are going to do our best to make sure the American people know what it says and how important it is for them to know what it says because it is about their money.

With that, we are going to keep the record open for 2 weeks if there is any additional information to be shared, along with written statements from Members.

Again, thanks, and this hearing stands adjourned. Thank you.

[Whereupon, at 4:14 p.m., the subcommittee was adjourned.]