

**SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 6B, CHAPTER 3
“AGENCY HEAD MESSAGE, MANAGEMENT’S DISCUSSION AND ANALYSIS
AND OTHER ACCOMPANYING INFORMATION”**

Substantive revisions are denoted by a ★ preceding the section, paragraph, table or figure that includes the revision

| | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|--------|---|---------|
| All | Sections rearranged and new sections added to comply with the Office of Management and Budget (OMB) Circular A-136. | Update |
| 0301 | Added section requiring Agency Head Message and renumbered subsequent sections. | Add |
| 030302 | Added requirement to prepare Figures 3-1 and 3-2 for the Improper Payments Information Act. | Add |
| 030303 | Added requirement for Foreign Military Sales financial statements within Other Accompanying Information. | Add |

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CHAPTER 3

★AGENCY HEAD MESSAGE, MANAGEMENT'S DISCUSSION AND ANALYSIS AND OTHER ACCOMPANYING INFORMATION**★0301 AGENCY HEAD (SECRETARY) MESSAGE**

A dated transmittal letter signed by the agency head should be located at the beginning of the annual financial statements. This message precedes the Management's Discussion and Analysis (MD&A) section. It must include a brief message from the agency head highlighting:

- A. The Agency's mission, goals and accomplishments upholding the mission.
- B. An assessment of whether financial data in the report is reliable and complete and identifying weaknesses and actions the agency is taking to resolve them.

★0302 MANAGEMENT'S DISCUSSION & ANALYSIS

The annual audited financial statements must contain a section entitled Management's Discussion and Analysis (MD&A). MD&A is section 1 of the financial statements and should follow the entity head letter (Secretary's message). To be useful, the MD&A must be concise and readable to a nontechnical audience. Not all material items in the basic statements, notes, and other sections of the annual financial report need to be discussed in the MD&A.

030201. Purpose. The MD&A should serve as a brief overview of the entity, its financial results, overall performance and important matters that could:

- A. Lead to significant actions or proposals by top management of the reporting unit.
- B. Be significant to the managing, budgeting, and oversight functions of the Congress and the Administration.
- C. Significantly affect the judgment of citizens about the efficiency and effectiveness of their Federal Government.

Furthermore, conformance to Generally Accepted Accounting Principles (GAAP) for federal entities requires the inclusion of the MD&A of the financial statements and related information.

030202. Responsibility. The content of the MD&A is the responsibility of management. Its preparation should be a joint effort of both the financial management office and program offices. The MD&A should provide a balanced analytical assessment of results that includes both positive and negative information. The preparer must write concise narratives and display information in stylistically creative ways by, for instance, using charts and graphs. Moreover, in preparing the MD&A, the preparer must consider not only financial performance,

but also 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 the MD&A section.

030203. Scope. The MD&A is an integral part of the annual financial statements and should be regarded as Required Supplementary Information (RSI). The following summarizes the requirements as stated in Statement of Federal Financial Accounting Standards (SFFAS) No. 15 and Statement of Federal Financial Accounting Concepts (SFFAC) No. 3 for the MD&A. Pursuant to SFFAS No. 15, the MD&A may reference information in other discrete sections of the financial statement or it may be based on information contained in reports separate from the financial statement. At a minimum, the MD&A should address the entity:

- A. Mission(s) and organizational structure.
- B. Overall strategy and performance results.
- C. Analysis of financial statements and stewardship information.

D. The MD&A should include information about the possible effects of anticipated future demands, events, conditions, and trends. Management should discuss important problems that need to be addressed, and actions that have been planned or taken to address those problems. The actions needed, planned, and taken may be discussed within the sections listed above or in a separate section of MD&A.

- E. Limitations of the financial statements.

030204. Mission and Organizational Structure. The MD&A should contain a brief description of the mission(s) of the entity, describe its related organizational structure, and be consistent with the entity's strategic plan. 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.

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 the major 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).

030205. Overall Strategy and Performance Results. The MD&A should provide highlights of “most important” performance goals and results, positive and negative, for the applicable year related to and consistent with major goals and objectives in the entity’s strategic and performance plans, including trend data where available. This applies to goals being evaluated by quantitative and descriptive criteria. These highlights should:

A. Provide a clear, objective picture of the entity’s program results compared to its goals and objectives.

B. Indicate the extent to which its programs are achieving their intended goals and objectives and explain performance trends.

C. Discuss the strategies and resources the entity uses to achieve its performance goals.

D. Evaluate the significance of underlying factors that may have affected the reported performance. These may include information about factors that are substantially outside the entity’s control as well as information about factors over which the entity has significant control.

E. Include an explanation of plans and timelines to improve performance where targets were not met.

030206. Analysis of the Financial Statements and Stewardship Information. The MD&A should help users understand the entity’s financial results, position, and condition conveyed in the principal financial statements. The MD&A should include comparisons of the current year (CY) to the prior year (PY) and should provide an analysis of the agency's overall financial position and results of operations to assist users in assessing whether the financial position has improved or deteriorated as a result of the year's activities. The entity should also include a discussion of key financial-related measures that emphasize financial trends and assess financial operations. This section should provide users the benefit of management’s understanding of:

A. Major changes in types or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

B. The relevance of particular balances and amounts shown in the principal financial statements, particularly if relevant to important financial management issues.

C. The entity’s stewardship information.

030207. Possible Future Effects of Existing Events and Conditions. The discussion of current demands, risks, uncertainties, events, conditions and trends goes beyond a mere description of existing conditions. Management should address the possible future effects of those factors that may include, but not necessarily be limited to, demographic characteristics, claims, contingencies, deferred maintenance, commitments, or major unfunded liabilities. Information about the possible effects of anticipated future demands, events, conditions and trends should be labeled “projected” or “projection” and the key underlying assumptions explained. Forward-looking information may comprise a separate section of the MD&A or may be incorporated with the sections listed in section 030103, above.

030208. Limitations of the Financial Statements. The MD&A should include a section articulating the limitations of the principal financial statements. This section should state the following:

A. The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 United States Code 3515 (b).

B. While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, 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. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

★0303 OTHER ACCOMPANYING INFORMATION (OAI)

This section of the audited financial statements follows the Required Supplementary Information (RSI) section of the statements. It should contain, when appropriate and as applicable:

030301. Additional Performance Measures Beyond those Included in the MD&A. 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 SFFAC No. 2, “Entity and Display.” Management’s display of performance information should include sufficient explanatory information that would help users understand the significance of the measures, the results, and any deviations from goals or plans of the reporting entity.

030302. Improper Payments Information Act (IPIA) Reporting Details

A. Describe your component's risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that

have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of [OMB Circular A-11](#).

B. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

C. Describe the Corrective Action Plans for reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, then it is appropriate to include that information in this section.

D. Figure 3-1, below, is required for each reporting agency. The following are changes from prior year reporting: (1) all risk susceptible programs must be listed in this chart whether or not an error measurement is being reported, (2) where no measurement is provided, agency should indicate the date by which a measurement is expected, (3) if current year (CY) is the baseline measurement year, then indicate by either note or by “n/a” in the prior year (PY) column, (4) if any of the dollar amount(s) included in the estimate correspond to newly established measurement components in addition to previously established measurement components, then separate the two amounts to the extent possible, (5) include outlay estimates for CY +1, +2, and +3, (6) agencies are expected to report on CY activity, and if not feasible, then PY activity is acceptable, and (7) future year outlay estimates (CY+1, +2 and +3) should match the outlay estimates for those years as reported in the most recent President’s Budget.

E. Discuss your agency’s recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. In addition, complete Figure 3-2, below.

F. Describe the steps the agency has taken and plans to take, including time line, to ensure that agency managers, including the agency head, are held accountable for reducing and recovering improper payments.

G. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted. If the agency does not have such systems and infrastructure, then describe the resources the agency requested in its FY 2006 budget submission to Congress to obtain the necessary information systems and infrastructure.

H. Describe any statutory or regulatory barriers which may limit the agencies’ corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers’ effects.

I. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

030303. Other Supporting Statements

A. Foreign Military Sales (FMS) Reporting

1. DoD administers the FMS programs on behalf of the Executive Office of the President. Principal statements shall be prepared for appropriated funds (11*1081, 11*1082, and 11*1084) and for revolving funds (11X4116, 11X4121, 11X4122 and 11X4174).

2. The Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing shall be reported as OAI.

3. Notes to the financial statements are not required for FMS.

B. Other reporting, as appropriate.

| Program | PY Outlays | PY% | PY \$ | CY Outlays | CY IP% | CY IP\$ | CY+1 Est. Outlays | CY+1 IP% | CY+1 IP\$ | CY+2 Est. Outlays | CY+2 IP% | CY+3 Est. Outlays | CY+3 IP% | CY+3 IP\$ |
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NOTE: Over- and under-payments should be indicated if this information is available. The absolute value of the dollars and the rates should be shown—do not net the figure.

★Figure 3-1. Improper Payment Reduction Outlook

| Agency Component (if applicable) | Amount subject to Review for FY 05 Reporting | Actual Amount Reviewed and Reported | Amounts Identified for Recovery | Amounts Identified / Actual Amount Reviewed | Amounts recovered CY | Amounts recovered PY(s) |
|----------------------------------|--|-------------------------------------|---------------------------------|---|----------------------|-------------------------|
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★Figure 3-2. Improper Payment Recovery Efforts