

## **HISTORY OF THE FINANCIAL REPORT OF THE UNITED STATES GOVERNMENT**

The Financial Report of the United States Government (FR) consolidates the financial statements of the government’s component entities into a single government-wide report. (“Component entities” include departments like the Department of the Treasury, independent agencies such as the Securities and Exchange Commission, and government corporations or business-type entities such as the Pension Benefit Guarantee Corporation and the United States Postal Service.) Originally born in the private sector, the report is now the product of the U.S. Treasury Department and has been published for nearly thirty years.

The Prototype FR, previously referred to as the Consolidated Financial Statements (CFS), was initially produced by the accounting firm Arthur Anderson for the 1973 and 1974 fiscal years. Under the leadership of then Secretary of the Treasury William Simon, Treasury’s Bureau of Government Financial Operations (now known as the Financial Management Service) assumed responsibility and produced its first Prototype FR for FY 1975. Treasury convened a “blue ribbon” panel of experts to advise regarding the format and content of the report. During the remainder of that decade, and throughout the 1980s, the report was published every year with a relatively simple format. Although today’s regulatory architecture for federal government financial reporting was not yet in place, Treasury hired private accounting firms, including Arthur Anderson and Price Waterhouse, to review procedures for collecting source data and documentation.

The early 1990s witnessed a turning point in the content and format of the FR as a result of new regulatory and legislative requirements contained in the Chief Financial Officers Act of 1990 (CFOA) and the Government Management Reform Act of 1994 (GMRA), and as called for by accounting standards developed by the Federal Accounting Standards Advisory Board (FASAB, or the Board). The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States (who leads the General Accounting Office (GAO)) established the FASAB in 1990 to develop the accounting standards that would guide preparation of the financial statements mandated by the CFOA.

The CFOA created Chief Financial Officers (CFOs) for 14 Cabinet-level departments and 10 agencies and required audits of their trust funds and business-type activities. The GMRA amended the CFOA, by expanding its provisions to require all major agencies to supply audited financial statements covering all of the agency’s activities and accounts. The CFO’s responsibilities include the annual submission of audited consolidated statements to OMB, thereby providing “complete, consistent, reliable, and timely information”<sup>1</sup> to the public about government activities as well as holding the major arms of government accountable for this financial information.

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<sup>1</sup> CFOA/H.R. 5687 (1990, Section 102b).

GMRA also instructed that the FR published by the Treasury be audited by the GAO beginning in fiscal year 1997, eliminating the report's "Prototype" status.

Although the CFOA and the GMRA were instrumental in initiating greater efficiency and accountability through financial reporting, the presence of FASAB has been and will be a crucial factor. FASAB's efforts enhance financial reporting through independent development of accounting concepts and standards for federal reporting entities. FASAB develops and publishes accounting standards for the government and its component entities with the goal of providing relevant and reliable federal financial information to all readers.

FASAB members include private citizens and government employees with relevant expertise. The Board uses an open deliberative process and solicits comments on proposed accounting standards. FASAB believes the FR should focus primarily on information needs of current and future taxpayers. Agency level financial reports are more detailed and, thus, may meet the needs of decision makers internal to the government as well as taxpayers interested in a specific agency's programs.

In September 1993, FASAB's first Statement of Federal Financial Accounting Concepts (SFFAC 1), "Objectives of Federal Financial Reporting," laid the groundwork for federal accounting standards. The statement outlined the four main objectives of financial reporting: Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. Moreover, it covered other important issues such as the quality of financial information provided and the needs of readers of federal financial reports. Since this first statement, FASAB has issued three more SFFACs that describe and define the conceptual framework for federal financial accounting.

SSFACs are useful as general guidance concepts that provide the foundation for Statements of Federal Financial Accounting Standards (SFFAS), which set standards (i.e., specific requirements) for financial reporting. These standards are now regarded as generally accepted accounting principles (GAAP) for the federal government. (In 1999, the American Institute of Certified Public Accountants recognized FASAB as the standard-setting body, or promulgator of GAAP, for the government.)

Most of the 25 SSFASs issued to date have been to ensure that the main sections of the FR fairly present the financial position and operations of the federal government in a way that is transparent to readers. The three main sections of a federal financial report are: (1) Principal Financial Statements and Related Notes (also known as Basic Information), (2) Supplemental Financial Information (also known as Required Supplementary Information or RSI), and (3) Other Accompanying Information (OAI).

- The principal financial statements and related notes present information deemed essential to fair presentation of the financial position and results of operations of the reporting entity.
- RSI provides supplementary information deemed essential to accompany the principal financial statements and notes. It includes

the Management Discussion and Analysis (MD&A), defined in SFFAS 15 (1999), at the beginning of the FR. MD&A provides understandable and accessible information about the entity and its operations, service levels, successes, challenges, and future.

- OAI contains information not mandated by FASAB as necessary to the financial statements or RSI, but voluntarily presented by management of the reporting entity because it is useful for readers of the report.

Ultimately, each section's importance is reflected in its audit status. While Basic Information is subject to a "full audit" (positive assurance) and RSI is subject to limited audit procedures, the OAI is unaudited. These sections and their respective audit procedures, set forth by OMB and GAO, are equivalent to those required for private sector financial reports.

For fiscal years 1997 through 2003, however, the FR has contained a fourth, section known as Required Supplementary Stewardship Information (RSSI). Its inclusion has distinguished federal financial reports from those of the private sector (and those of state and local governments), which do not feature this fourth category. The RSSI section was created to present forward-looking and/or nonmonetary aspects of the Government's stewardship role, such as ownership of land, maintenance of heritage assets, the financing of investments in the nation's human capital, and a range of unique financial commitments to its citizens.

The Statement of Social Insurance (SOSI, which provides net present value information based on actuarial cash flow projections for five social insurance programs) and accompanying notes have also been reported in the RSSI section.

Beginning in 2003, in deference to the three categories of information found in nonfederal financial reports, FASAB began issuing standards reclassifying the stewardship information in RSSI as Basic, RSI, or OAI. This reclassification process is ongoing and is expected ultimately to result in the elimination of the fourth category. Thus far, the Board has reclassified RSSI relating to Stewardship Responsibilities by issuing SFFAS 25 in July 2003. This standard, which will take effect in 2005, reclassifies the SOSI as a basic financial statement, essential to fair presentation, thus giving it full audit status.