

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

All changes are denoted by blue font

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

Hyperlinks are identified by *underlined, bold, italic font.*

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Reworded paragraphs for clarity and incorporated changes from Office of Management and Budget (OMB) Circular A-136.	Update
0303	Added new “Performance Section” based on OMB Circular A-136 update. This section applies only to the DoD Agency-Wide Audited Financial Statements.	Addition
030207	Added new “Management Assurances” section based on <u><i>Federal Managers Financial Integrity Act (FMFIA)</i></u> and <u><i>Federal Financial Management Improvement Act (FFMIA)</i></u> regulations.	Addition

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CHAPTER 3

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

A dated transmittal letter signed by the agency head shall be located at the beginning of the annual financial statements. It shall include a brief message from the agency head highlighting the following:

- 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.
- C. The letter shall identify **material internal control** weaknesses; along with corrective actions being implemented to resolve them (**the letter may reference a more detailed discussion of this topic elsewhere in the report**).
- D. The Agency should disclose that a discussion of the completeness of the performance information is included in the Agency Performance Report (APR), **if applicable**.
- E. An acknowledgement that the Agency is using an alternative to the Performance and Accountability Report (PAR), **if applicable**.

0302 MANAGEMENT'S DISCUSSION AND ANALYSIS

★ The annual audited financial statements shall contain a section entitled Management's Discussion and Analysis (MD&A). **The MD&A is section 1 of the financial statements and should follow the Agency head letter (Secretary's Message) and include a paragraph acknowledging the Agency's use of the alternative to the consolidated PAR, if applicable. The MD&A should provide a clear and concise description of the reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address challenges.** To be useful, the MD&A shall be understandable to a nontechnical audience; easy to read; and utilize visual references to present summary information. **The MD&A should focus on the most important matters, and provide a balanced analytical assessment of program and finance performance that includes both positive and negative information.**

★ The MD&A should include select key highlights of performance goals and results (shortfalls and successes) for the applicable year related to strategic goals. The Agency should also provide a high-level discussion of selected key accomplishments, as related to the Agency's mission and major strategic goals. **If an alternative to the PAR is used, the high-level discussion need not provide a thorough detailed analysis and summary of performance results for the year, as this information will be provided in the Annual Performance Report to be issued in conjunction with the President's Budget. It should clearly delineate the details on when and where the Annual Performance Report and the Citizens' Report will be available to the public.**

030201. Purpose. The MD&A should serve as a brief overview of the entire annual financial report. Conformance to U.S. generally accepted accounting principles (GAAP) for federal entities requires the inclusion of the MD&A of the financial statements and related information. The MD&A should inform the reader, at a high level, on progress toward accomplishing the entity's mission and associated strategic goals. The discussion should deal with the most important matters that would likely affect the judgments and decisions of people who rely on the PAR or Agency Financial Report (AFR) as a key source of information. It shall address most important matters that could:

- A. Lead to significant actions or proposals by top management.
- B. Significantly affect the judgment of stakeholders about the effectiveness of the entity.

★ 030202. Responsibility. Management is responsible for the content of the MD&A. Its preparation should be a joint effort of both the financial management office and program offices, and offices responsible for performance reporting, if applicable. Management has considerable discretion in preparing and presenting the MD&A, subject to the inclusion of the required components and the pervasive requirement that the MD&A not be misleading. The MD&A provides management with a vehicle for communicating insights about the entity, increasing the comprehension of financial information, and providing information about the entity, its operations, service levels, successes, challenges, and future horizon. The preparer shall 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 Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 15, Management's Discussion and Analysis, and Statement of Federal Financial Accounting Concepts (SFFAC) No. 3, Management's Discussion and Analysis, 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 following details of an entity:

- A. Mission(s) and organizational structure.
- B. Overall strategy and performance results.
- C. Financial statements.
- D. Systems, controls, and legal compliance.
- E. The MD&A should also include forward-looking information about the possible effects of the most important existing and anticipated financial demands, risks, uncertainties, 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 the MD&A.

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 statements.

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. Results of services performed through allocation transfers, but not reported on the financial statements as described in [OMB Circular A-136, Section II.2.6](#), if material to the reporting entity, should be included in the MD&A. 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.

F. A summary of the procedures management has designed and followed to provide reasonable assurance that reported performance information is relevant and reliable.

G. A discussion of important limitations and difficulties associated with performance measurement and reporting should be noted to the extent relevant. Additional information regarding efficiency and effectiveness can be found in [OMB Circular A-136, Section II.2.6.](#)

★ 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. This section should also include a discussion of key financial related measures emphasizing financial trends and assessing financial operations. Additionally, it should give users the benefit of management's understanding of the:

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. [Analysis of Systems, Controls and Legal Compliance](#)

A. Agencies are required to provide certain assurances as to the status and effectiveness of the internal controls and financial management systems that support the preparation of the financial statements. Management should provide its assurances related to the [Federal Managers Financial Integrity Act \(FMFIA\)](#), and its compliance determination required by the [Federal Financial Management Improvement Act \(FFMIA\)](#), in a separate section entitled "Management Assurances."

B. The FMFIA assurance statement provides management's assessment of the effectiveness of the organization's internal controls to support effective and efficient programmatic operations; reliable financial reporting and compliance with applicable laws and

regulations; and whether the financial management systems conform to relevant financial systems requirements. The assurance statement is required to be signed by the head of the agency. Additionally, DoD Components are required to provide a separate assessment of the effectiveness of the internal controls over financial reporting as a subset of the overall FMFIA assurance statement. The assurance statement shall be accompanied by a summary of material weaknesses and non-conformances, and a summary of corrective actions to resolve the material weaknesses and non-conformances. Illustrative assurance statements and further guidance on corrective action plans can be found in the CFO Council's document entitled, *Implementation Guide for the OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control over Financial Reporting."* In addition, management should include its FFMIA compliance assessment in this section. Management is required to provide its assessment of the organization's financial management systems compliance with the federal financial management systems requirements, standards promulgated by the *Federal Accounting Standards Advisory Board (FASAB)*, and the *U.S. Standard General Ledger* at the transaction level. Financial management systems include both financial and financially-related (or mixed) systems. Further guidance on the financial systems requirement can be found in *OMB Circular A-127, Financial Management Systems. OMB Circular A-11, Part 2, Section 52, Information on Financial Management*, outlines requirements for an agency's plans for bringing its systems into substantial compliance.

C. Management should review its assurance statements (FMFIA) and its compliance determination (FFMIA) for consistency with the findings specified in the annual financial statement audit report(s). The Office of Inspector General or auditor will compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report and document any material weaknesses disclosed by audit that were not reported in the agency's assurance statements. The reports may be different, but they should not be in direct conflict. When conflicting discrepancies exist, it is management's responsibility to ensure that outstanding issues are reported appropriately.

★ 030208. *Improper Payments Information Act (IPIA) Reporting*. This section applies only to the DoD Agency-Wide Audited Financial Statements and is not a requirement for the Military Services or other DoD Components. Guidance can be found in *OMB Circular A-136, Section II.3, Performance Section – PAR Section 2*. To satisfy the reporting requirements of the IPIA, a brief summary of what agencies have accomplished, and plan to accomplish, shall be included in the MD&A. All other required information, should be included as an item in the Other Accompanying Information (OAI).

★ 030209. *Other Management Information, Initiatives, and Issues*. Management has the discretion to include a summary in the MD&A of other information, initiatives, and issues it identifies. This could include summarizing entity progress in implementing key management initiatives.

030210. *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 Circular A-136, 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 PERFORMANCE SECTION.

This section applies only to the DoD Agency-Wide Audited Financial Statements and is not a requirement for the Military Services or other DoD Components. Guidance can be found in [OMB Circular A-136, Section II.3, Performance Section – PAR Section 2](#).

★ 0304 OTHER ACCOMPANYING INFORMATION

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:

★ 030401. Management Challenges. The audited financial statements shall include a statement prepared by the agency's Inspector General (IG), summarizing what the IG considers to be the most serious management and performance challenges facing the agency. Also, the IG's statement shall provide a brief assessment of the agency's progress in addressing those challenges. This statement shall be provided to the agency head at least 30 days before the audited financial statements due date. Comments by the agency head may be appended to the IG's statement. The agency head may comment on, but not modify the IG statement. Additional guidance can be found in the [OMB Circular A-136, Section II.5, Other Accompanying Information – PAR Section 4](#).

★ 030402. Summary of Financial Statement Audit and Management Assurances. Components are required to prepare a Summary of Financial Statement Audit and Management Assurances. Each material weakness should be listed using a unique, short, and easily understood name. These names should be kept constant, so that a weakness reported in FMFIA sections or by the auditor has the same name. To the extent possible, weakness names should also be kept constant from year to year, and the same names should be used when the weaknesses are entered into the Financial Information Progress System (FIPS). The Internal Control Office inputs this information into FIPS for the Department. Individual DoD Components do not input data into FIPS directly. Significant deficiencies are not required to be reported. See OMB Circular A-136, Section 11.5.6. for additional guidance regarding format and content of the summary report.

★ 030403. Improper Payments Information. Guidance for reporting improper payments is contained in Volume 4, Chapter 14, Improper Payments, of the DoD Financial Management Regulation (FMR).

★ 030404. 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, and Statement of Budgetary Resources shall be reported as OAI.

B. Other reporting, as appropriate.