



Standards Watch

The Challenge for Standards Setters: The Data Iceberg

By: Tom L. Allen, CPA

The information contained in this article is the unofficial view of one of the FASAB board members. Official positions of FASAB are determined only after extensive due process and deliberations.

Electronic reporting is increasingly viewed as the preferred way to convey financial information about government. This is evidenced by the popularity of government websites such as *www.recovery.gov*, the universal practice of posting annual financial reports to government websites, and the emerging practice of providing a printed highlights document accompanied by an electronic copy of the full report. The Open Government Directive required each agency to expand access to information by making it available online in open formats in order to increase accountability, promote informed participation by the public and create economic opportunity.¹ More recently, a requirement that performance reports be provided electronically rather than in printed form was established in law.² In addition, with the growing popularity of detailed data sites such as *www.usaspending.gov*, there is an expectation that machine-readable data be readily accessible.

In a December 2010 report to the Federal Accounting Standards Advisory Board (FASAB), the FASAB Financial Reporting Model Task Force recommended that “the federal government adopt an electronic, web-based method of communicating information about the financial condition and performance of the federal government. This change in the medium of delivery would permit user needs to be met more quickly and at lower cost than the paper-based, static method currently in use today.”³

The report highlighted the public’s increasing reliance on digital devices, complex networks and interactive media to obtain information on demand. The task force noted that it expects this pattern in how people obtain information will continue to accelerate and urged that efforts to develop electronic reporting be undertaken now.

The report also recommended that the information be easily searchable, allow users to drill down to lower levels of data and be contained within a central portal for all federal financial information.

I would readily submit that information ought to be provided in the format and medium that best serves today’s users of federal financial information. There are many advantages of moving to a web-based method of communicating information, including the ability to report real-time data, tailor reports to best suit each user, track information most often sought by users, and increase transparency and accountability to taxpayers. However, I would caution that there are also many challenges in moving toward web-based communication, such as:

- more reliance on internal controls over financial reporting and the sources of data,
- lack of context in which data is provided,
- real-time access to data that has not been audited and

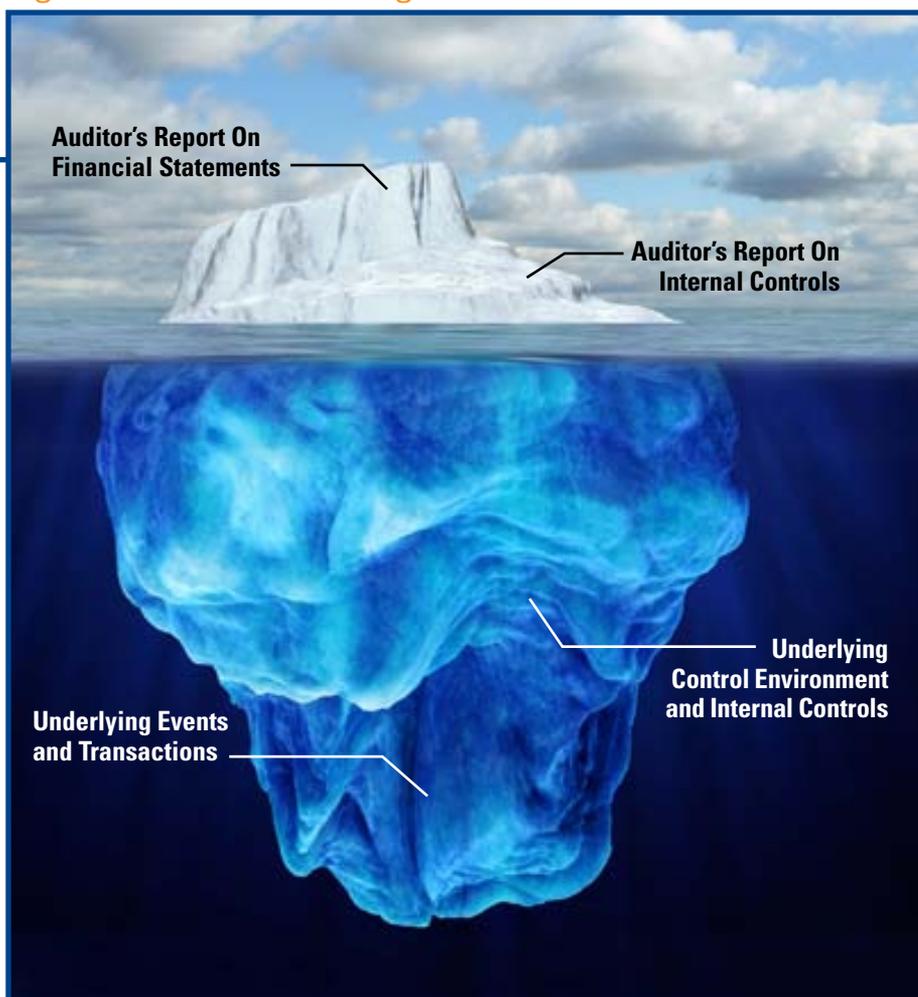
- the propensity to provide more and more data without appropriately considering its decision-usefulness and the potential for misunderstanding.

For example, *www.usaspending.gov* currently reports information on federal government commitments⁴ on grants and contracts only. Some users may be misled into thinking that the site provides actual expenditure (outlay) data for all government spending.

In recent discussions on its technical agenda, FASAB has considered the merits of undertaking a project on electronic reporting. Several board members categorized electronic reporting as “elusive” and stated that FASAB would have to partner with the Chief Financial Officers’ Council and the Office of Management and Budget if such an effort were to be successful. One member noted that the Governmental Accounting Standards Board (GASB) has been monitoring this area, wondering how it can contribute to making the information more reliable, and suggested that AGA might undertake electronic reporting as a best practices effort. Another board member agreed, stating that electronic reporting is not a FASAB project.⁵

During that discussion, I acknowledged that electronic reporting was on the fringes of FASAB’s authority but stated my belief that there ought to be certain minimum standards, especially if users are able to drill down to raw data from a financial report that has been labeled,

Figure 1: The Data Iceberg



through the opinion of an independent financial statement auditor, as “in accordance with generally accepted accounting principles (GAAP).”

Raw data may be interesting to users but is not very informative if the users do not understand the context in which the data is being provided.

If financial statement users are permitted to drill down to all the underlying events and transactions that support the line item amounts on the financial statements, they would have access to millions of transactions throughout the federal government, a large majority of which would be immaterial and subject to audit sampling. I liken this to a data iceberg—the auditor’s opinion on the financial statements states whether the information is fairly presented based on testing of internal controls and testing of a small percentage of transactions, which can be viewed as the tip of the iceberg (see Figure 1).

Considering the extensive number of events and transactions that occur in the federal government each day, it is neither possible nor desirable for an auditor to test all of them or even a large number of them. In addition, there can be a need to adjust cash-based transactions to accrual-based information. As a result, granting access to such large amounts of data, which has not and cannot be verified for individual accuracy, presents a concern when it is accessed through a general-purpose federal financial report that has been labeled as “in accordance with GAAP.” Despite these concerns, I believe the credibility of detailed information is enhanced and important context given when users do drill down to detailed data supporting the audited financial statements.

While FASAB will keep the subject of electronic reporting on its radar screen, the role and impact that FASAB can have in this area remains to be seen. I welcome your comments on the important matter of electronic reporting and what, if any, role you believe FASAB should play in providing reliability to the reported data. Please address your comments to FASAB Executive Director Wendy Payne, CGFM, at paynew@fasab.gov.

4. A commitment is defined as “an administrative reservation of allotted funds, or of other funds, in anticipation of their obligation.” (Source: A Glossary of Terms Used in the Federal Budget Process, GAO-05-734SP, September 2005; available at www.gao.gov/new.items/d05734sp.pdf; last accessed Nov. 14, 2011.

5. FASAB April 27–28, 2011 Meeting Minutes. Available at www.fasab.gov/pdf/files/APRIL_27_28__2011.pdf; last accessed Nov. 14, 2011.

End Notes

1. Memorandum M10-06, Open Government Directive, from Peter R. Orszag, then Director of the Office of Management and Budget; issued Dec. 8, 2009; available online at www.whitehouse.gov/open/documents/open-government-directive; last accessed Nov. 14, 2011.

2. The GPRA Modernization Act of 2010, 31 U.S.C. § 1116(a); available online at www.gpo.gov/fdsys/pkg/USCODE-2010-title31/pdf/USCODE-2010-title31-subtitleII-chap11-sec1116.pdf; last accessed Nov. 14, 2011.

3. Financial Reporting Model Task Force Report to the FASAB, December 2010, p. 4; available online at www.fasab.gov/pdf/files/2010dec22_financial_reporting_model_task_force.pdf; last accessed Nov. 14, 2011.



Tom L. Allen, CPA, is chair of the Federal Accounting Standards Advisory Board. Prior to joining FASAB, Allen served as the chair of the Governmental Accounting Standards Board and the state auditor of Utah.