

CHAPTER 3**OVERVIEW AND OTHER ACCOMPANYING INFORMATION****0301 OVERVIEW OF THE REPORTING ENTITY**

★030101. The Overview of the Reporting Entity is the first part of the annual financial statement. For many readers (e.g., nonaccountants), it serves as the only opportunity to make the technical presentations lucid and useful. For many high-level decision makers, it must convey substantive information and conclusions when time does not permit those individuals to make an in-depth analysis of the technical information. The Overview must provide readers with a clear and concise description of the entity, an understanding of its activities, accomplishments, financial condition and results, problems, and needs. It should tell the reader what the mission of the entity is, and how well that mission is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance. The Overview should be a joint effort of both the financial management offices and the program offices.

★030102. To accomplish this purpose, the Overview must be more than simply a summary of the information contained in the Principal Statements. The preparer of the Overview must consider and select performance measures and data relevant to the reporting entity's mission and activities; analyze the data and discern what they disclose about the entity's accomplishments or lack thereof; determine whether and why the results might vary from prior years, established standards or similar entities' results; display this information in creative ways; and write succinct, candid narratives. Moreover, in preparing the Overview, the preparer must consider not only program performance, but also financial performance and the relationship of program performance to the reporting entities financial condition and results. The preparer must develop and retain adequate documentation supporting the financial, statistical, and other information presented in this Overview section.

030103. The Overview should incorporate the strategic initiatives of the Department of Defense (DoD) as provided in the Secretary's "Annual Report to the President and the Congress." The presentation should relate to the general goals and objectives for the agency's major functions; the resources, systems, and processes that are critical to achieving these goals; how the general goals and objectives will be achieved; and a description of key external factors that could affect achievement of these general goals.

030104. At a minimum, the Overview should contain sections that address mission and organizational structure; performance goals and results; and, the limitations of the financial statements.

030105. The Overview also may identify critical areas in need of financial and management improvement. The Overview should include a narrative discussion and analysis of the financial condition of the reporting entity. This discussion should present information based on the results of an analytical review of relevant financial and performance data of the programs, activities and funds that make up the reporting entity.

★030106. Include the following information in the overview section, verbatim, for all DoD reporting entities that have National Defense PP&E Stewardship information to report for FY 1999:

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for National Defense property, plant and equipment (ND PP&E). Therefore, the Department of Defense (DoD) elected to report ND PP&E in fiscal year (FY) 1999 in the same manner as ND PP&E was reported in FY 1998. For FY 1998, the DoD implemented early, as encouraged by the FASAB, then proposed amendments to the Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," and No. 8, "Supplementary Stewardship Reporting." Those amendments required ND PP&E quantities, condition and investment trends to be reported for major types of ND PP&E. Since the FASAB did not adopt the proposed amendments to SFFAS No. 6 and No. 8, in electing to report in accordance with the proposed amendments to the standards, the DoD is not in full compliance with the existing reporting requirements contained in SFFAS No. 8 (SFFAS No.8 requires the Department to report acquisition costs). The DoD cannot fully comply with the SFFAS No. 8 reporting requirement because many of the Department's ND PP&E accountability and logistics systems do not contain a value for all or a portion of the ND PP&E assets. These systems were designed for purposes of maintaining accountability and other logistics requirements of ND PP&E, and not for reporting on the value of ND PP&E. Consequently, many of these systems do not accumulate costs or otherwise report values for individual items of ND PP&E.

The ND PP&E cost information is captured in the DoD accounting systems and reported in the Department's "Statement of Net Costs." However, the Department's accounting systems were designed to provide appropriated fund accounting reports required by the Congress, the Department and other applicable federal agencies. In addition, the Department's accounting systems were not designed to accumulate and retain costs for individual items of ND PP&E. Further, in many instances, even where values were recorded for some ND PP&E in some of the Department's systems, documentation (such as copies of purchase receipts) no longer is available to support such amounts. In part, such documentation is not available, because until recently, the Department was not required to maintain such documents for audit purposes. According to Title 36, Code of Federal Regulations, Chapter XII, "National Archives and Records Administration," receipts for the purchase of items such as ND PP&E are required to be retained for only 6 years and 3 months. Therefore, much of the supporting documentation that would be required to validate the reported values of ND PP&E for audit purposes no longer is available.

Due to the difficulties noted above, implementing the reporting requirements of the SFFAS No. 8 would be an enormous undertaking involving significant cost (requiring the expenditure of perhaps hundreds of millions of dollars). Given the complexity of the reporting requirements contained in the SFFAS No. 6 and SFFAS No. 8, the enormous cost of implementing those reporting requirements and the interim nature of the current reporting requirements, the Department is continuing its FY 1998 reporting display until such time as the Department has a better indication of the more permanent reporting requirements expected to be recommended by the FASAB. In the meantime, the Department believes that the most reasonable and responsible course of action is to report quantity information for the DoD's weapons systems until such time as the FASAB adopts permanent reporting requirements for ND PP&E.

0302 ORGANIZATION AND PRESENTATION OF THE OVERVIEW

The following is a recommended way to organize and present the Overview.

★030201. Message from the Component Head. Include a message from the component head or designated individual that discusses, at a high level, the organizations mission, performance results, and financial condition. An additional message from the entity financial manager or comptroller is an option.

030202. Description of the Reporting Entity. This section should:

A. Name the reporting entity in a clear manner that leaves no doubt as to whether the reporting entity is an entire organization or an activity or group of activities within an organization. Identify the commercial functions and the revolving, trust, and other fund accounts covered by the financial statement. Also, this section should identify any fund accounts that have been excluded that one might expect to be covered by the statement.

B. State the mission and major goals of the reporting entity, including reference to the entity's legislative mandate, if appropriate.

★C. Identify the type and provide information on the numbers of individuals and/or groups served by or benefiting from the entity's major program(s).

D. Provide indicators of the size of the major program(s), e.g., dollars expended, population served, and the numbers of military and civilian personnel employed in carrying out these program(s).

E. Describe the manner in which the reporting entity is organized to provide the major program(s), including information related to the geographic locations of the organization (e.g., numbers of local, district, state, and regional offices).

030203. Performance Goals and Results. Government-wide implementation of Government Performance and Results Act (GPRA) occurs with the plans and reports for FY 1999. Performance measures in the Overview section of the financial statements should be consistent with the DoD GPRA Performance Plan as published in the Annual Defense Report, Appendix J.

★030204. Reporting Year 2000 (Y2K) Issues. Report the following information in the Overview and Analysis concerning Y2K preparedness: (1) a discussion of the Department's state of readiness (including the status of efforts/current phase, estimated timetable for completing remaining phases, impact of nonreadiness of third parties with which the agency has a material relationship); (2) the costs to address the Department's Y2K issues, both historical and estimated future costs. Include both the costs to fix and replace systems; (3) the risks of Y2K issues to the Department, including any anticipated effects on agency operations. Include a description of the most likely worst case scenario; and (4) the Department's contingency plan(s), including how the agency is preparing to handle most likely worst case scenarios. If the agency

does not have a contingency plan, disclose this fact, whether the agency intends to create one, and the timetable for doing so.

★030205 Limitations of the Financial Statements. The Overview should contain the following language:

A. The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the 31 U.S.C. 3515(b).

B. While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

C. To the extent possible, the financial statements have been prepared in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and revised by OMB. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

D. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

0303 PERFORMANCE GOALS AND RESULTS

030301. The entity's program and financial results should be expressed in terms of objectives, relevant measures that disclose the extent to which its programs are achieving their intended objectives. The entity's financial results should be summarized in a manner that would illustrate significant indicators of its financial operations for the reporting period and changes in financial condition during the period.

030302. Measuring costs is an integral part of measuring the efficiency and effectiveness of programs. Efficiency is measured by relating outputs (the quantity of services provided) to inputs (the cost incurred to provide the services). Effectiveness is measured by the outcome or the degree to which a predetermined objective is met, and it is commonly combined with the cost information to show "cost effectiveness." Entities should strive to develop and report objective measures that, to the extent possible, provide information about the cost effectiveness of programs.

030303. The reported measures of program and financial performance should be consistent with information on major goals and objectives from the agency's strategic plan and should be linked to the programs featured in the Statement of Net Cost.

030304. To be useful, performance measures should: be clearly set forth, be objective and quantifiable, be meaningful and relevant, relate to measures developed in the entity's strategic planning processes, and present the outputs and outcomes of the program, not just the inputs or processes of the program.

030305. The presentation of the measures should: include both positive and negative results, present historical and future trends (if possible), be illustrated with charts and graphs (whenever possible) for easy identification of trends, explain the significance of the trends, provide comparison of actual results to goals or benchmarks, show variations from goals and plans and provide other explanatory information that would help readers understand the significance of the measures, results, and any variations from the goals or plans.

030306. To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what is planned to be done to improve financial program performance.

030307. The performance measures presented in the overview should relate to the programs' purpose and goals, be consistent with measures previously included in budget documents and other materials related to implementation of GPRA, and linked to the programs presented in the Statement of Net Cost. The measures in the overview should be limited to the entity's most significant program and financial measures. Additional measures should be presented as "Other Accompanying Information." Management has broad discretion in the manner in which performance information is displayed. Among the options available to management is a statement format similar to the Statement of Program Performance Measures illustrated in Statements of Federal Financial Accounting Concepts No. 2. Management's display of performance information should include sufficient explanatory information that should help the readers understand the significance of the measures, the results, and any deviations from goals or plans.

0304 OTHER ACCOMPANYING INFORMATION

Each financial statement should contain, when appropriate, supplemental financial and management information that supports information presented in the Overview or which otherwise would enhance an understanding of the financial condition and operations of the reporting entity. At a minimum, this information should include a detailed list of appropriations, funds, and accounts included in the financial statements. Additional performance information not provided in the overview and Foreign Military Sales activity could also be reported as "Other Accompanying Information." This information may be placed in the "Other Accompanying Information" Section of the financial statements