A tale of an evolving standard: XBRL reporting for U.S. and Brazilian local governments

By Deniz Appelbaum, Hussein Issa, and Stephen Kozlowski, for

The 36th World Continuous Auditing & Reporting Symposium, held at the

University of Sao Paulo, Sau Paulo, Brazil

on June 2, 2016

Introduction: Governmental reporting

<u>Increased transparency demand:</u>

U.S.: DATA Act S.994 was passed into LAW May 2014

Brazil: Supplementary Law 131 passed in 2009

<u>Questions:</u>

1) What are the incremental innovations with governmental digital reporting that may be gleaned from other countries such as Brazil?

2) How may the DATA Act elements be successfully extended to Single Audit Filings, since grant recipients will be filing in the new digital format under the Pilot Program (mandated in Sect. 5)?

# Why is governmental financial reporting transparency so important?

America Will Spend More on Taxes in 2015 Than it Will on Food, Clothing, and Housing Combined

In 2015, America will pay $3.3 trillion in federal taxes and $1.5 trillion state and local taxes, for a total tax bill of $4.8 trillion, or 31 percent of national income.

Billions of Dollars

Food / Clothing / Housing

State and Local Taxes / Federal Taxes

Source: Bureau of Economic Analysis; Tax Foundation calculations.

RUTGERS

Why is governmental financial reporting transparency so important?

When Does Tax Freedom Day® 2015 Arrive in Your State?
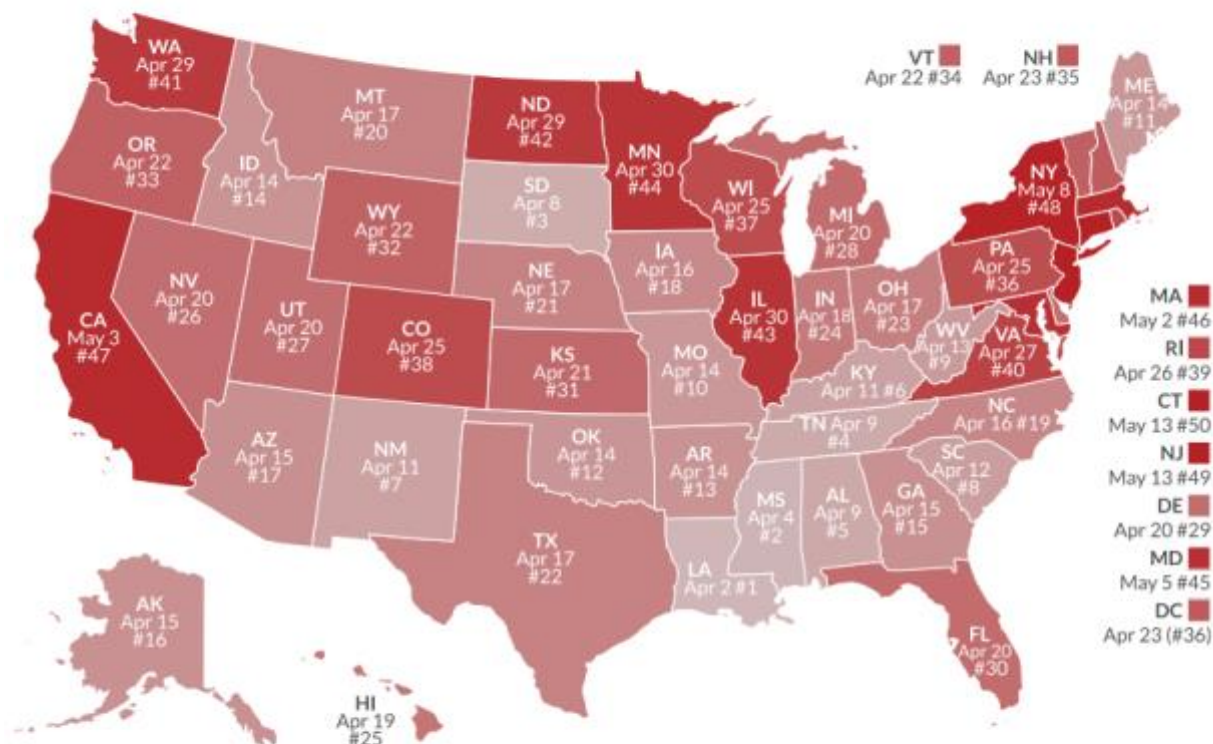
May 13th

Notes: Each state's Tax Freedom Day® is the day on which residents of that state have collectively worked long enough to pay all tax obligations at the federal, state, and local levels.
Source: Tax Foundation, *Tax Freedom Day® 2015*

U.S. Local Municipality Reporting and the Single Audit Act

- Local governments differ from businesses in purpose, organization, processes of generating revenues, stakeholders, budgetary obligations and longevity (GASB, 2013).

- Taxation: legally mandated involuntary exchange, direct benefit/service? How to measure service efficiency?

- Federal Government: $400 Billion in grants annually

- Single Audit Act of 1984: requires that each grant recipient of more than $750,000 from ANY agency or agencies will need to file a Single Audit Report

- Each agency has 14 specific grant requirements that must be followed

- For many grantees, this is a repetitious process!

36th WCARS at University of Sau Paulo, June 2, 2016

U.S. Local Municipality Reporting and the Single Audit Act

Single Audit Reporting Package:

- Auditor's Reports
- Management Discussion and Analysis (MD&A)
- Recipient's financial statements
- Recipient's notes to the financial statements
- Supplemental Information
- Schedule of Expenditures of Federal Awards (SEFA)
- Schedule of Findings and Questioned Costs
- Schedule of Prior Audit Findings

Rutgers University 2013 Single Audit Reporting Package:

124 pages, SEFA 71 pages

Rutgers University 2013 Single Audit Report is used to build the reporting example

Performance Auditing of Government Entities

Governments and non-profits: service, not profits

- Questions: how to measure this service, how to track and trace the purpose?

- (GASB 2008) voluntary guidance *"Service Efforts and Accomplishments (SEA) Report"*

Key measures of SEA:

- Purpose and scope
- Major goals/objectives/purpose
- Key measures of SEA performance
- Discussion and Analysis of results and challenges

GASB Concepts 1 & 2:

Attributes of SEA Report: Relevance, Understandability, Comparability, Timeliness, Consistency, and Reliability

Should the Single Audit and SEA reports remain in PDF format?

7

Confluence of Government Innovations Across Nations

Multinational businesses share innovations across countries
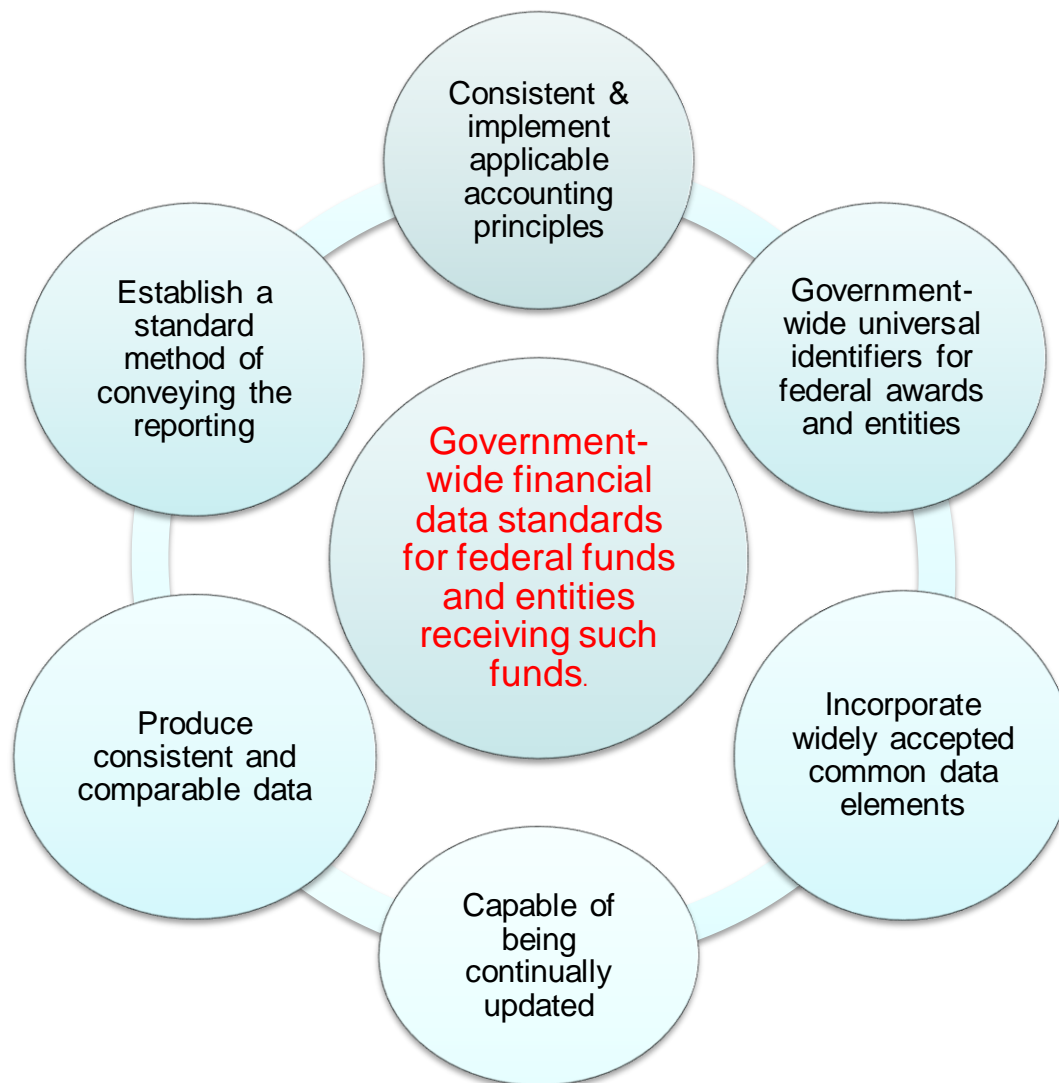
Performance Auditing for Governments

- Canada : Auditor General Act of 1977

- Followed by Australia, New Zealand, Sweden, the U.K. and finally the U.S. (Glynn, 1985) and then by many others
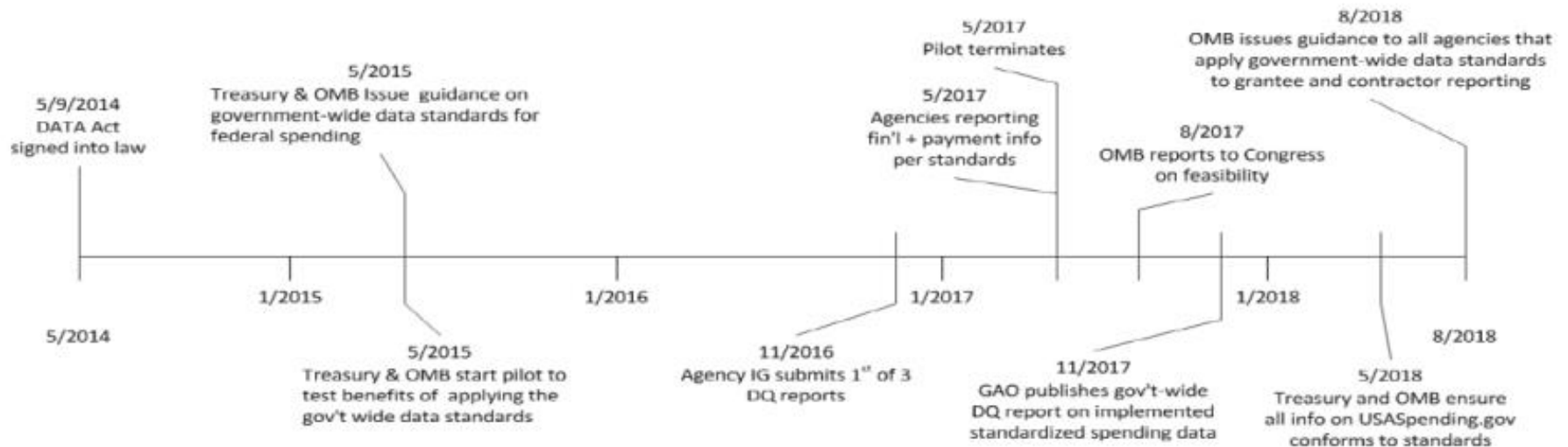
Similarly, many governments have started reporting in digital machine-readable format

- The Netherlands, 2004

- Australia, China, Holland, Brazil in 2013, and the U.S. in 2014…

The DATA Act

Consistent & implement applicable accounting principles

Government-wide universal identifiers for federal awards and entities

Establish a standard method of conveying the reporting

Government-wide financial data standards for federal funds and entities receiving such funds.

Incorporate widely accepted common data elements

Produce consistent and comparable data

Capable of being continually updated

36th WCARS at University of Sau Paulo, June 2, 2016

The DATA Act

5/9/2014 DATA Act signed into law

5/2014

1/2015

5/2015 Treasury & OMB Issue guidance on government-wide data standards for federal spending

5/2015 Treasury & OMB start pilot to test benefits of applying the gov't wide data standards

1/2016

11/2016 Agency IG submits 1st of 3 DQ reports

1/2017

5/2017 Agencies reporting fin'l + payment info per standards

5/2017 Pilot terminates

11/2017 GAO publishes gov't-wide DQ report on implemented standardized spending data

8/2017 OMB reports to Congress on feasibility

1/2018

8/2018 OMB issues guidance to all agencies that apply government-wide data standards to grantee and contractor reporting

8/2018

5/2018 Treasury and OMB ensure all info on USASpending.gov conforms to standards

Timeline of the Grantee Pilot Program:

Date	DATA ACT/PILOT PROGRAM EVENT
5/09/2014	DATA ACT passed into law
5/09/2015	Pilot Program begins with selected grant recipients
5/09/2017	Pilot program finishes
5/09/2018	OMB reports results to Congress
8/09/2018	OMB decides to require (or not) grant recipients to report in the format required by the DATA ACT

The DATA Act

Pilot Program:

- Affects state and local governments, transportation authorities, hospitals, universities, charities and not-for-profits
- Little standardization in accounting practices across jurisdictions and recipients (Bloch et al,2015)
- Standardization of data terms/definitions
- Reports must be published in machine readable transparent format

Federal Level:

- Separated reports and agencies will now be standardized
- Newly formed central reporting website www.usaspending.gov where all will file statements and reports will be published
- Currently all financial statements are in PDF: DATA Act requires that reports be in machine-readable and open data format, such as that of XBRL

RUTGERS
THE STATE UNIVERSITY
OF NEW JERSEY

NOTE 11 – NATURAL EXPENSES BY FUNCTIONAL CLASSIFICATION

The university reports operating expenses by functional classification. Details of these expenses by natural classification at June 30, 2013 and 2012 are as follows (dollars in thousands):

	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	2013 Total
Instruction	$491,940	$125,528	$103,790		$721,258
Sponsored Research	101,279	25,021	102,656		228,956
Other Separately Budgeted Research	48,341	20,887	15,470		84,698
Other Sponsored Programs	34,366	8,992	39,537		82,895
Extension and Public Service	23,798	7,408	10,047		41,253
Libraries	20,878	5,218	14,598		40,694
Student Services	38,050	12,277	40,084		90,411
Operation and Maintenance of Plant	58,376	15,627	68,054		142,057
General Administration and Institutional	67,575	18,253	48,143		133,971
Scholarships and Fellowships	4,172	82	37,935		42,189
Depreciation				$97,643	97,643
Auxiliary Enterprises	103,520	34,144	140,789		278,453
Other Operating Expenses			954		954
Total Operating Expenses	$992,295	$273,437	$622,017	$97,643	$1,985,392

	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	2012 Total
Instruction	$464,846	$119,693	$101,905		$686,444
Sponsored Research	96,560	23,246	102,174		221,980
Other Separately Budgeted Research	44,062	13,239	16,954		74,255
Other Sponsored Programs	38,538	10,365	39,924		88,827
Extension and Public Service	24,880	6,778	7,628		39,286
Libraries	20,676	5,193	13,595		39,464

This PDF document must be manually extracted if the reader wants to analyze this information!!

36th WCARS at University of Sau Paulo, June 2, 2016

The Brazilian Initiative

Most similar to the U.S.:

- One central government, 26 states, one Federal District, and 5561 municipalities

- Federal Government and States have 3 powers: executive, legislative, and judicial

Fiscal Responsibility Law (LRF) enacted in 2000, requires entities to achieve balanced budgets and transparent financial data

- LRF mandates that all state and local reports also be consolidated at one location - responsibility of the National Treasury Secretariat (STN)

STN relies on the Accounting Data Collection System (SISTN):

- SISTN provides a standardized web form Consolidated Accounting Data Schedule (QDCC)

- Duplication of effort with different reporting formats and requirements!

- Dec 2014: All state and local accounts must be in standardized codes and attributes (started with Ordinance No. 184 in 2008)

	Brazil:	United States:	Degree of similarity:
Number of States	26 states	50 states	Somewhat similar
Format	Format controlled by STN	Single Audit format controlled by Federal agencies with different requirements	Not similar
Reporting structure	Reports structured by law LRF	Reports loosely structured by GASB	Not similar
Data format	PDF Reports	PDF Reports	Similar
Matching reports	QDCC doesn't match required annual forms	Single Audit filings often do not match other reports	Similar
Data availability	QDCC data is detailed and publicly available	Detailed checkbook data is just now being made available by several local governments	~ = becoming more similar
	Challenges:	**Challenges:**	**Challenges**
	Need to standardize chart of accounts in order to consolidate information	Accounting conventions will need to be uniform for grant reporting	Somewhat Similar
	Obsolete method of collection	Obsolete method of collection	Similar
	Objectives:	**Objectives:**	**Objectives:**
	Replace obsolete data collection system	Replace obsolete data collection system	Similar
	Improve data quality	Improve data quality	Similar
	Simplify reporting process for entities	Simplify reporting process for entities	Similar

The Brazilian Initiative

The United States	Brazil
One mandated standardized digital format for all Federal agencies	One mandated standardized digital format for all Federal agencies
Can only mandate the data format for grant recipient reports	Can mandate that all states and municipalities and fund recipients use the standardized data format for all financial reports
Cannot mandate State and Local level accounting practices	Has mandated that all State and Local governments use the same accounting standards and conventions

XBRL – Extensible Business Reporting Language

- Special language derived from XML
- "extensible": if the rules are followed, XML can be extended/embellished.
- "markup": labeling data with tags that add meaning and dimension
- DATA is TRANSFORMED into USEFUL INFORMATION!!
- XBRL documents = "instance documents" which define that report type and description
- XBRL GL versus XBRL FR
- XBRL GL: vouch and trace
- XBRL GL: used in Brazil and will be used in the U.S., as it provides complete DATA TRANSPARENCY

36th WCARS at University of Sau Paulo, June 2, 2016

XBRL benefits:

- Transparent
- Extensible
- Vouch-able
- Trace-able
- Sharable
- Accurate
- Simpler
- Flexible

XBRL regulatory report benefits	Stakeholders			
	Banker	Regulatory	Vendor	Analyst
Reduce reporting burden				
Get it right first time	✓	✓		
Automate data entry	✓	✓		
Reuse data for reports internal or external	✓	✓		✓
Integrate data for reports internal or external	✓	✓	✓	✓
Improve data timelines				
Publish bank's data day after receipt	X	X		X
Create and deploy event driven reports	X	X		X
Improve data accuracy				
Validate prior to submission	X	X		X
Deploy unique set edits per set of banks	X	X		X
More accurate and less burden				
Provide consistent validation edits	✓	X	✓	
Simplify programming effort				
Provide integrated and structured - forms, edits instructions, test data, edit data and code	✓	✓		✓
Improve flexibility				
Update report requirements more easily		X		X

* From Ernst & Young: Introduction and Explanation of XBRL

RUTGERS

XBRL for State and Local U.S. Government Financial Reports

- DATA Act and FFATA (Federal Funding Accountability and Transparency Act) Collaboration space:

Broad Category of "Data Elements":

Reference:
https://fedspendingtransparency.github.io/dataelements/

S.N	Category	Description
1	Awardee and Recipient Entity Information	This list includes information about recipients and awardees of federal funds.
2	Award Amount Information	This list includes elements used to describe the amount (value) of a certain award.
3	Award Characteristic Information	These elements describe the different characteristics each award possesses.
4	Funding Entity Information	These data elements describe characteristics of the entity that provided funding for an award.
5	Awarding Entity Information	Elements on this list describe awarding entities – those that presented the awardee with the funding.
6	Account Level Information	This list features elements that describe the accounts from which the awards are funded.

XBRL for State and Local U.S. Government Financial Reports

Rutgers University Single Audit Report 2013, SEFA section

Proposed Data Elements for "**Schedule of Federal Award Expenditure**" **(Single Audit Report):**

S.N	Recommended Data Element	XBRL Item Type	Data Definition
1	Federal Expenditures	Monetary Item	Amount of federal expenditure.
2	Catalog of federal domestic assistance numbers (CFDA)	String Item	The title of the program under which the Federal award was funded in the CFDA.
3	Pass Through Grantors Number	String Item	Pass through grantors number.
4	American Recovery and Reinvestment Act Applicable	Yes No Item Type	Denotes the American Recovery and Reinvestment Act applicability.
5	Program Title [Axis]	Dimension Item	Axis to represent program title
6	Agency [Axis]	Dimension Item	Axis to represent agency name
7	Grant Nature [Axis]	Dimension Item	Axis to represent grant nature
8	Grantor [Axis]	Dimension Item	Axis to represent grantor title
9	Basis of Presentation [Text Block]	Text Block Item	The entire disclosure for basis of presentation.
10	Sub recipients [Text Block]	Text Block Item	The entire disclosure for sub recipients.
11	Federal Direct Student Loan Program [Text Block]	Text Block Item	The entire disclosure for Federal Direct Student Loan Program.
12	Loan Program [Text Block]	Text Block Item	The entire disclosure for Federal Perkins Loan Program, Nursing Student Loan Program, and Income Contingent Loan.

XBRL for State and Local U.S. Government Financial Reports

- **Sample input file (Single Audit Report)**

(Schedule of Expenditure of Federal Awards)

XBRL for State and Local U.S. Government Financial Reports

36th WCARS at University of Sau Paulo, June 2, 2016

XBRL for State and Local U.S. Government Financial Reports

Sample Review Report (Human Readable)

36th WCARS at University of Sau Paulo, June 2, 2016

Benefits

- The DATA Act simplifies the reporting process and reduces duplication of filing

- Provides greater transparency and portability of information

- Standardizes this information across recipients, grantor agencies, and grant types

- Report generation is automated

Challenges

- Development of this standardized taxonomy: 57 elements, April 2016

- Joint responsibility of OMB and Treasury…

- How to successfully implement the pilot program

- Measurement of the Pilot Program's success

- And, ideally local and state governments should adopt a standardized XBRL taxonomy developed by the GASB for all financial reports

24

Questions?

36th WCARS at University of Sau Paulo, June 2, 2016