

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
February 21–22, 2018
Room 7C13
441 G Street, NW
Washington, D.C. 20548

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

Wednesday, February 21, 2018

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter (chairman), Mr. Bell, Ms. Bronner, Messrs. Dacey, Granof, Scott, and Smith. Ms. Kearney was present with the exception of brief absences during which she was represented by Ms. Johnson. Mr. McNamee was present with the exception of the morning of February 21. The executive director, Ms. Payne, and general counsel, Ms. Motley, were also present throughout the meeting.

Administrative Matters

- **Approval of Minutes**

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

- **Updates, Clippings, and the Consolidated Financial Report**

Mr. Dacey noted that there was no update regarding the International Public Sector Accounting Standards Board (IPSASB) because the IPSASB did not meet between the December and February Board meetings.

Mr. Granof provided an update regarding the Governmental Accounting Standards Board. He noted there was a one-day meeting that led to the issuance of an invitation to comment on revenue recognition. He encouraged everyone to comment on it, as it may have implications for federal standards.

Members had no comments regarding the clippings. Mr. Showalter acknowledged that the fiscal year 2017 consolidated financial report of the U.S. Government (CFR) was released shortly before the meeting. Mr. Bell provided an update from the Department of the Treasury (Treasury). First, he announced that Ms. Amy Edwards had been selected as Deputy Assistant Secretary for Accounting Policy and Transparency at Treasury. Regarding the CFR, he noted the following:

- Treasury Secretary Mnuchin took a personal interest in the report and met directly with the staff developing it.
- The separate publication formerly titled “the Citizens Report” has been renamed to an “Executive Summary,” as Secretary Mnuchin believes a Citizens Report would include more performance information and “Executive Summary” better reflects the content in the CFR.
- A Citizens Report will be developed and is expected to include information beyond the boundaries of the CFR.

- The CFR now begins with a two-page quick reference on critical issues. The Executive Summary follows immediately after this quick reference section.

Mr. Dacey reported that no new internal control weaknesses in the preparation process were identified. Some new information emerged through the effort to audit the Department of Defense (DoD). Overall, the audit report results were consistent with the prior year. He also noted that the fiscal sustainability projections were not updated for the effects of tax and other legislation passed after the end of the fiscal year. Also, the Government Accountability Office (GAO) updated its guide entitled *Understanding the Financial Report of the United States Government*.

Members were provided a copy of the CFR, the Executive Summary, and the updated guide.

- **Statement of Members Responsibilities**

Members approved minor revisions to the statement, including alerting potential members of the need to obtain security clearance to serve on the Board.

Agenda Topics

- **Risk Assumed – ERM Risk Profiling Education Session**

Ms. Robin Gilliam, assistant director, introduced the panel for the enterprise risk management (ERM) risk profiling education session, noting that full biographies were included in [tab A](#). The full slide deck is available on the [risk assumed – phase II project page](#) for the February 2018 update.

The presenters discussed the following:

- Ms. SallyAnne Harper, a founding member and immediate past president of the Association for Federal Enterprise Risk Management (AFERM) provided a high-level review of federal ERM.
- Mr. Tom Brandt, the Chief Risk Officer (CRO) at the Internal Revenue Service (IRS) and AFERM President Elect, presented a review of IRS's risk profiling processes, including risk identification, categorization, assessment, quantification, measurement, and modeling.
- Mr. Mike Wetklow, Deputy Chief Financial Officer (CFO) and Division Director for Financial Management, National Science Foundation (NSF), presented NSF's ERM implementation process, including a discussion about risk appetite as an integral part of risk profiling.
- Mr. Daniel Fodera, Lead Management Analyst, Program Management Improvement Team, Directors of Field Services, Federal Highway

Administration (FHWA), explained the tools used in ERM risk profiling, including the use of a heat map at FHWA.

Board members were very appreciative of the discussion and thanked panel members for helping them to gain an understanding of federal efforts related to ERM. After the presentation, the Board asked the following questions of individual panel members.

Board Questions/Discussion:

Board: What is the next step if a top executive learns that a risk event is 40% likely to occur?

Panel: This event would be analyzed in context of the entire risk portfolio and not in isolation. In addition to the likelihood, the impact would also need to be analyzed. While quantitative and qualitative approaches may be used, some agencies, like FHWA, prefer to use qualitative descriptions to simplify the process. For example, criminals are pinging IRS systems up to two million times a day looking for vulnerabilities. While the likelihood of criminals penetrating IRS systems is low, the impact would be catastrophic. Therefore, top IRS leadership should manage this risk by providing appropriate resource levels for prevention.

Board: At what management level is risk appetite decided and how are top risks determined?

Panel: Senior leadership must be involved in developing risk appetite. While program-level risks must be included and analyzed from the bottom up, senior leadership must set priorities in relation to an organization's mission to determine how much risk will be tolerated, and therefore managed, to meet objectives. At FHWA, the senior leadership team determines top risks by considering the organization's goals and the internal and external environment. Senior leaders work in pairs to describe candidate risks in their areas, then the full team decides whether they rise to the level of "corporate risks."

Board: What are agency maturity levels in developing ERM processes?

Panel: Most agencies are in the early stages of developing ERM processes. However, there are a handful of agencies, like IRS and FHWA that have more developed processes.

Board: Should risk appetite be included in financial reporting and, if so, where in financial reporting?

Panel: Strong federal financial reporting that is transparent, accurate, and timely already exists. There is concern that reporting too many details about risk profiles might make agencies vulnerable to the very risks that need to be managed. For example, GAO does not release a lot of detail when reporting on cyber vulnerabilities.

In addition, ERM needs to be a process inherent in the daily operation of the organization to determine how much and what resources should be utilized. Therefore,

too much reporting may lead to a compliance effort of checking boxes instead of a proficient process that encourages efficient and effective ERM.

Board: How did the IRS develop ERM governance, and how time consuming is that process throughout the year?

Panel: In 2013 there was a significant crisis that led to changes in much of the top leadership team at the IRS. This crisis created a sense of urgency for the agency to establish a process for identifying and addressing significant risks. To identify an initial set of major risks to IRS, the agency analyzed a number of resources: the GAO high risk report; Inspector General areas of concern; the Taxpayer Advocate Service's 20 most serious problems for tax payers; and the top risks identified by the CRO and executive team.

Regarding the time commitment, IRS has a Risk Working Group (RWG) that meets one to two hours monthly as well as an Executive Risk Committee (ERC) that holds quarterly two-hour meetings. Ad hoc meetings of the RWG and the ERC are also held as necessary. There is also a three-day in-person session of the RWG to conduct the annual assessment process. This does not include the program-level work done to prepare for these CRO meetings.

Board: How does ERM – risk assessment relate to strategic planning?

Panel: Risk assessment is integrated into strategic planning and investment decision-making processes. Risks are identified and assessed against an organization's objectives. At the IRS, investments are prioritized in consideration of the impact each investment will have in helping to mitigate top agency risks. At FHWA, risk management is integral to strategic and business planning. It is used to communicate consistently what the agency should focus on and why.

- **Risk Assumed**

Ms. Gilliam referred the Board to [tab B](#) to discuss leveraging ERM risk profiling as identified in the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, to help determine what risks to discuss in financial reports. Over the past year the Board has reviewed three versions of risk categories. While the Board did not approve specific risk categories, members did decide that principles-based categories were preferable to a laundry list of risks.

Question 1 – What aspects of OMB A-123 risk profiling could the Board potentially leverage for financial reporting? Ms. Gilliam noted that risk is the effect of uncertainty on objectives, as defined by OMB A-11, *Preparation, Submission, and Execution of the Budget*. She explained that each agency is developing an ERM process for risk profiling based on its objectives. Leveraging the OMB A-123 ERM risk profiling framework could benefit the Board because agencies are most familiar with their own objectives and related risks. Ms. Gilliam's intention for the session was only to

receive approval to include this framework; staff was not prepared to discuss where or how to amend or create new standards.

Members engaged in a discussion about the scope of the risk assumed (RA) project. Mr. Showalter shared the history of the RA project, stating that as a result of the 2008 recession, FASAB realized there were explicit or implied liabilities or guarantees, stated or unstated, related to risks assumed by the federal government. The Board wanted to explore how the assumption of these risks should be reported in the financial statements. The first phase of RA addressed financial impact of insurance arrangements and resulted in Statement of Federal Financial Accounting Standards (SFFAS) 51, *Insurance Programs*. This second phase takes a more holistic view of risk.

One member pointed out that the Board had already made scope decisions at the June and October 2017 meetings. Mr. Showalter agreed and asked members if staff could use the ERM risk profiling as outlined in OMB A-123 as a framework for agencies to identify risks.

The Board agreed that staff should explore how to incorporate OMB A-123 ERM risk profiling in the project; however, members noted the following concerns:

- The Board should determine what type of risks to focus on: performance / programmatic—management’s discussion and analysis (MD&A) and/or financial impact—disclosure notes.
- The Board should determine what risks are NOT currently included in financial reports through working groups and determine the consequences of not including certain risks.
- The Board should consider producing best practices guidance if it concludes the standards are complete but the agencies need additional help.
- The Board should strive to prevent risk identification from turning into a compliance exercise that might affect the current government-wide ERM process.
- The Board should consider how agency internal ERM processes might be affected by external financial reporting and the related audit process.

Next steps: For the next meeting, staff will provide recommendations from the credit reform round tables conducted between January 2017 and March 2018 for the gap analysis. Staff will explore how to incorporate ERM risk profiling in the project.

The Board meeting adjourned for lunch.

- **Group Photo**

The Board posed for a group photo that will be used to update FASAB's [Twitter](#) and [LinkedIn](#) profiles.

- **Land**

At the February meeting, Mr. Domenic Savini, assistant director, presented to members from [tab C](#) a pre-ballot draft land exposure draft (ED) that contained revisions primarily based on members' input from the December 2017 meeting. Major changes included (1) consolidating and clarifying the questions for respondents, (2) communicating the Board's intent to issue future implementation guidance, and (3) stating that supporting documentation need not be precise or tied to a singular approach when disclosing acres of land. Mr. Savini led a discussion of the questions posed to the Board members as part of the meeting pre-read assignment.

Question 1 – Does the Board agree with the pre-ballot questions for respondents as revised? Members generally agreed with the revised pre-ballot questions for respondents and revisions to the basis for conclusions.

Question 2 – Does the Board agree that physical unit information should be required at the government-wide level? The Board decided that physical unit information should not be required at the government-wide level. Aggregating physical unit information that is not comparable among the reporting entities adversely affects FASAB's qualitative characteristics of relevance and understandability. That is, logical relationships would not readily exist between the physical unit information provided and acres of land reported.

Question 3 – Does the Board agree with the remaining revisions to the ED, including the basis for conclusions as revised? Staff reviewed edits proposed by six members to the pre-ballot draft and advised that the next draft will highlight such changes. Including staff edits, the major changes brought about by these members include the following:

- Standardizing references to land disclosures as "acres of land"
- Highlighting the Board's cost-benefit concern
- Footnoting that land rights (LRs) include easements and rights of way
- Standardizing the use of "temporary" LRs instead of "limited duration" LRs
- Footnoting that temporary LRs are those LRs that are for a specified period of time or limited duration
- Footnoting that permanent LRs are those LRs that are for an unspecified period of time or unlimited duration

- Footnoting an example of withdrawn public land
- Referencing that deferred maintenance and repairs information is reported in (unaudited) required supplementary information
- Footnoting an explanation of public domain land
- Eliminating physical unit reporting from the CFR and component entity requirements
- Clarifying that the examples at Appendix B are partial and not intended to demonstrate compliance with proposed requirements

Additional question asked – Does the Board agree with the two-year implementation period? The Board agreed to ballot the land ED proposing a two-year implementation period.

Next steps: Staff was asked to consider several remaining non-technical edits provided by Board members and initiate balloting procedures prior to the next meeting.

- **Inter-entity Cost Amendments**

Ms. Melissa Batchelor, assistant director, explained the purpose of the session was to review and approve the draft SFFAS 55, *Amending Inter-entity Cost Provisions*. The materials were included in the briefing materials at [tab D](#).

Staff had provided a pre-ballot draft to members between the December 2017 Board meeting and the February 2018 Board meeting. Most members provided detailed comments on the pre-ballot draft. As a result, there had been very minimal comments on the ballot draft provided before the meeting. This session would offer another opportunity to ask any other questions or provide comments before collecting the ballots from members.

Question 1– Do members have any questions regarding SFFAS 55, *Amending Inter-entity Cost Provisions*? One member provided two very minor edits to the proposed Statement that were not objected to by other Board members.

Question 2 – Do members approve SFFAS 55, *Amending Inter-entity Cost Provisions*? The members agreed. All members provided signed ballots to approve SFFAS 55.

Next steps: SFFAS 55, *Amending Inter-entity Cost Provisions*, will be submitted to the sponsors for the 90-day review period. FASAB anticipates it to be issued on May 31, 2018.

- **Classified Activities – Closed Session**

The Board met in closed session from 3:00–3:45 p.m. The reason for the closure was that matters covered by 5 U.S.C. 552b(c)(1) were discussed. The discussion involved matters of national defense concern that have been classified by appropriate authorities pursuant to Executive Order. A determination has been made in writing by the U.S. Government Accountability Office, the U.S. Department of the Treasury, and the Office of Management and Budget, as required by section 10(d) of the Federal Advisory Committee Act, 5 U.S.C. App., that the portion of the meeting may be closed to the public in accordance with 5 U.S.C. 552b(c)(1).

Adjournment

The Board meeting adjourned for the day at 3:45 p.m.

Thursday, February 22, 2018

Agenda Topics

- **Electronic Reporting Demonstration**

Mr. Simms, assistant director, introduced the education session on electronic reporting. The materials for the session were provided in [tab F](#) of the briefing materials. Mr. Simms explained that electronic reporting could address concerns regarding the existing reporting model, such as the need to enhance users’ understanding of financial information, the static nature of the presentations, and the high level of aggregation for reporting entities with diverse missions and programs. The education session included demonstrations of interactive data visualizations developed to address users’ needs for information about government spending and an interactive financial reporting model for a component reporting entity.

Mr. Justin Marsico, Senior Policy Analyst, Treasury, began the demonstrations and presented a series of data visualizations. Treasury developed the visualizations to help users understand and explore the data collected as part of the Digital Accountability and Transparency Act of 2014 (DATA Act). He noted that Treasury followed the principles of user-centered design. This means that in every point in the process of developing visualizations, Treasury observed users interacting with the presentations, obtained the users’ feedback, and made improvements. Treasury determined that users want to start at a high level and develop an understanding before drilling down to more detailed information.

Mr. Marsico demonstrated the following:

- Spending explorer functions. Treasury is in the process of helping users explore spending data. The website allows users to drill down to the details of budgetary obligations and download data. A user could start with

viewing spending by budget function and drill down to view budget sub-functions, federal accounts, object classes, and recipients.

- A sankey diagram. The sankey diagram links different taxonomies, such as budget functions and object classes, and conveys the magnitude of the relationships. Treasury developed the visualization to help users understand what the government spends money on and why.
- The federal accounts dendrogram. This visualization lists all federal agencies and allows a user to drill down from the agency level to the sub-agency level and to the federal accounts, such as salaries and expenses, that comprise the sub-agency spending. The user can also go to the federal account profile. This helps the user gain a better understanding of how agencies receive and spend congressional funding to carry out their programs, projects, and activities.

Mr. Marsico noted that, based on the feedback Treasury received, users preferred reviewing spending data by budget function because they were less familiar with agency titles. In addition, the presentations primarily presented budget obligation data. However, in the future, Treasury may consider presenting data visualizations using other bases of accounting. For instance, the CFO community, the budget community, and others have asked about the potential of showing outlay-based data visualizations. The spending website also has a glossary to help users understand technical terms. For example, a user could type in “obligation” or “outlay” and the glossary would provide a plain language explanation.

Next, Mr. Simms introduced a demonstration of an interactive, web-based reporting model, and a team of professionals from Deloitte & Touche LLP conducted the demonstration. The Deloitte team included the following members:

- Mr. Justin Reed, Partner
- Ms. Tasha Austin, Senior Manager
- Mr. Daniel Shorstein, Manager
- Ms. Tanya Bagheri, Business Technology Analyst
- Ms. Reem El Seed, Consultant
- Mr. Dai Tran, Specialist Master

Ms. Austin noted that electronic reporting could empower component reporting entities to better communicate their “story” to the public. Interactive presentations could help external users better understand the financial information presented. Ms. Austin also noted that the interactive model could benefit internal users as well. The drill down

capabilities of the interactive model can facilitate financial statement analytics and help agencies understand how to operate more efficiently.

Mr. Shorstein added that helping users understand technical terms is an advantage that the interactive model has over the portable document format (PDF). The interactive model allows a user to hover the mouse over a term and view an explanation. In addition, a user could drill down into a financial statement line item to better understand the composition of a balance and where, geographically, the government is spending funds. In addition, data visualizations represent the latest trend in technology. Compared to schedules, visualizations help users more readily understand the information being communicated. Thus, the electronic model would help engage the user and could be used to communicate challenging concepts posed by obligation-based accounting.

Mss. Bagheri and El Seed noted that they focus on the user experience and determine what data “maps” to the user’s needs. Data visualizations are helpful because they reduce the cognitive effort needed to digest information, and it is possible to link financial and non-financial information in visualization. For instance, it is possible to link financial information with road condition information and present a data visualization for the end user. Mss. Bagheri and El Seed presented a high-fidelity wire frame (a blueprint of a webpage) of an illustrative, web-based MD&A for the Department of Transportation (Transportation). The MD&A included the following features:

- A sankey diagram of budgetary resources
- Tips that a user could click to learn more about the data visualizations presented and sources of data
- Tips that provide explanations of technical terms when a user hovers over the term
- Ability to toggle between graphs reflecting different time periods
- A radar chart reflecting net costs and comparing five programs over multiple periods
- A geospatial heat map of net cost by state, with drilldown capability enabling users to view the amounts by congressional district, vendor, and product

Ms. El Seed noted that it would take about four to six weeks to develop and launch an interactive MD&A, not including the effort required to develop the underlying information.

Mr. Shorstein also presented illustrative financial statements with drill-down capability. The illustration included a statement of budgetary resources derived from the component reporting entity’s DATA Act submission files and demonstrated how a user

could learn more about line items, such as an explanation of terms. Also, the user could drill down to details of balances.

Ms. Austin suggested some next steps, including

- working with an agency such as Transportation to pilot an interactive, web-based model;
- understanding user preferences and developing use cases;
- engaging the Board to help understand what might be acceptable ways of presenting data, given the diverse options; and
- addressing concerns regarding how to distinguish audited versus unaudited data.

The Board encouraged staff to continue its current efforts on electronic reporting and noted the need to decide on the role of electronic reporting for federal financial reporting. Board members suggested inquiring of others engaged in electronic reporting and determining lessons learned. Members also discussed inquiring of component reporting entities to determine the infrastructure that might be needed to generate some of the interactive presentations that the team demonstrated.

- **Streamlining – MD&A**

During the December 2017 meeting, the Board decided to update specific topics within Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*. Subsequently, Mr. Simms developed the following SFFAC 3 topics for the Board to consider revisiting:

- Standards or implementation guidance related to SFFAC 3
- Role of MD&A
- Scope of MD&A
- Schematic diagram of a sample general purpose federal financial report (GPFFR)
- Intended audience for MD&A and GPFFRs
- Financial statements discussion
- Systems, control, and legal compliance discussion
- Performance discussion

[Tab G](#) of the briefing materials provided the information for each topic.

Question 1– Which SFFAC 3 topics should FASAB revisit? Rather than revisit SFFAC 3 topics, the Board agreed to develop implementation guidance to help improve the content of MD&As. Board members discussed the topics for revisiting SFFAC 3 and noted that they were integrated rather than stand-alone topics. Consequently, if the Board initiated a project on one topic, other topics could be affected. Board members noted that MD&As are too long, sometimes lack pertinent information, and use boilerplate language. While the presentation may be complex, component reporting entities could be more creative and use some of the interactive technology demonstrated in the previous session. Members noted that FASAB guidance does not preclude reporting entities from using technology to present financial statements.

Next steps: Staff will begin drafting implementation guidance to help improve the content of MD&As.

- **Improper Payments Education Session**

The Office of Federal Financial Management and the Centers for Medicare and Medicaid Services provided FASAB with an educational briefing about improper payments. . The information provided is attached to the minutes as attachments 1 and 2.

The Board meeting adjourned for lunch.

- **Annual Plan**

Mr. Simms introduced the annual plan session and referred members to [tab 1](#) of the briefing materials for the results of an online survey and comment letters. Mr. Simms noted that, based on the survey results, educational efforts and improper payments were the highest rated potential projects. Also, the outreach generated several diverse, written responses. An overarching theme was not apparent.

Question 1– Which potential projects should be priorities following completion of current projects? The Board discussed the potential projects and agreed to focus on educational efforts and continue the project to evaluate existing standards. This project involves considering the cost versus the benefit of presenting information. Ms. Payne noted that FASAB does not have the capacity to fully initiate a new project at this time. However, staff could begin conducting research and preparing for a future project without affecting progress on existing ones.

Members discussed the increase in inquiries from component reporting entities. Mss. Johnson and Payne noted that the questions posed often involve complex issues. The Board noted that there may be additional issues that component reporting entities have not raised. For instance, the Board’s work with DoD identified the need for guidance on issues that had not been raised by other component reporting entities. Consequently, the Board’s work with DoD coupled with the evaluation of existing standards has led to government-wide implementation guidance and interpretations. Implementation guidance and interpretations of existing standards could help address the need for

education. The new leases standards provide an opportunity to reconsider the model for implementation guidance.

Question 2 – Does the Board believe any current projects should be deferred to pursue any of the potential projects? The Board agreed that current projects reflect the most pressing needs of users and preparers and should continue and not be deferred to pursue potential projects. The Board considered that additional resources would be needed to focus on a potential project and that its current projects are helping to address the need for education.

Next steps: Staff will research the community’s particular education needs and continue efforts to evaluate existing standards.

- **Materiality**

Ms. Grace Wu, assistant director, introduced the proposed new materiality section for SFFAC 1, *Objectives of Federal Financial Reporting*, to the Board from [tab J](#).

Question 1 – Does the Board think it is the right time to make changes to the materiality discussion? The current FASAB materiality discussions are scattered in different locations of the Handbook. There is no clear guidance, nor is there a central place to pull the ideas together and discuss this topic in detail. As such, the Board agreed to update the current materiality guidance. The materiality discussion should also be centralized and include a thorough discussion of related federal environment considerations. Clear materiality guidance would help entities make better materiality judgments and prepare better financial disclosures in the future.

Question 2 – Does the Board approve the new definition and associated paragraphs? The proposed materiality section does not propose any substantive changes from the original materiality discussion. Staff considered related discussions in the current FASAB Handbook, other accounting standards boards’ definitions, and associated Yellow Book and U.S. Securities and Exchange Commission guidance. The Board’s feedback on the new materiality section was positive, with only minor edits to the current writing. Members agreed that materiality requires the exercise of judgment and depends on the specific facts and circumstances. The term “financial report” was added before the word “information” to restrict the type of information considered. Because FASAB’s scope is financial reporting, broadening the scope further could be perceived as an overreach of the role of the Board. Members discussed consistency in an effort to align the new section with guidance used by other regulatory bodies and boards. In addition, the Board suggested adding qualitative and disclosure adequacy discussions to address different topics related to this section.

Question 3 – Does the Board agree to amend SFFAC 1 by adding the new materiality section? The Board agreed that this new section should be placed in the concepts statement.

Question 4 – Assuming the Board approves the new section, should the amendment of the materiality guidance be issued first or should it be issued concurrently with the note disclosure principles that the note disclosure (NODI) working group is working on? The Board agreed that the ED on this new section can be issued when the NODI working group has time to do it.

Next steps: Staff will update the section based on the feedback received and provide it to the Board for review.

- **Classified Activities – Closed Session**

The Board met in closed session from 3:00–4:30 p.m. The reason for the closure was that matters covered by 5 U.S.C. 552b(c)(1) were discussed. The discussion involved matters of national defense concern that have been classified by appropriate authorities pursuant to Executive Order. A determination has been made in writing by the U.S. Government Accountability Office, the U.S. Department of the Treasury, and the Office of Management and Budget, as required by section 10(d) of the Federal Advisory Committee Act, 5 U.S.C. App., that the portion of the meeting may be closed to the public in accordance with 5 U.S.C. 552b(c)(1).

Adjournment

The Board meeting adjourned at 4:30 p.m.

Attachment 1



Minimum Improper Payments Reporting Requirements

Office of Federal Financial Management | Office of Management and Budget

Minimum AFR Reporting Requirements:

- Estimated Amount of payments properly paid, improperly paid, and the corresponding percent for each by program or activity for the current fiscal year;
- Estimated amount of improper payments that resulted in an overpayment, an underpayment, and the corresponding percent for each by program or activity for the current fiscal year ;
- Estimated amount of improper payments made directly by the Government and the amount of improper payments made by recipients of Federal money by program or activity for the current fiscal year;
- Root causes for overpayments and underpayments by amount and by program or activity for the current fiscal year;
- Corrective action plans for reducing the estimated IP rate and amount and each of the corrective actions should be clearly linked to the root cause(s) they are addressing;
- Results of actions taken to address the root causes and the planned or actual completion date of the actions taken to address each root cause;
- Reduction targets by program and activity for the next fiscal year;
- Description of any action the agency has taken or plans to take to recover improper payments and intends to take to prevent future improper payments (or if the agency has determined a payment recapture audit program is not cost-effective, the agency must provide the justification and a summary of the analysis that is used to determine that conducting a payment recapture audit program for the program or activity was not cost effective);
- Actions and methods used by the agency to recoup overpayments;
- Justification of any overpayments that have been determined not to be collectable;
- Conditions giving rise to IPs and how those conditions are being resolved (e.g., the business process changes and internal controls instituted and/or strengthened to prevent further occurrences);
- Amount recovered through recapture audits and amounts recovered through sources other than payment recapture audits, including the percent such amounts represent of the total overpayments of the agency;
- Summary of how Overpayments Recaptured through Payment Recapture Audits were used, including the disposition of amounts recaptured through payment recapture audits in the CY
- Aging schedule of the amount of overpayments identified through the payment recapture audit program that are outstanding, including the percent such amounts represent of the total overpayments of the agency;
- Amount of overpayments identified through payment recapture audit program determined to not be collectable in that fiscal year, including the percent such amounts represent of the total overpayments of the agency;
- Statutory or regulatory barriers, which may limit the agency's corrective actions in reducing IPs and actions taken by the agency to mitigate the barriers' effects;



Minimum Improper Payments Reporting Requirements

Office of Federal Financial Management | Office of Management and Budget

- Steps the agency has taken and plans to take (including timeline) to ensure that agency managers (including the agency head), accountable officers, program official/owner, and States and localities (where appropriate) are held accountable for reducing and recapturing IPs through annual performance appraisal criteria;
- Description of whether the agency has the internal controls, human capital, and information systems and other infrastructure it needs to reduce IPs to the levels the agency has targeted;
- Resources the agency requested in its most recent budget submission to Congress to establish and maintain the necessary internal controls, human capital, and information systems and other infrastructure; and
- Statistical sampling process conducted to estimate the IP rate for each program identified as being susceptible to significant IPs.

Data Points Reported by Programs and Available on [Paymentaccuracy.gov](https://www.paymentaccuracy.gov):

- Annual Program Outlays
- Annual Program Improper Payment Amount
- Annual Program Improper Payment Rate
- Annual Underpayments and Overpayments by Program
- Out Year Program Improper Payment Amount
- Out Year Program Outlays
- Out Year Program Improper Payment estimate
- Root Causes of the Improper Payment Amount
- Statistical Estimate Confidence Level, Estimate Variance, and Precision Level
- Annual Monetary Loss to the Government by Program
- Annual Amount of Confirmed Fraud by Program
- Annual Improper Payment Amount Identified for Recapture by Program
- Annual Amount of Improper Payments Recaptured by Program
- Recovery Rate by Program
- Aging of Overpayments by Program
- Disposition of Recaptured Funds by Program
- Names of Programs Assessed for improper payment risk within the fiscal year
- Newly identified susceptible to significant improper payment programs within the fiscal year

Improper Payments



Office of Federal Financial Management
Office of Management and Budget



Improper Payment Definition

- An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.
- OMB Guidance added that in addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.
- Improper Payments can be:
 - Incorrect amounts paid to eligible recipients,
 - Payments made to ineligible recipients,
 - Payments for goods or services not received,
 - Duplicate payments,
 - Payments when an agency's review is unable to discern whether a payment was proper due to lack of documentation.



Improper Payment Characteristics

- Expressed positively, a proper payment has four main attributes:
 - ✓ right recipient
 - ✓ right amount
 - ✓ right reason
 - ✓ right time
- A violation of any of these attributes may result in an “improper payment”
- Not all “improper payments” represent a monetary loss to the government
- Not all “improper payments” are the result of fraudulent actions



Improper Payment Statutes

Improper Payments Information Act (IPIA)

- ✓ Created basic framework for identifying and reporting improper payments

Improper Payments Elimination & Recovery Improvement Act (IPERIA)

- ✓ Required agencies to include all identified improper payments in the reported estimate
- ✓ Improved agency estimation and recovery of improper payments
- ✓ Reinforced and accelerated “Do Not Pay” efforts

Federal Improper Payments Coordination Act (FIPCA)

- ✓ Authorizes OMB to approve implementation of judicial and legislative branches of government, as well as federally funded state programs, to access the Do Not Pay Initiative
- ✓ Requires Reporting of Death Information by the Department of State and the DoD

2002
IPIA

2010
IPERA

2012
IPERIA

2015
FIPCA

2016
FRDAA

Improper Payments Elimination and Recovery Act (IPERA)

- ✓ Put into law high-risk programs
- ✓ Strengthened corrective action plans
- ✓ Expanded payment recapture audits
- ✓ Established annual OIG compliance reviews
- ✓ Established criteria for agency non compliance
- ✓ Introduced additional reporting requirements

Fraud Reduction and Data Analytics Act (FRDAA)

- ✓ Requires the OMB to establish guidelines to identify and assess fraud risks and design and implement control activities in order to prevent, detect, and respond to fraud, including improper payments



Improper Payment Data: Actuals vs. Estimates

Annual Data Provided by Programs	Actual Number	Estimated Number
Current Year Program Outlays	X	
Improper Payment Amount		X
Improper Payment Rate		X
Underpayment and Overpayment		X
Out Year Improper Payment Amount		X
Out Year Program Outlays		X
Root Causes of the Improper Payment Amount		X
Annual Monetary Loss to the Government (before recovery)		X
Confirmed Fraud	X	
Amount Identified for Recapture	X	
Amount Recaptured	X	
Aging of Overpayment	X	
Disposition of Recaptured Funds	X	



Where is Improper Payment Information Reported?

- **Paymentaccuracy.gov**
 - Contains high-priority program measures and downloadable data containing over 17,000 data points related to various aspects of improper payments.
 - See handout for available data points.
- **Agency AFRs/PARs and Government Wide Financial Report (FR)**
 - Recorded in the Financial Statements.
 - Detailed Reporting in the OI section of agencies' reports- see handout for minimum requirements.
 - The FR contains a detailed summary within the MD&A discussing select results, causes, changes, and actions to mitigate.
- **Agency OIG Websites**
 - Contains Annual OIG IPERA Compliance Reports in addition to any other reports the OIG may have performed in relation to improper payments.



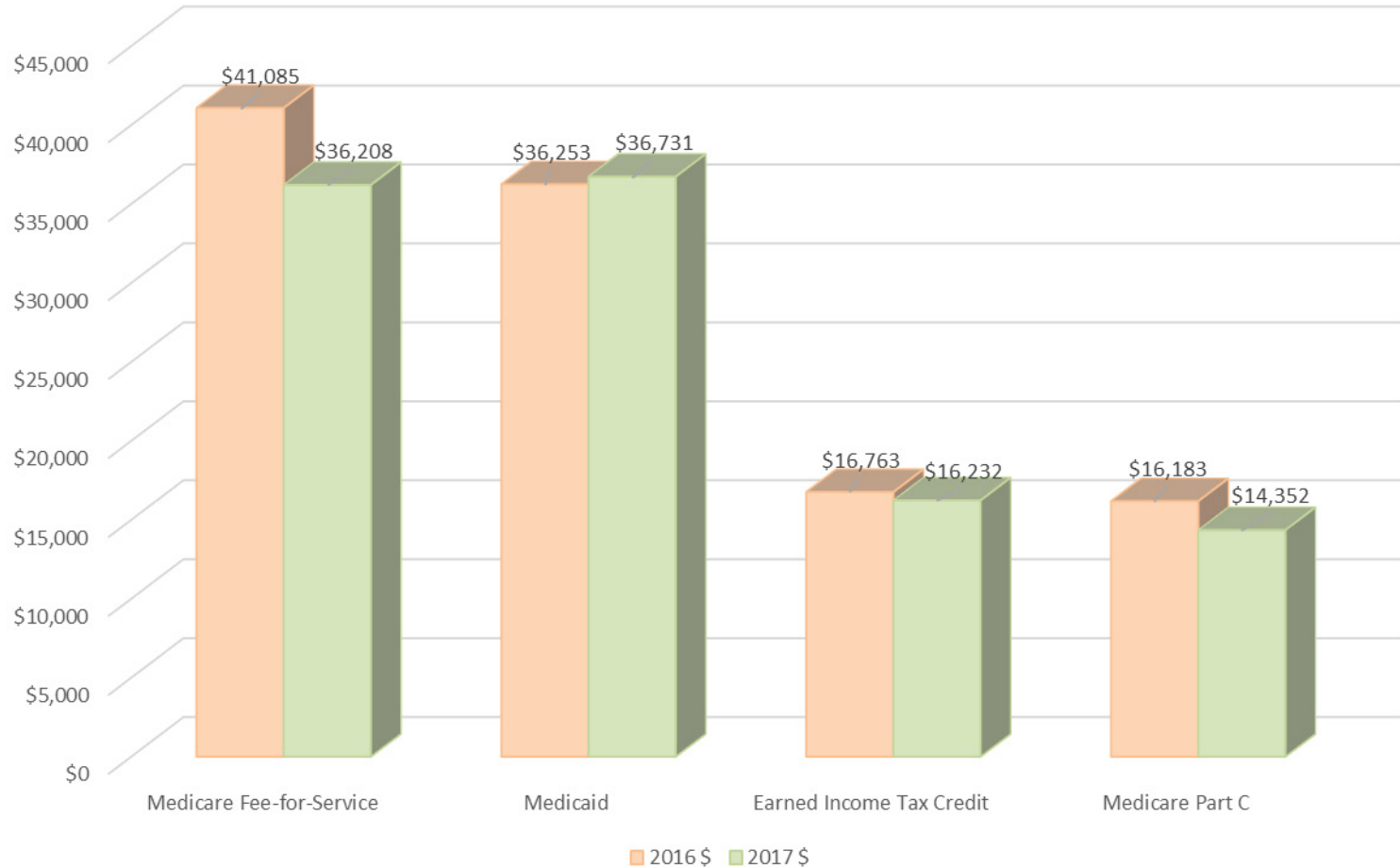
Improper Payment Estimate Calculation

- From FY 2004 to FY 2016, improper payment rates and amounts were compiled and reported as a single rate and a single dollar value at a government level.
- That representation failed to acknowledge the multiple criteria affecting that calculation including:
 - ✓ The number of programs reporting changes annually.
 - ✓ Multiple statistical and non-statistical methodologies are used to produce program estimates.
 - ✓ The fiscal years represented in program each estimate are not consistent.
- Beginning in FY 2017, the Government migrated to a program-by-program focus to provide a more accurate measure of Federal Government performance.



FY 2017 Material Programs

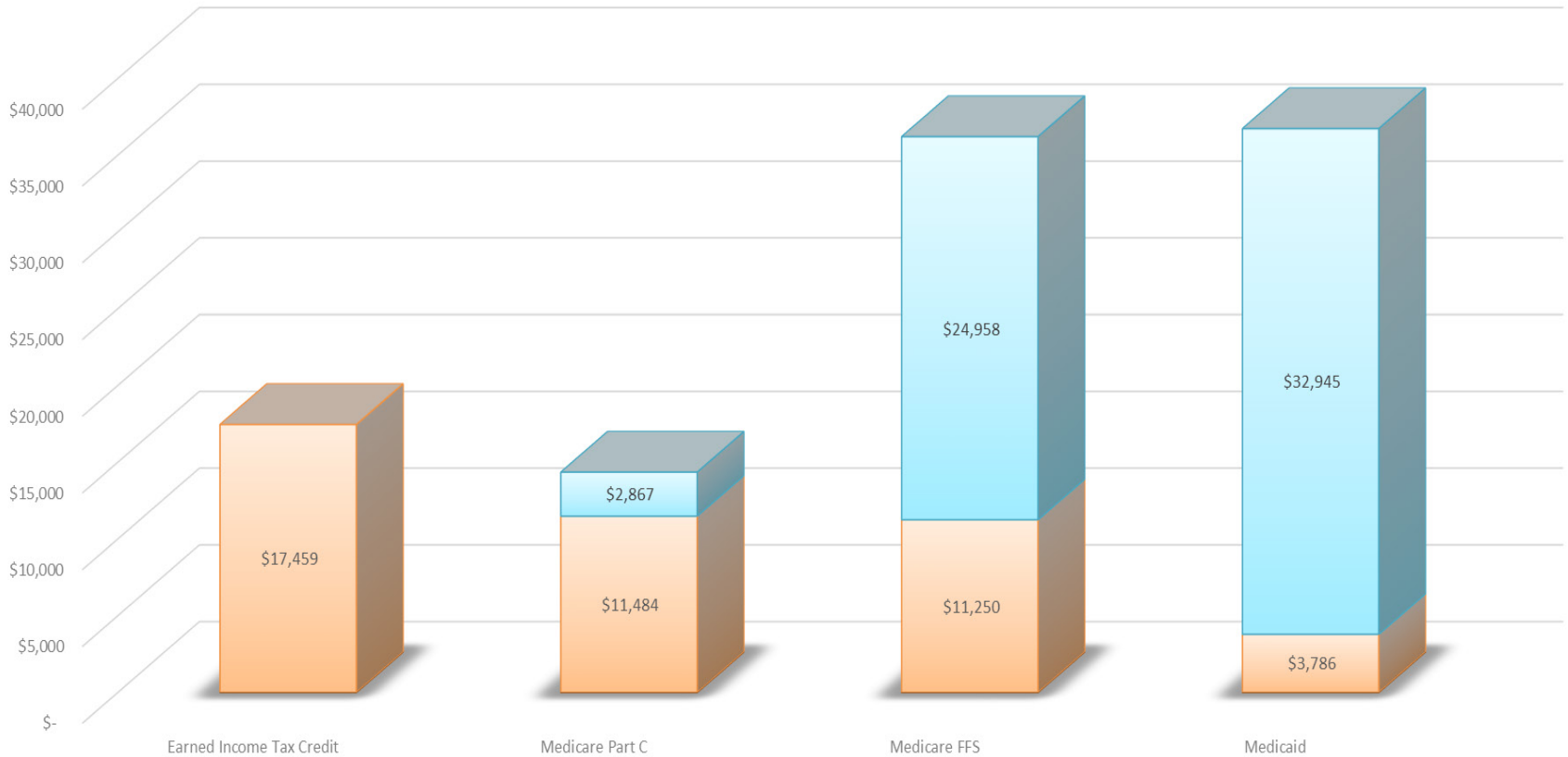
Material Improper Payments Programs (\$ in Millions)





FY 2017 Improper Payment Classification

FY 2016 v FY 2017 Material Programs Monetary Loss Breakout
(\$ millions)



■ FY 2017 Non-Monetary Loss: An amount that was paid to the right recipient for the correct amount but failed to follow procedures.

■ FY 2017 Monetary Loss: An amount that must not have been paid and in theory should/could be recovered.



Reducing Improper Payments

- The most efficient way to reduce improper payments is to stop them before they occur.
- After identifying the improper payments within a program the agency will identify the root causes and put in place appropriate strategies to mitigate them from occurring in the future.
- Agencies use pre-defined root cause categories to assist their extensive corrective action plan development.



Root Cause Categories - Definitions

Failure to Verify Data:

1. Death Data
2. Financial Data
3. Excluded Party Data
4. Prisoner Data
5. Other Data

When an agency (Federal, State, or local), or another party administering Federal dollars, fails to verify appropriate data to determine whether or not a recipient should be receiving a payment.

Administrative Process Errors

6. Made by Federal
7. Made by State
8. Made by Other

Errors caused by incorrect data entry, classifying, or processing of applications or payments.

9. Insufficient Documentation to Determine

Where there is a lack of supporting documentation necessary to verify the accuracy of a payment identified in the improper payment testing sample.

10. Program Design or Structural Issue

When improper payments are the result of the design of the program or a structural issue.

11. Medical Necessity

A situation in which a medical provider delivers a service or item that does not meet coverage requirements for medical necessity.

12. Inability to Authenticate Eligibility

A situation in which an improper payment is made because the agency is unable to authenticate eligibility criteria.

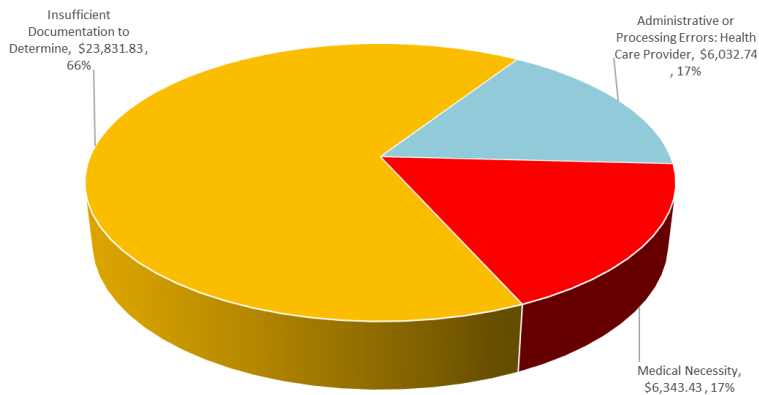
13. Other

A situation that does not fit in any other category

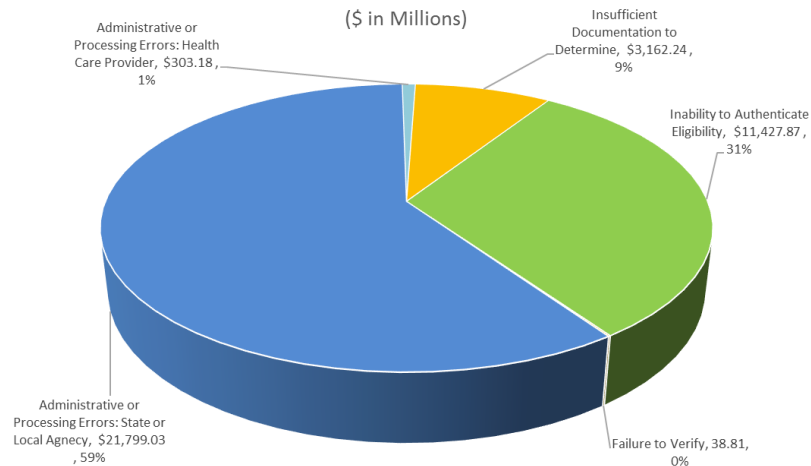


FY 2017 Root Causes for Material Programs

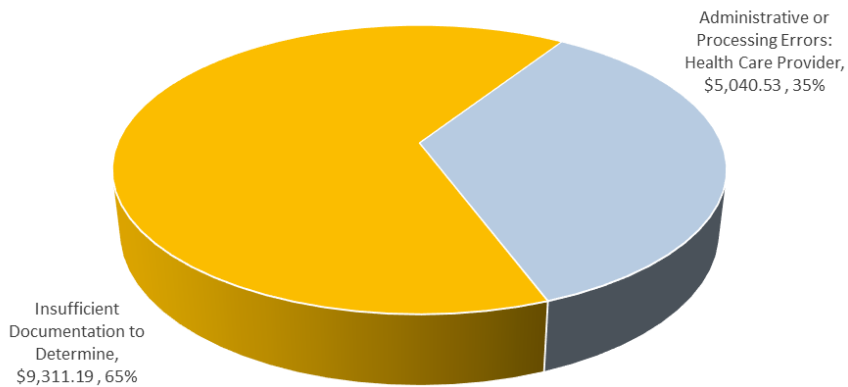
Medicare FFS FY 2017 Root Causes
(\$ in Millions)



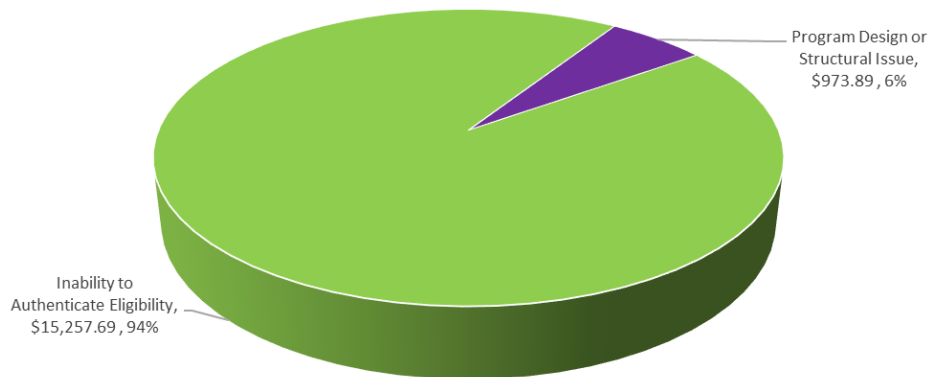
Medicaid FY 2017 Root Causes
(\$ in Millions)



Medicare Part C FY 2017 Root Causes
(\$ in Millions)



Earned Income Tax Credit FY 2017 Root Causes
(\$ in Millions)



Attachment 2

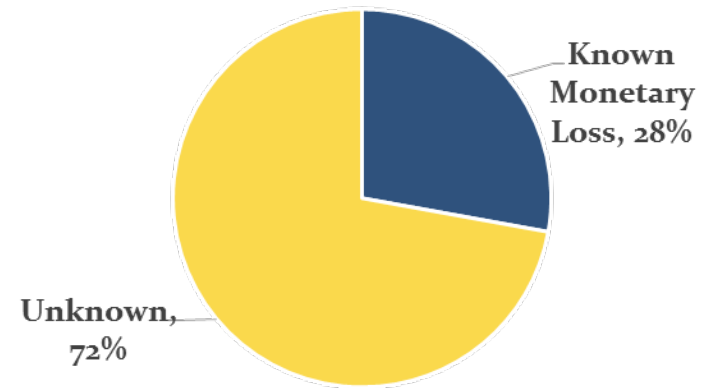
CMS Improper Payments



CMS Improper Payments

Program	2017 Improper Payments (\$ Billions)		
	Known Monetary Loss	Unknown	Total
Medicaid	\$3.8	\$32.9	\$36.7
Medicare FFS	\$11.2	\$25.0	\$36.2
Part C	\$9.3	\$5.0	\$14.4
Part D	\$0.5	\$0.8	\$1.3
CHIP	\$0.2	\$1.0	\$1.2
Total	\$25.0	\$64.8	\$89.8

2017 CMS Improper Payments



CMS Improper Payments - Examples

Known Monetary Loss

- Service not medically necessary
- Provider billed for wrong code
- Provider not enrolled in program
- Recipient not eligible for program

Unknown

- Insufficient medical documentation
- No medical documentation submitted
- State did not follow required process (state-administered programs)

CMS Key Corrective Actions

Known Monetary Loss

- Numerous medical review strategies
- Automated edits
- Enhanced provider screening and enrollment processes

Unknown

- Numerous medical review strategies
- Documentation requirements simplification project
- State partnership, assistance, & oversight