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## An Analysis of Local Government Performance Measurement Reports

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FLORIDA STATE UNIVERSITY  
COLLEGE OF SOCIAL SCIENCES

AN ANALYSIS OF LOCAL GOVERNMENT  
PERFORMANCE MEASUREMENT REPORTS

By

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A Dissertation submitted to the  
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I dedicate this dissertation to Anita to whom I have been married for 41 years. She has continuously supported my educational endeavors and has always been there to provide encouragement along the way. Also, dedicated to my son Chris and his family for their continuous support and encouragement.

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## LIST OF ABBREVIATIONS

AGA	Association of Government Accountants
AICPA	American Institute of Certified Public Accountants
CEAR	Certificate of Excellence in Accountability Reporting
FAF	Financial Accounting Foundation
FASAB	Financial Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
GPEFR	General Purpose External Financial Reporting
ICMA	International City County Management Association
NCCI	National Center for Civic Innovation
PAR	Performance and Accountability Reports
SEA	Service Efforts and Accomplishments Reporting

## **ABSTRACT**

This research has shown that the theory underlying the responsibility for government to report on its performance with both financial and nonfinancial information goes back over 100 years. Public reporting to citizens on government's performance is supported by efficient citizenship, bureaucratic politics, and democracy theory in public administration. Prior to the establishment of the GASB in 1984, the Financial Accounting Standards Board and leading governmental accounting organizations recognized that measures other than shareholder wealth were needed for government. The measures could be financial and nonfinancial and should focus on resources provided and services rendered. To manage the ambiguities inherent in performance reporting (also referred to as Service Efforts and Accomplishment reporting), the GASB has nurtured SEA reporting by calling for experimentation and conducting issuing research on the topic for almost 25 years. In 2003, the GASB identified sixteen suggested criteria for external SEA reporting. There have been significant objections to GASB's involvement in SEA notwithstanding authority granted to the Board by the Financial Accounting Foundation. In 2008, the GASB issued new and revised Concept Statements describing the GASB's role in SEA and providing guidance for governments that voluntarily choose to externally report SEA to citizens and others.

The research has shown GASB's sixteen suggested criteria for SEA reporting are attainable as demonstrated by several local governments participating in the Association of Government Accountants SEA certificate program. At the same time, SEA reporting has not received widespread acceptance and adoption by local governments. Additional research is need to identify whether the lack of widespread reporting is related to resource availability, the lack of a model reporting format, reluctance to externally report the government's performance by management and/or elected officials, or a lack of demand on the part of citizens. It could be that citizens are not aware such information exists or governments may not be aware the information could be provided with some additional guidance and effort.

New and revised Concepts Statement 5 and 2 have addressed many of the objections to GASB's involvement in SEA. In addition, this research has shown that several local government SEA reports have responded and/or overcome objections put forward by leading public organizations. However, there continues to be a need for verification of reported data. Lastly, both the GASB and the Government Finance Officers Association have defined the term "accountability" differently. The GASB definition more clearly identifies with issuing SEA reports for citizen consumption. Ways need to be identified to allow "an ordinary citizen" to be able to access and easily understand their government's performance. This research has significant implications for public administration, governmental accounting, budgeting, policymaking, accountability, and citizenship.

# INTRODUCTION

The research to be addressed in this dissertation:

Strong objections have been put forth by leading public interest organizations to the involvement in performance reporting by the Governmental Accounting Standards Board (GASB), the nation's authoritative standards setting body for state and local government accounting and financial reporting. The objectives of this research are threefold. First, this study compiles a useful history of the conflict over performance reporting, also called Service Efforts and Accomplishments (SEA) reporting, including the antecedents of GASB's activities which are rooted in public administration theory and traditions dating back to the Progressive Era. Second, this study will investigate the utility of a set of criteria, developed by the GASB, to ascertain the "state of the art" in performance reporting. Specifically, what does applying these criteria to evaluate the quality of performance reports submitted by that group of local governments reveal about the attainability of various aspects of reporting quality. Third, this study will investigate whether the actual practices of a self-selected group of governments that are doing performance reporting sustain, or cast doubt upon, the validity of the posited objections of a group of professional and public organizations that oppose GASB's involvement in external performance reporting.

## **CHAPTER 1**

# **THE RESEARCH OBJECTIVE AND ITS SIGNIFICANCE TO EXTERNAL PERFORMANCE MEASUREMENT REPORTING**

### **Purpose of Performance Measurement Reporting**

The GASB (Governmental Accounting Standards Board) has defined Service Efforts and Accomplishments (SEA) reporting as (GASB Fact Sheet, 2008):

“The communication of selected measures of a government’s performance results. This includes the public reporting of key service performance indicators that provide decision-useful information about the government’s actual accomplishments achieved in pursuit of its goals and objectives.”

### **Performance Measurement Reporting – Historical Overview and Research Objectives**

The history of government’s responsibility to publicly report on its service efforts and accomplishments goes back over 100 years. From the late 1880’s to 1925, the focus was on efficient citizenship that encouraged citizens to exercise their right to be informed by receiving performance measurement information from and about their government. The New York Bureau of Municipal Research, established in 1907, was a pioneer in the performance measurement movement in the Progressive Reform era.

From 1925 to 1950, performance measurement reporting reached a high point through the efforts of Clarence Ridley, the executive director of the International City Managers Association. From the 1950s to 1970, public reporting in public administration theory lost momentum. In the 1970’s and 1980’s, accounting standards organizations began to recognize that financial statement reporting for nonprofit and state and local governments was helpful, but since profit was an insufficient measure of success, additional information on their service efforts and accomplishments was needed to better inform citizens.

In 1984, the GASB was established as the authoritative body to issue GAAP (Generally Accepted Accounting Principles) for state and local government. Since its beginning, the GASB has nurtured a project, the outcome of which would be a recommendation that governments should also issue, under the umbrella of GPEFR (General Purpose External Financial Reporting), reports to citizens containing both financial and nonfinancial information about the government’s service efforts and accomplishments. The

work of the GASB has not gone without objection by several respected professional and public organizations. In 2006, these organizations called for the GASB to cease its performance measurement efforts and further that the GASB be abolished because its “accountability framework” conflicts with their view of a traditional “accounting framework.”

According to the GASB and AGA staff in their article on *Improving Performance Reporting for Government*, the purpose of managing for results systems is to present accurate and timely data that can be used for setting policies, designing programs, budgeting, managing and improving results, and informing constituents/stakeholders about how well government is meeting its objectives and achieving its broad mission of helping maintain or improve the well-being of its citizens (Fountain, 60-66).

In their 1938 article on “The Criterion of Efficiency,” Clarence E. Ridley, the executive director of the International City Managers Association, and Herbert A Simon, subsequently recognized as the father of decision theory, observed that in the private sector the objective is to make a profit and to please the stockholder. However in government, the public’s business is not about maximizing profit. Accordingly, they succinctly stated:

“It is necessary, therefore, that other criteria be devised for the appraisal of governmental activities if the citizen, the legislator, and the administrator are to make intelligent decisions” (Ridley and Simon, 1938, 20).

This research will analyze all local government performance measurement reports submitted to the Association of Governments Accountants for evaluation in its Certificate of Excellence in Service Efforts and Accomplishments reporting program. Submitted reports will be analyzed against the Governmental Accounting Standards Board’s sixteen suggested criteria for performance measurement reporting. Research emphasis will be placed on how local government performance reports address specific GASB criteria relating to citizen input and involvement in the development, feedback, and reporting of performance measures. This research will analyze how information contained in issued reports is supported by public administration theory - primarily efficient citizenship, bureaucratic politics, and democracy theory. This research will also analyze the strength of objections put forth by several public and professional organizations to GASB’s involvement in SEA in the context of accounting and public administration theory.

## **The GASB Authority to Establish Standards for General Purpose External Financial Reporting and the Significance**

In November 2006, the Financial Accounting Foundation, having responsibility for overseeing activities of the GASB, confirmed that the GASB has the authority to include SEA in its financial accounting and reporting standards activities for state and local governments (FAF, 2006). At a higher level, the GASB is responsible for establishing GAAP (Generally Accepted Accounting Principles) that state and local governments and special districts in the United States look to in preparing publicly issued financial statements (GASB Fact sheet, 2008). In 2008, there were approximately 90,000 state and local government entities subject to GASB pronouncements.

The GASB is one of the three accounting standards setting bodies in the United States recognized by the AICPA (American Institute of Certified Public Accountants) to issue Generally Accepted Accounting Principles (AICPA Rule 203, 2008). AICPA members (CPA's conducting audits) are prohibited from expressing an opinion that the government's financial statements comply with GAAP if the AICPA has not recognized the standards setting body establishing the accounting principles that guide the preparation of those financial statements.

The GASB has stated the primary users of state and local government financial reports are those to whom government is primarily accountable - its citizens; those who directly represent the citizens - legislative and oversight bodies; and those who finance government or who participate in the financing process—taxpayers, other governments, investors, creditors, underwriters, and analysts (GASB Uses and Users, 2008). Currently, the vast majority of state and local governments are required by law or by federal requirements to publicly issue audited financial statements prepared in accordance with GAAP issued by the GASB (U.S. OMB Circular A-133, 2008). The GASB has significant standing, authority, and responsibility for state and local government external financial statement reporting and the broader term of GPEFR (General Purpose External Financial Reporting).

For purposes of this dissertation, the figure that follows identifies External Reporting of Results as the focus of this research. External reporting is the last of the eight processes identified by the GASB in the Government Performance Measurement System (GASB Suggested Guidelines for Voluntary Reporting Exposure Draft, 2008).

## GOVERNMENT PERFORMANCE MANAGEMENT SYSTEM

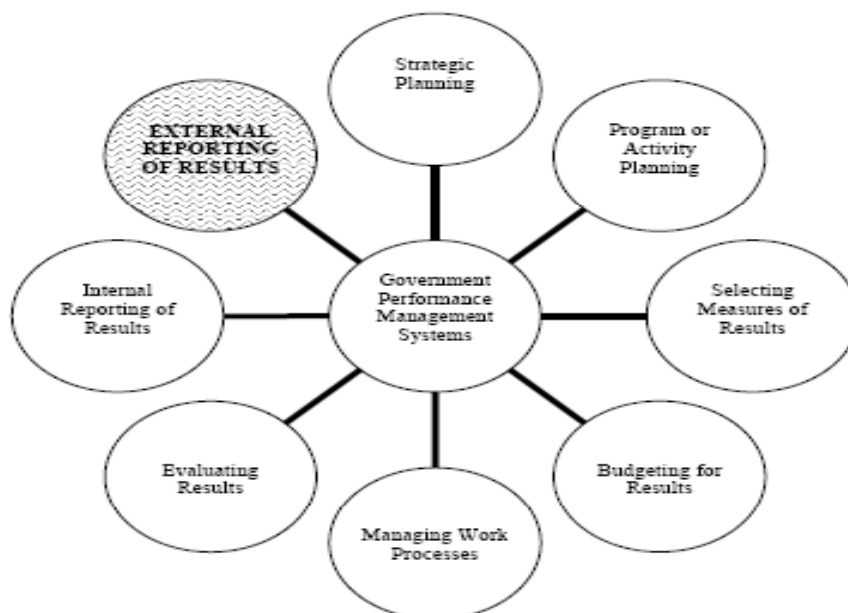


Figure 1.1: The government performance management system with emphasis on external reporting of results.

It is very important to note from the above Figure this research is about “External Reporting of Results.” This dissertation is not about the history of strategic planning; budgeting for results; internal reporting; or any of the other processes identified above other than external reporting.

In addition to a recently revised (2008) Concepts Statement No. 2 and issuance of Concepts Statement No. 5, on concepts related to Service Efforts and Accomplishments Reporting (GASB, 2008), the GASB has also recently proposed recommended guidelines that governments may voluntarily use to issue performance measurement reports (GASB Suggested Guidelines for Voluntary Reporting of SEA Performance Information, 2008.) , It would seem reasonable that the GASB would receive strong support from major professional and public organizations for its efforts to link financial statement reporting to performance measurement reporting. Financial statement reporting helps to answer questions relating to the cost of government services and the extent of the government’s compliance with laws and regulations that are material to the financial statements taken as a whole. Performance measurement

reporting, now encouraged by the GASB on a voluntary basis, helps provide information to report users on the efficiency, effectiveness, and equity of services provided and includes not only financial information but also other measurement information that has been termed “nonfinancial.” Together, external financial statement reporting and performance measure reporting compliment one another, promote efficient citizenship, and provide information for management, elected officials, and citizens to make improved economic, political, and social decisions (NCGA Concept Statement No. 1, 1982 and GASB White Paper, 2006.)

## **AGA SEA Certificate Program for Performance Measurement Reporting**

This research will study documents submitted to the Association of Government Accountants Certificate of Excellence in Service Efforts and Accomplishment Reporting program (AGA SEA Program, 2008). AGA represents approximately 15,000 accountability professionals in federal, state, and local government and in the private sector (About AGA, 2008). This researcher has been given access to all (100 percent of) SEA reports submitted to AGA for review and feedback for the 2003-2004 pilot year and reports submitted for certificate review in 2004-2005, 2005-2006, and 2006-2007. All SEA local government reports will be analyzed to identify the type information included in externally issued performance measurement reports. This research will analyze how citizens are involved in identifying performance measures of importance to them. Such citizen involvement could take the form of (1) helping the government to identify measures to be reported on, (2) providing suggestions for new or revised measures as a result of reviewing issued SEA reports, and/or (3) providing feedback through citizen surveys. A comparison of issued reports and how they address accountability might improve government transparency and citizen understanding. The reports may show that citizen involvement can improve the quality, understandability, and usefulness of the information reported – information that is important to ordinary people.

This researcher has also been given access to selected AGA scoring data and related correspondence to and from participating local governments for each evaluated report. This data will help to identify report strengths and weaknesses. To date, no other doctoral research has been conducted on these reports. The reports include 46 local governments and total almost 80 submissions since the pilot program began.

## **NCCI Program to Fund Performance Measurement Reporting by Local Governments**

To directly encourage governments and citizen organizations to prepare SEA reports, the Alfred P. Sloan Foundation has provided significant grants to the Fund for the City of New York to administer



“trailblazer” grants through their National Center for Civic Innovation (NCCI). In 2004, NCCI began administering a program that provides grants to local governments in the United States and Canada that have expressed the intent to publicly issue performance reports to citizens (NCCI Trailblazer Grants, 2008). For this Sloan funded NCCI grant program, recipients are encouraged to apply some or all of GASB’s sixteen suggested criteria for effective communication in preparing their SEA reports. While there is no requirement for NCCI recipients to also submit their SEA report to AGA, through 2007, sixteen governments have chosen to do so.

The work of the Fund to provide grants through NCCI is also consistent with other works of the Fund. In their research, the Fund found that in performance measurement and reporting, it is important to add the missing link of the voice of the public in government performance reporting. Government should report on things that people want to know and what people care about (Cohn Berman, 2005).

### **Sloan Grants Linked to GASB, AGA, and NCCI**

The Alfred P. Sloan Foundation has provided significant grants to the Governmental Accounting Standards Board (the GASB) to further its efforts to develop and recommend criteria and a framework that state and local governments can use in preparing and publicly issuing reports on their service efforts and accomplishments. In addition, the Sloan Foundation has provided significant grants to the Association of Government Accountants (AGA) to assist that organization in establishing a certificate program that recognizes state and local governments that have publicly issued exemplary SEA reports meeting GASB suggested reporting criteria (Foundation, Sloan Grants, 2008).

For over twenty years the GASB has recommended continued study and experimentation in performance measurement reporting. In August 2003, the GASB suggested sixteen criteria for governments to follow in communicating to the public their service efforts and accomplishments (GASB Suggested Criteria, 2003). At approximately the same time, AGA adopted the GASB’s sixteen criteria for evaluation in AGA’s SEA Certificate Program (AGA SEA Guidelines, 2005). The Sloan Foundation largely funded the performance measurement work of both organizations.

The significance of the GASB and AGA initiative is that for the first time two major organizations have encouraged governments to supplement externally issued financial statement reports with externally (publicly) issued performance measurement reports so citizens and other report users can better assess and understand the service efforts, accomplishments, and challenges facing their governments. Significant benefits can result from the GASB and AGA efforts. The Sloan Foundation, by funding programs at the GASB, AGA, and NCCI has encouraged state and local governments to be more responsive to their citizens. The Foundation believes that these three organizations can further the

dissemination of performance SEA information that “matters to ordinary people” (Foundation, Sloan Municipal Governments, 2008).

## **Access to GASB and AGA Data**

This researcher requested and the GASB provided access to materials and literature assembled by the GASB staff since discussion of SEA reporting began. Access includes transcripts of 19 citizen focus group sessions held around the country by the GASB between November 2000 and July 2001. Suggestions made by the 113 participants significantly influenced the identification of the GASB’s sixteen suggested criteria for effectively communicating SEA. While the GASB issued a summary of the transcripts in their *Report on the GASB Citizen Discussion Groups on Performance Reporting* in July 2002, this researcher believes additional insights may be gleaned from the transcripts that will directly relate to this researcher’s report and interest (GASB Citizen Discussion Groups, 2002).

This researcher was a participant in a January 2007 GASB roundtable discussion of SEA reporting and its direction. Subsequently, in late 2007, this researcher was asked by the GASB to participate as a member of its SEA Tasks Force to provide comments and suggestions on the need for changes to the originally issued Concept Statement No. 2 of the GASB on Service Efforts and Accomplishment Reporting. Revision to Concept Statement No. 2 now removes the suggestion that governments “should” include SEA information in GPEFR (General Purpose External Financial Reporting) to a revised concept statement that provides guidelines for those governments that “voluntarily choose” to include SEA information in GPEFR (GASB, Concept Statement No. 5, 2008).

## **Public Administration Theoretical Framework**

From the findings relating to the review of SEA reports, the researcher intends to discuss each in the context of public administration theory. Applicable public administration theory will include efficient citizenship theory, bureaucratic politics theory, and democracy theory.

Efficient citizenship theory had its beginnings in the Progressive Period and can be traced back to the work of the New York Bureau of Municipal Research. The Bureau recognized the need for government to report to citizens not only in financial terms, but also to report on the performance of governments programs, activities, and functions. To the Bureau, citizens were more than customers of government services; they were owners having every right to request and to be provided information about the operation and performance of their government. Citizens should be able to see for themselves how well their government is meeting their needs - a basic premise of this research. From Bureau publications from 1908-1913 called *Efficient Citizenship*, emerged Efficient Citizenship Theory. The theory calls for

citizens to be educated, to obtain reports that provide useful information for analysis, to analyze the reports and monitor the government, to participate in the process, and to make their preferences known (Schachter, 1995). Efficient citizenship, and efficient government, is best achieved when reports to citizen-voters link government financial statement reports to government performance reports (Klay and McCall, 2008). In other words, what are citizens getting for their money? Armed with information about their government, citizens could monitor and be involved in the actions and efforts of their government. According to Charles E. Merriam, “the amount of work done in various departments materially increased under the stimulus of inquiry” (Merriam, 1912, 297). A critical point of this theory is that democratic government is best shaped by the choice of well-informed voters.

This research will explore the view that citizens are more than customers; they are owners of the government and, like shareholders in a corporation, deserve and have a right to demand information that helps them understand what government does to provide them an acceptable return on investment (ROI). Citizens need both financial and performance information to assess the efficiency, effectiveness, and equity of government performance. Improved performance reporting for citizen consumption could influence voter turnout and election results. SEA reporting may help to fill the current “expectation gap” that is described as the difference between what citizens think is important to be reported to them about their government and what information they are currently provided from their government (Harris Poll, 2008). Research has shown that citizens measure government differently than government measures itself (Cohn Berman, 2005).

Bureaucratic politics theory seeks to explain the bureaucracy’s political role in the policy making process. To ignore this behavior is to ignore a central role of the bureaucracy. Herbert Simon believed that government could be made more scientific by separating values from facts and focusing on the factual side of public administration (Simon, 1946). Dwight Waldo (Waldo, 1948) countered by stating that government cannot be cleanly divided into policymaking and policy execution and that administration is not a value neutral activity separate from politics. When it comes to policy making and the notion that policies are solely prescribed by elected officials, James Q. Wilson (Wilson, 2000) observed that without a clear statement from legislatures, policy making is transferred to the bureaucracy. Further, while there may and should be recognition that elected officials need performance measurement information to make policy decisions, it is the bureaucracy that often shapes and selects those measures to be reported.

Democracy theory is grounded in Dwight Waldo’s statement that government is not about efficiency; it is about democracy, which is often inefficient. Waldo observed that democracy and efficiency are often opposites and that in markets efficiency is important; however in government equity, consensus, and citizen satisfaction are important (Waldo, 1948). Performance measures assist all parties, elected and

appointed officials, agency management, and citizens, to have insight and input into the making of economic, political, and social decisions

The GFOA (Government Finance Officers Association) and the Big Seven public organizations have taken the view that performance measurement reporting should be reported internally in the budget and primarily for the use of elected officials and agency management. This constrained view would seem to deny citizens the right to openly receive information needed to understand the service efforts and accomplishments of their government and their obligation to actively participate in decisions that affect them. While no one would question the above organizations support for a democratic society, it is not apparent why GFOA seems to be taking a position on this issue that is counter to those democratic ideals. The logic for their position and the GASB's involvement in SEA reporting needs further examination and understanding.

To my recollection, no public administration organization has sought to participate in the GASB due process deliberations or weigh in on how public administration theory supports the actions of the GASB in its SEA agenda. Public administration can and should have much to add to this topic. One can argue that the GASB's actions are the most significant advancement in bringing government transparency and accountability to citizens since the efforts of the New York Bureau of Municipal Research in the early 1900's and the efforts led by the ICMA from 1925 -1950s.

This researcher believes in view of the significant financial problems needed to be addressed regarding financial stability and sustainability at all levels of government, there needs to be further research on external reporting of financial and performance information and involvement of citizens as owners of the government as opposed to citizens only fulfilling the role of resource provider or customer. The efforts of the GASB and AGA could further efforts to have an informed and active citizenry and strengthen their role as investor/owner. That is why the objections to the GASB's actions must be carefully studied.

## **GFOA and Big Seven Objections to the GASB Involvement in SEA Efforts**

Seven public organizations, led by the separate Governmental Finance Officers Association (GFOA) of the US and Canada, have stated that the GASB's actions have extended beyond its mandate to establish accounting standards and have inappropriately moved into the accountability arena. The "Big Seven" are the National League of Cities, the International City/County Management Association, the National Association of Counties, the U.S. Conference of Mayors, the National Conference of State Legislatures, the Council of State Governments, and the National Association of Governors. They feel the actions of the GASB transcend traditional transaction based accounting, as it has been understood to

date. Further, they fear the GASB's actions conflict with and could usurp the policymaking responsibilities of elected public officials. They believe performance measurement information should be in agency budgets and used for management purposes, and not in reports issued externally to the public. They have requested the GASB cease and desist from moving forward with its SEA efforts (Big Seven Letter, 2000).

These objections reached such a level in 2006 that GFOA recommend the GASB be abolished and responsibility for establishing Generally Accepted Accounting Principles for State and Local Government be transferred to FASB (the Financial Accounting Standards Board) that establishes GAAP for the for profit and nonprofit sector (GFOA Questions and Answers, 2008). In June 2007 the FAF (Financial Accounting Foundation), having oversight responsibility for the GASB and FASB, rejected GFOA's recommendation and unanimously affirmed the continued role of the GASB as the independent standards setting body for financial accounting and reporting for state and local government (FAF, June 2007). In February 2008, the GFOA Executive Board reassessed its position but did not retreat from its concerns. This reassessment was based on the convergence of international accounting standards that will likely affect the future of FASB. Regardless, GFOA feels that the GASB's role in SEA reporting needs to be reassessed (GFOA Executive Board Refines Position, 2008). In view of the above actions, this research is both timely and significant.

To address the objections to the GASB moving forward with its SEA agenda, this research will identify each stated objection put forward by the GFOA and/or Big Seven, analyze performance measurement reports submitted to AGA to see how or if information presented either supports, conflicts with, or overcomes each objection. This research will also describe how identified objections and the information contained in the SEA reports relate to public administration theory. Specifically, this research will look to the history of performance measurement in public administration, and in private sector and governmental accounting to identify literature relating to the GASB's actions. This research will trace over 100 years of history on the performance reporting movement in public administration, accounting, federal, state and local government agencies, and private sector and non-profit accounting standards setting organizations. This dissertation will provide an inclusive compilation and analysis of that history. This research will also review recent actions of the GASB to provide voluntary guidelines for state and local governments to follow if they voluntarily choose to report performance measures under the framework of GPEFR (General Purpose External Financial Reporting).

## Harris Poll Results

In February 2008, Harris Interactive released a survey commissioned by the Association of Government Accountants. The purpose of the survey, *Public Attitudes Toward Government Accountability and Transparency, 2008*, was to poll citizens on the usefulness of government financial reporting. The Harris Poll found that taxpayers were dissatisfied and distrustful of traditional government financial reporting by federal, state, and local governments.

The more significant findings from the 2008 Harris Poll were:

- A major expectation gap exists. The gap represents the difference between the level of importance taxpayers place on the need for information to be provided and their level of satisfaction with the information received. The gap is 67% federal, 66% state, and 59 % at the local government level.
- Approximately 72 % of taxpayers believe that it is important to receive financial information from their government and of those, there is strong dissatisfaction with what is received. The level of dissatisfaction with financial information received was 60% federal, 46% state, and 38% local.
- 90% of taxpayers believe government is obligated to provide transparent financial management information on how the government generates and spends money. The absence of such information decreases citizen trust, as they perceive governments to be significantly under-delivering in regards to practicing open, honest and responsible spending.
- Taxpayers want open disclosure of spending, easy to read reports, honesty, and a reduction in unnecessary spending, and availability of information on Websites.
- If more helpful information were provided, respondents indicate that information would affect their voting preferences.

As follow up to the survey, AGA Executive Director, Relmond Van Daniker said:

“We believe that the traditional methods of communicating government financial information – through reams of audited financial statements that have little relevance to the taxpayer – must be supplemented by government financial reporting that expresses complex financial details in an understandable form.”

The survey results, which came as no surprise to AGA, provide a benchmark for future surveys on this same topic. This survey also suggests the need to answer the question of what type information should government provide to “citizens/shareholders” so they better understand where money comes

from, where it goes, and what has been accomplished (AGA Traditional Government Financial Reporting, 2008).

This citizen shareholder concept referred to above serves to elevate the responsibility of financial reporting to be well beyond that, which exists to report to management. Financial reports related to performance in the form of profitability provided to management but not to corporate owners, would be contrary to basic precepts of accounting ethics and responsibilities. The GASB has made it clear that government accounting has a similar responsibility as corporate accounting, to report on performance to owners. This symmetry of government accounting to private sector accounting is comparable in purpose and theory.

By including performance reporting within its scope, the GASB has embraced the view that for governments to report to taxpayers in the form of services returned for resources received, it is necessary to define the scope of financial reporting to go beyond Generally Accepted Accounting Principles, in so far as GAAP is currently defined and almost wholly transaction derived information. The GASB in its deliberations has included both GAAP and financial reporting in its accounting and accountability responsibilities and not just matters of traditional GAAP.

### **Restatement of Research Objective**

To restate and summarize, this research will begin with a compilation of the history of performance reporting as it relates to public sector standards (Objective 1). It will review all local government performance measurement reports submitted to the Association of Government Accountants Service Efforts and Accomplishment Certificate program to determine how submitted reports: meet the SEA reporting criteria recommended by the GASB and adopted by AGA (Objective 2); and address GFOA and the Big Seven public organizations' objections to the GASB including performance measurement reporting within its scope of authority (Objective 3).

## **CHAPTER 2**

### **HISTORICAL AND THEORETICAL FRAMEWORK**

#### **Introduction**

To address the historical and theoretical framework for performance measurement reporting efforts in local government, this chapter reviews: (1) the contribution to performance measurement in public administration theory from Progressive reform movements beginning in the late 1880's, particularly efficient citizenship theory by the New York Bureau of Municipal Research; (2) the work of the ICMA to recommend annual performance reporting from 1925 to the 1950's; (3) the challenges to the politics/administration dichotomy in the 1940s to mid 1950's in bureaucratic politics theory and democracy theory; (4) the period from the 1950's to 1970 when public administration theory moved away from democracy theory to efficiency theory; (5) the 1970s to 1984 when authoritative for profit, non-profit, and governmental accounting organizations recognized that in the public sector additional service effort and accomplishment information is needed to understand governments performance; and (6) the period from 1984, the year the GASB was established, to 2008. This most recent GASB period encompasses almost 25 years of research, encouragement and experimentation, and debate about SEA reporting.

#### **The Historical Contribution to Performance Measurement Reporting in Public Administration Theory from Reform Movements Beginning in the late 1880's, Efficient Citizenship Theory by the New York Bureaus of Municipal Research, and into the 1920's**

Performance measurement in public administration history and theory requires an appreciation of the birth of public administration in the late 1880s, the work of the New York Bureau of Municipal Research and efficient citizenship theory, and progressive era reforms into the 1920s. From its beginnings in 1887, public administration theory can be directly linked to performance measurement efforts that now span over 120 years.

#### **Performance Reporting from the 1880's into the 1920's - The Beginnings of Public Administration and the Desire to Identify the Proper Role of Government**

Woodrow Wilson is often referred to as the Father of Public Administration because his 1887 essay on "The Study of Administration," called for public administration to be a professional field of study (Wilson, 1887). His article focused on a scientific of administration with principles to guide efficiency and



for the separation of politics from administration – the Politics/ Administration Dichotomy and the basis for Political Control of Bureaucracy Theory. Wilson took the view that public administration could be professionalized as a field of business. Wilson also took a broad and global approach to public administration study. He suggested the study of systems in other countries to reduce the costliness of domestic empirical experiments. Further, he believed some of those systems could be replicated in our country so long as they were adapted to fit our own cultures and values. While not using the term performance measures, Wilson set the measurement process in motion by stating:

“It is the object of administrative study to discover, first, what government can properly and successfully do, and secondly, how it can do these proper things with the utmost possible efficiency and the least cost either of money or of energy.”

While many look to Wilson’s article as support for political control of bureaucracy theory, the above paragraph and quote additionally shows Woodrow Wilson believed that understanding values and cultures are important in government. Government should be measured not only in term of money, but also in terms of the means (energy) in which government is accomplished. Also, one should not overlook Wilson’s view that before government uses its resources (people, time, and money), it should first determine what government can and should properly do (identify its purpose, goals and objectives). To the present day, government is often criticized for creating programs for which there appears no intended purpose or measures to gauge worth and accomplishments.

Political Control of Bureaucracy theory calls for the segregation of legislative from executive with the legislative body being in control and setting policy and the executive carrying out and implementing the will of the legislative. Wilson saw the broad plans of government as within the realm of politicians and the detailed execution of those plans as administrative and the responsibility of a trained cadre of public administrators. From this view it would follow that the legislature in setting policy would decide, or at least give strong direction, on how government should be measured.

With this separation of the responsibility of the political side and the executive side of government laid out in Wilson’s politics/administration dichotomy, Frank Goodnow, in 1900, was the first to define politics and administration (Goodnow, 1900). In “Politics and Administration” he explained that politics has to do with expressions of the will of the state (the policies) and administration has to do with the execution of the will of the state (administration). While Goodnow defined the terms, he held a firm belief that the executive should execute all functions that are not legislative or judicial. As it relates to efficient citizenship to be discussed subsequently, Lynn quotes Goodnow on who should have the final say about government operation. “The people, the ultimate sovereign in a popular government, must ...have a control over the officers who execute their will, as well as over those who express it (Lynn 2001, 148).

Frederick Taylor was not a politician or government employee. Taylor was from industry and advocated a continuous collective search for the “one best way” of doing things in the name of efficiency. In his article on the Principles of Scientific Management, Taylor took the view that the best team is the one that obeys the orders of the coach while also offering suggestions for improvement to the coach to be tested. His popularity and tie to public administration occurred when he testified before a House of Representatives committee on shop management (Taylor, 1912). Using his “one best way” approach, Taylor had a significant influence on promoting government efficiency through a science of administration that focused on facts.

As can be seen from the above, Wilson, Goodnow, and Taylor called for the executive to focus on efficiency once the political body provides policy direction as to what should be done. This political control of bureaucracy theory in which elected legislative officials set policy and executive management carries out policy does not give proper recognition to the role of the citizen in the policy process. Citizens play a significant role in the policy process by receiving information to evaluate policy choices and by voicing their opinion to influence policy.

This beginning of public administration can be viewed as classical public administration in which policy and political matters are kept separate from administration and efficiency matters (Fry, 1998). While political control of bureaucracy dominated public administration theory into the late 1940's, efficient citizenship, bureaucratic politics, and democracy theory also made their presence known and significantly contribute to an appreciation of present day performance measurement. This classic public administration theory came under significant attack by Dwight Waldo in the late 1940's and early 1950's.

**The New York Bureau of Municipal Research.** To understand and fully appreciate performance measurement and reporting in the United States, one must go back to its beginnings in the early twentieth century and directly to the New York Bureau of Municipal Research (the Bureau) (Ho, 1977, 1157-1177). The Bureau was incorporated in 1906 with the financial assistance of Andrew Carnegie, R. Fulton Cutting, and John D. Rockefeller. Frederick A. Cleveland, Henry Bruere, and William H. Allen were the founders and initially led the efforts of the Bureau. Dr. Allen's experience included being Secretary of the Association for Improving the Conditions of the Poor. There was a close connection between Frederick Cleveland and the first academic program in accounting at New York University where he was professor of public finance. C.W. Haskins, who was the first dean of that program and a mentor of Frederick Cleveland, authored a pioneer textbook on governmental accounting (Langenderfer, 1987, 302-331).

All three founders, collectively, can be tied to social welfare and survey methods in the settlement house movement, municipal accounting practices, Frederick Taylor's scientific management, and the progressive reform movement. Taylor viewed performance measurement as a form of scientific

management. Frederick Cleveland invited Taylor to visit and teach at the Bureau. Ironically, it was this movement toward scientific management while moving away from specific contact with policy formation in New York City that contributed to William Allen leaving the bureau shortly after 1914 (Upson, 1938, 175, and Williams, 2003).

The conceptual foundation of performance measurement that began in the Bureau involved the collection of data through observation and accounting and then converting that data into useful information for reporting, budgeting, and productivity improvement. While this process may seem obvious today, these processes were new in the early 20<sup>th</sup> century and formed the conceptual foundation of performance measurement (Williams, 2003, 645). From the beginning, the Bureau put forth the belief that government had a responsibility to report cost and performance information to citizens and by doing so citizens would seek a more efficient and effective government. The Bureau emphasized keeping records on workloads, outputs, and outcomes. In its work, the Bureau looked at broad and important topics such as increased productivity, decreased infant mortality, and school performance relating to graduation rates and test scores. Several disciplines are associated with the work of the Bureau to include accounting and cost accounting, policy analysis, scientific management, and score cards (Williams, 2004, 141).

A good example of the work of the Bureau and their forward thinking on reporting performance information was their 1913 report on "*The Organization and Business Methods of The City Government of Portland, Oregon*" (Bureau of Municipal Research, 1913). The Bureau performed and encouraged similar studies in other cities during this period to include Pittsburg, the Syracuse Department of Education, Rochester, New York City, Hoboken, Cleveland, Cincinnati, Chicago, Dayton, Milwaukee, Philadelphia, Cincinnati, Toronto, Akron, Memphis, Detroit, and Virginia government (Hopkins, 1912, 235-244 and Upson, 1938, 171-175). In commenting on efficiency in city government in 1912, George Hopkins stated:

"Municipal research is a method, not a panacea. It aims to not take over either man in office or the men who vote, but to give men as they are better methods of working for the public and to give the public as it is better methods of watching and judging what their public servants do."

In the Bureau's report on Portland, the Bureau recommended that a local Bureau of Municipal Research be organized to continue the work and implement the suggestions of the Bureau. One might expect a review of Portland government would focus only on financial information; however, the Bureau's review was much broader. It addressed both financial and performance measurement issues. For example, the report addressed public safety, health and sanitation, public works, finance, parks, and the municipal courts. This social approach to studying Portland government is consistent with the work of Cleveland, Bruere, and Allen as all three learned to do survey work to investigate neighborhood social

conditions in the settlement house environment. They asked citizens questions about government programs, their satisfaction level, and the results of government actions.

To gain an appreciation for the breadth and depth of the Bureau's work in Portland, Oregon, the following issues are summarized from the 96-page report and show a sophisticated approach in measuring performance:

- The Bureau observed that cited decreases in arrest believed to indicate increased efficiency could in fact have occurred because fewer complaints or violations were addressed.
- The Bureau recognized the city had a good firefighting system but was doing nothing to prevent fires. They also found equipment service cards were available but were not properly kept. Also, while physical exams were given upon employment, there were no follow up exams.
- For public health, the Bureau observed private garbage collection (which they refer to as private "scavengers") was a failure wherever tried. The City could do collection cheaper. In terms of measurement, the mere fact that street cleaning complaints decreased in number by itself meant nothing.

Possibly, the most interesting findings and recommendations for Portland related to finance and the City budget. The Bureau found that citizens were not provided information upon which to understand, to be informed, or to demand change or action. For example:

- Only 3 copies of the budget were prepared. The Bureau believed the budget should be made available to all those entitled to receive a copy. Further, local newspapers and pamphlets should show the Mayor's budget recommendations.
- Efforts were not made to interest all civic organizations, commercial associations, and the public in the finances and performance of Portland.
- To measure and report on performance, the number of work units in addition to amounts of money to be paid out should support budget estimates, and efficiencies should be compared with the same departments of other cities.
- The Parks Department was commended for laying out a program for future parks development but it had not provided information on what it would cost.

The Bureau concluded by observing, "that the citizens of Portland had been left almost completely in the dark concerning the operation of their city government." Further, "Citizens had paid into City government year after year and had been provided no means for becoming informed." The Bureau referred to citizens as "stockholders" in the corporation of the City of Portland and, in view of the lack of

information provided, had they been stockholders in a private corporation they would have demanded such information as a matter of right. The Bureau criticized reports that were provided as lacking in charts, graphs, and summaries and noted that the 940-page budget document was so void of structure it discouraged anyone from attempting to fix responsibility. For the most part, the Bureau concluded the quality of information provided to citizens was a waste of paper. The Bureau viewed citizens as “stockholders” in the government and deserving of financial and performance information that, in modern day terms, would show the return on their investment (ROI).

Overall, the Bureau recommended Portland make comparisons of services provided to other like governments. The work of the Bureau clearly pioneered a new movement in early public administration that focused on reporting performance measures for programs, activities, and functions.

To this day, Portland is seen as an exemplar government in performance measurement reporting. Portland has issued an annual performance measurement report to citizens since the early 1990's. Both quantitative and qualitative data is presented for each city department, citizen perceptions about the quality of city services is presented through surveys, and Portland compares itself to other governments of similar size and complexity. (Portland SEA Reports, 1990-2008).

**Efficient Citizenship Theory Supports Performance Measurement Reporting to the Public.** In the spirit of the Progressive Period, the Bureau recognized the need for government to report to and to be accountable to citizens. Its founders believed Government should report not only in financial terms on financial condition, but government should also report on its performance by reporting on the cost of government programs, activities, and functions. The Bureau viewed citizens as owners having every right to request and to be provided information about the operation and performance of their government. Citizens should be able to see for themselves how well their government was meeting their needs - a basic premise of this research.

From a series of Bureau publications from 1908-1913 *called Efficient Citizenship* emerged Efficient Citizenship Theory. This theory calls for citizens to be educated, to obtain reports that provide useful information for analysis, to analyze the reports and monitor the government, to participate in the process, and to make their preferences known. Armed with information about their government, citizens could monitor and be involved in the actions of their government. According to Charles E. Merriam, citizen oversight and involvement in government programs can have an impact in program inputs, outputs, and outcomes (Merriam 1912, 297). Allen, Bruere, and Cleveland used a metaphor of citizens as owners-shareholders in a city corporation by observing “any enterprise needs the careful attention of the proprietor” (Schachter, 1995, 532).

Efficient citizenship theory espoused by the Bureau is different than the citizen customer model in new public management theory espoused by Osborne and Gaebler in their reinventing government theme. Osborne and Gaebler espouse a “citizen customer” view that government should treat citizens as customers, similar to how a business values a customer buying its goods and services (Osborne, 1992). In this role, citizens are passive customers intent on individual satisfaction. Schachter observes that in the citizen customer model if citizens are unhappy with the quantity or quality of services received, they would support privatizing the service. In contrast, in the citizen owner model, the citizen as owner would get involved and try to improve the service rather than to abandon it. In this role, active citizens are working for the community (Schachter, 1998, 632 and Frederickson, 1994.)

The Bureau view was that as citizen owners, the government has a responsibility to provide information so citizens can form their own opinions about the quality and quantity of services received. Through an education and information exchange citizens will be more engaged and exercise their ownership rights through their voting preferences. This will result in more efficient citizens (Schachter 1995). Schachter cites Cleveland when he observed in 1909 that in terms of public water systems, citizens are actually the owners of the system as they pay water revenues, and they provide the monies to purchase the capital. He observed, “This is your business. Are you minding your business?” (Schachter, 1995, 532).

George Frederickson takes a similar position by observing in a “citizen customer model” the citizen reacts to governments programs in hopes that administrators will listen and change program operations and policies. Conversely, in a “citizen owner model”, the citizen fills a proactive role in deciding what should be the government’s agenda (Frederickson, 1994).

Efficient citizenship theory championed by the Bureau also had support from the APSA (American Political Science Association) that appointed a Committee of Five and a Committee of Seven in 1906 and 1911, respectively, to investigate elementary and high school instruction in civics and how to engage and involve students in active citizenship (Schachter, 1998, 631). In a related article, Schachter takes the view that to improve government performance we need not so much to reinvent government in terms of its structure but to reinvent ourselves as active citizens through education and information exchange (Schachter, 1995, 530-537).

Some of the more important beliefs of the Bureau (summarized above by Schachter and others) are:

- Standards for activities should be established so manifestations of worth can be measured against an ideal

- Citizen owners will emerge when the public has information about what the government does and how improved structures or procedures increase accomplishments
- The way to get citizens to accept their ownership role is to make more information available to them in a form they can actually use
- City's have an obligation to prepare reports that are useful to a broad range of citizens
- Citizen owners have a duty to assume an active responsibility for improving government along with a perfect right to inquire into the affairs of government administrators at any time
- Reform requires public empowerment through citizen education and constant information exchange. A city should worry first about getting information to the public. After this is done, people can debate questions of structural change through citizen rather than official initiative.

In summary, in public administration at the turn of the 21<sup>st</sup> century, as with the turn at the end of the 20<sup>th</sup> century, there has been renewed interest in citizenship that seeks a strong role of the citizen in the policy process. As supported by Frederickson, an informed and active citizenry is essential to effective government administration (Frederickson, 1997).

The emphasis on performance measurement at the turn of the twentieth century was on identifying inputs and outputs with an emphasis on outcomes. Two key steps in performance measurement were collecting data in terms of functional expenditures and the cost of such services. Records were kept that showed workloads, outputs, and outcomes. In support of this approach was The Commission on Economy and Efficiency of which Frederick Cleveland, well known for his work in governmental accounting, was a Commission member. The Commission called for keeping records and reporting information that showed services operated and work performed. Records were to be maintained to not only show expenditures by division and bureau but to also show expenditure by function such as libraries, police, and fire. It was believed that by disaggregating data inefficiencies would be uncovered (The President's Commission on Economy and Efficiency, 1911, 627).

### **Performance Reporting from 1925 to the 1940's - The Work of the ICMA and Clarence Ridley to Recommend Annual Performance Reporting**

In the 1930's the International City Management Association (ICMA) continued the earlier work of the New York Bureau through its own research on performance measurement (Stone, 1990, 3-20). The first full text on public reporting (performance measurement reporting) was authored by Clarence Ridley in 1927 and was titled *Measuring Municipal Government* (Williams, 2002, 458). Ridley was the executive director of the ICMA (International City Managers Association). From that time forward performance measurement became part of the ICMA program. The ICMA believed that municipal reporting enhances

democracy by helping maintain an informed citizenry and because of its relationship to democratic theory; it is unique to the public sector.

Mordecai Lee defines municipal reporting as:

“The management activity intended to convey systematically and regularly information about government operations to the public-at-large, in order to promote an informed citizenry in a democracy and accountability to public opinion” (Lee 2006, 455).

Lee makes an important distinction between municipal reporting and citizen participation (often called deliberative government). Municipal reporting occurs at the back end and focuses on providing information for citizens as part of a feedback loop. Whereas, citizen participation occurs at the front end and focuses on citizens using information prospectively to help governments make decisions on future actions. The objective was to directly or indirectly report to citizens on government’s accomplishments and stewardship of taxpayer provided money. Further, the reporting was intended to be understood by the average citizen. Public reporting was viewed as different than financial (statement) reporting that could only be understood by an educated and trained professional accountant.

Mordecai Lee’s research (Lee, 2006, 252) showed municipal reporting of government performance was a major topic in the 1920s to 1930s. The belief then, as earlier advocated by the New York Bureau of Municipal Research, was municipal officials in a democracy were publicly responsible for annual reporting to citizens on a government’s efforts and accomplishments. This public reporting meant the obligation of senior government officials to report to citizens on their agencies’ efforts and accomplishments, thereby contributing to an informed citizenry. Further, an informed citizenry is the basis for democracy and republican government (Lee 2006, 453).

One of the leading proponents of having an informed citizenry was Charles Ridley, the executive director (from 1929 –1956) of the International City Managers Association (now referred to as the International City/County Management Association). Ridley and his research assistant, Herbert Simon, produced a uniform format for municipal annual performance reports (Ridley and Simon, 1938). Ridley believed effective government and social programs do not come about by themselves and the community must be convinced that government’s programs are worthwhile. To that end, he believed an annual report should be issued to the public. Further, communicating government’s performance to the public would preserve expert administration under popular control (Ridley 1937, 112-116).

Ridley and Simon recognized several important factors relating to successful performance measurement as follows:



- Before measuring the work of a Department or program, first decide the function of the Department
- Determine the type of work done in performance of that function
- Determine how well the work was done
- Determine whether the work performed was appropriate to the desired end

While this process seems straight forward, Ridley and Simon also recognized the task of defining program objectives is one of the most difficult in performance measurement (Ridley and Simon, 1938, 21).

Of interest to the work of Ridley and Simon was their view of the difference in the terms “adequacy of a service” and the “efficiency of a service.” They viewed adequacy as “the absolute measure of accomplishment” and efficiency as “accomplishment relative to available resources.” They went on to say efficiency is measured by the ratio of the effects actually obtained within available resources to the maximum effects possible with the available resources. It is clear that Ridley and Simon viewed performance measurement both in terms of units of service and the cost (accounting for in terms of money) of those units of service. In this way, they believed the scientific method could be applied to government. Also of interest and to be subsequently discussed is the continued work of Herbert Simon in the 1940’s when he put forth his belief (logical positivism) that public administration could be made more like a science by separating facts from values and focusing on facts in a scientific way.

The work of Ridley and Simon was further strengthened by a report published in 1931 that contained detailed recommendations for public reporting. This publication was the result of work done by the National Committee on Public Reporting. The Committee had representation from the ICMA, the National Municipal League (now the National Civic League), the Government Research Association (made up of bureaus of efficiency that had been formed in major cities across the United States) and the American Municipal Association (now the National League of Cities). To them, public reporting was considered as important as public budgeting and public personnel administration. From 1927, when only 12 cities had submitted public reports to the ICMA for review, that number grew to 188 in 1953 (Lee 2006, 463). While annual performance reporting was important, lacking was empirical research that would test the strength of the belief that public reporting made a difference in the hands of citizens.

Lee cites the work of Miriam Roher, once on the staff of the National Municipal League, as conducting significant research on the benefits or lack thereof to annual performance reports. In an effort to make the reports more interesting to read, she used photos, graphics, and tables with little text. She found that citizens liked the report presentation but did not seem to have learned much from the reports. Changing strategy, Roher worked with the newspaper and concluded the newspaper was one of the most

effective means of reaching citizens and more effective than annual reports. Roher's work did not sit well with Ridley who believed strongly in the annual performance reporting for municipalities. Even so, Roher concluded that unless the annual report was shortened to three to four pages, it would be of questionable value in informing the citizens on what the government has accomplished. This observation is directly related to current efforts of the AGA (Association of Government Accountants) at the federal, state, and local government level to encourage governments to issue a report to citizens containing four pages. AGA refers to this as "Citizen Centric Reporting" (AGA – Citizen Centric, 2008). Even though Roher's work recognized the benefits of short attention getting newspaper type reporting, it received relatively little recognition because Ridley, who continued as the executive director of the ICMA until 1956, used all of his power to push for more detailed annual public reporting. Even though Ridley was aware of Roher's work, he chose to ignore her findings (Lee, 2006).

According to Lee, because of the lack of research-based and empirical work in public administration to demonstrate its benefits, public annual reporting lost momentum in municipal government, and for the most part, disappeared by the end of the 21st century. Other reasons that Lee cited for the demise of public reporting are: (Lee, 2006, 259)

"Legislators did not like bureaucracies reporting directly to the public because that threatened their own roles as intermediary between the citizen and the government. Also, legislators feared that effective reporting would generate public support for the agency and thereby reduce their own freedom of action. Finally, during the second half of the 20<sup>th</sup> century, there was a general demise of public administration's interest in its "publicness" and a shift toward the nuts and bolts of management, particularly in the New Public Management movement."

Municipal public reporting significantly decreased subsequent to the 1950's. One of the reasons cited by Lee is there was a shift away from the "public" in public administration to the "administration" in public administration. He further notes that as long as public administration continues to emphasize increased efficiency in government, it will not be focusing on the democratic obligations of the public administrator (Lee, 2006, 467). Lee calls for a revitalization of municipal public administration by the profession. He also astutely observed that while much of the administrative work of the public administrator has changed over the last 120 years, the manager's democratic responsibilities have not.

While several reasons have been identified as to why public reporting did not catch on from 1920 to 1950, one must wonder if this would have been different had the impact of the television, computer, and the Internet been available at that time. Certainly, methods of communicating to the public are significantly different in the 21st century than was available at the time of Ridley and Roher.

## Performance Reporting from the 1940's to 1950's

From the initial article by Woodrow Wilson in 1887, to articles by Frank Goodnow, Frederick Taylor, and Luther Gulick, the focus in public administration was on political control of bureaucracy theory and a science of administration. During this period writers favored the separation of politics from administration (the politics/administration dichotomy), striving toward efficiency, finding the "one best way" to manage, the separation of facts from values and the methodical administration of government. Lynn quotes Robert B. Denhardt and Janet Vinzant Denhardt (2000) on old public administration (political control of bureaucracy theory) as neutral, hostile to discretion and to citizen involvement, uninvolved in policy, parochial, and narrowly focused on efficiency" (Lynn, 2001, 146).

**Bureaucratic Politics Theory.** With the 1940's came bureaucratic politics theory that challenged the status quo. This theory recognized that public administration is much broader than a focus on efficiency and dealing only with facts. During the 1940's issues were addressed to include expanded discussion on the many parties involved in policy making to include the legislative, the executive, special interest groups, and citizens. There was recognition that to have an appreciation for government and public administration one has to recognize that government is about facts and values, administration and politics, quantitative and qualitative data, and science and art (Waldo, 1948).

Bureaucratic politics theory has not been, but should be, looked to for possibly the best explanation of why performance measurement and its public reporting are essential to democracy and accountability in government. Bureaucratic politics theory counters those that seek to explain government only in terms of the separation of politics and administration, the focus solely on efficiency, and reliance on facts in all that government does. Briefly, bureaucratic politics is about bureaucrats (administrators) who also engage in political behavior and to ignore that role is to ignore a core activity of the bureaucracy. This theory can be explained through the work of Key, Appleby, Simon, and Waldo.

In the 1940's several articles were written that raised questions about how we measure government and how we allocate resources. For example, on budgeting, V.O. Key (Key, 1940) asked on what basis shall it be decided to allocate X dollars to activity A instead of activity B? This question, which continues to have relevance almost 70 year later, recognizes that in addition to providing a focus on government efficiency and decisions based on spending authorities, there was a need to have information on which to allocate scarce resources to address social utility. Key recognized that the budget should truly reflect the public interest and additional information was needed to supplement line item budgets. With better information, government would be in an improved position to establish or eliminate, or reduce or enlarge, programs that provided greater social utility. He called for the budget to truly reflect the public interest.

Subsequently, Paul Appleby (Appleby, 1945) began dialog also contrary to political control of bureaucracy theory. His view, to be built upon by Dwight Waldo, completely disassembled the politics/administration dichotomy of Woodrow Wilson. Appleby recognized that government officials by their position are continually addressing issues that require dealing with politics and the interpretation and implementation of policy. He brought out the view that legislative bodies often do not know how well a policy addresses an issue until they see the policy in implementation. Lipsky (Lipsky, 1980) subsequently supported Appleby's assertion by observing that bureaucrats, by the nature of their position and responsibilities, in fact make policy at the street level. For implementation, legislative bodies depend on government administrators. Appleby summarized his views by stating "government is different because government is politics."

The attack on efficiency and administrative science continued with the work of Herbert Simon (Simon, 1946) when he took on Luther Gulick's principles of administration (POSDICORB) (Gulick, 1937) by saying the principles were really only proverbs. For every principle of management Gulick identified, Simon put forth a counter view to refute the principle. Even though Simon refuted Gulick's principles of administration, he believed public administration could be saved and made more scientific. The school of thought he referred to was logical positivism – the separation of facts (the administrative) from values (the political). Simon would save administration by focusing on a science approach that, by definition, only deals with facts that can be empirically verified (Simon, 1946). Waldo disagreed the focus could be only with administration as "to choose" is to introduce values. To search for efficiency, we still have to deal with values.

Subsequently, Dwight Waldo (Waldo, 1948) took on Simon's logical positivism that administration could be separated and studied as a science through facts. Waldo said administration must necessarily also deal with politics. Waldo concluded it is not possible in government administration to separate facts from values. Waldo also took on the public administration orthodox ideology that emerged prior to 1914 in the progressive era. He said government deals with facts and values. That is what government administration is all about and to ignore that is to take away from the richness and purpose of government (Waldo 1948). Waldo also took on the administrative science orthodox idea that democracy and efficiency are synonymous by noting public administration is a science (a study) and an art (an activity). In decisions, facts and values are joined together mechanically and organically. To separate facts and values (as Simon suggested) separated means and ends - which is what public administration is all about. In the period prior to 1940, the belief in public administration was that economy and efficiency are central, if not the sole goal of administrative study. Waldo concluded by noting that Simon's logical positivism is elitism and the value neutrality asserted by logical positivism is false.

In his book on the Administrative State, Waldo went on to say it is both impossible and undesirable to separate politics from administration because to separate the two would deny the administrative from creativity and that is what it does best. He noted public administration is about fact or “is “ questions and value or “ought” questions. Administration is not a value neutral activity separate from politics. To try to separate facts from values as suggested by Simon in search of an administrative science for public administration is to separate means from ends. Connecting the two is what public administration is all about (Waldo, 1948).

**Democracy Theory.** Bureaucratic politics theory emphasizes the view government is different from the private sector where efficiency, profit, and return on investment drive thinking. Waldo stated that government is not about efficiency – it is about democracy and that is often inefficient. Efficiency and democracy are not wholly compatible. Government cannot be divided cleanly into policy making and policy execution.

Okun also agreed with Waldo by noting in markets efficiency is paramount. In government, equity, consensus, and satisfaction are also important (Okun, 1975). As it relates to government externally reporting on performance measures, how else would government truly know whether the public is satisfied with services provided unless you inform them about the operation of their government?

While there is much support for Waldo’s view in public administration, now almost 60 years later some accountants and budgeters continue to focus only on efficiency. They believe performance measures should be displayed internally in the budget and not externally in a separate document to a wider audience of citizens. They believe an administration’s responsibility is to deal only with facts that are solely within their realm of responsibility, and it is the elected body that should deal with values. Gaus (Gaus, 1950) would counter this view, as he believed, “A theory of public administration in our time means a theory of politics as well.”

Performance measurement efforts were also bolstered in 1949 when the Hoover Commission issued “The Report of the Commission on Organization of the Executive Branch of Government” for the federal government that supported the development of measures of performance. The Commission observed the budgetary process of the Government needs improvement in order to express the objectives of the government in terms of work to be done rather than in mere classifications of expenditures. The Commission observed the budgetary process at the time focused on lines of expenditures and listings of position but did not focus on well-defined functional programs. The budget should be recast along lines of work programs and functions – a performance budget (Hoover Commission, 1949). Such recording and reporting was believed to be needed in order for the executive branch to be held accountable to the Congress **and the people** (emphasis added) for the conduct of public business.

## The 1950's to the 1970's in Public Administration

**New Public Administration and Social Equity Theory.** New Public Administration theory emerged out of the Second Minnowbrook Conference and at the heart of this new theory was social equity theory. This theory recognized that public administration is about both efficient and effective government, but what was lacking and what New Public Administration added was the ingredient of social equity. This theory relates directly to the need for performance measurement systems that will inform the administrators, elected officials, and citizens about the return on citizens' investment in government. NPA emphasizes the "public" part of public administration and recognizes that administrators are not neutral. They should be committed to effective management and social equity as the values they intend to achieve (Frederickson, 1971).

At the same time as the above article was published, Alice Rivlin (Rivlin, 1971) addressed performance measures and observed the success of programs depends on (1) better measures of effectiveness, and (2) vigorous methods to test methods and to publicize the results. On accountability, she stated at the time accountability seemed easy to achieve; however, most social programs have vague and diverse goals and there exists little agreement on how to measure them. Her suggestion was to avoid single measures. Instead, multiple measures are needed to reflect the multiple and competing goals of programs. She concluded by stating "To do better, we must have a way to distinguish better from worse."

Graham Allison identified the difference between public and private management as follows (Allison 1979):

- In the public sector there is little agreement on measures of performance
- Government focuses on equity and the private sector focuses on efficiency and competitive performance
- In government the bottom line is services rendered and in business the bottom line is on shareholder wealth. Government does not usually have a clear bottom line.

Graham Allison would seem to suggest since government does not have a clear bottom line, other methods of measurement of government programs are needed.

Prior to the establishment of the GASB in 1984, government and private sector organizations and associations recognized information, in addition to financial statement information, is needed to understand government's serviced efforts and accomplishments.

## Governmental Accounting to 1984

The purpose of this section is to trace the history of governmental accounting in the United States prior to the establishment of the GASB. This history was significantly influenced by organizations established at the turn of the twentieth century. For example, the National Municipal League was established in 1899 to fight local government corruption, the New York Bureau of Municipal Research was formed in 1906 to further the management movement in government, and the City Manager's Association was formed in 1914 (subsequently changing its name to the International City Manager's Association in 1924). The Maxwell School of Citizenship and Public Affairs at Syracuse University was formed in 1924 to offer graduate work in public administration. Government grew significantly during this progressive period at the state and local government level. At the federal level the Sixteenth Amendment to the U.S. Constitution created the first federal income tax in 1913 (Moussalli, 2005). While focusing on scientific management like the private sector, government in this period of growth, graft, and corruption became more involved in regulating industry and focused on how to raise enough revenue in a given year to provide services during that year.

The linking of accounting, and especially cost accounting, to performance measurement goes back to the New York Bureau of Municipal Research. One of the founding members of NYBMR was Frederick Cleveland, a student of Charles Haskins at New York University, the first academic accounting department in the nation. Haskins is credited with early reforms in federal accounting. Bureau performance reports informed citizens on government's costs, accomplishments, how it served citizens, and what needed improvement (Williams, 2002). One of the purposes of the Bureau was to aid in the adoption of scientific methods of accounting and of reporting.

A chronology of organizations and individuals that supported governmental accounting efforts prior to the establishment of the GASB is presented as follows:

**Table 2.1: Governmental accounting to 1984**

<b>Date</b>	<b>Organization/Person</b>	<b>Document</b>	<b>Action</b>
1906	National Association of Comptrollers and Accounting Officers		The original predecessor of the Governmental Finance Officers Association
1909	Frederick A. Cleveland	Chapters on Municipal Administration and Accounting	Growth in cities and corruption led to a demand for financial accountability.

Table 2.1 - Continued

<b>Date</b>	<b>Organization/Person</b>	<b>Document</b>	<b>Action</b>
1921	Francis Oakley	Principles of Governmental Accounting	Commercial Accounting is not adequate for government
1927	Lloyd Morey	Introduction to Governmental Accounting	Commercial Accounting is not adequate for government
1931	International Association of Municipal Finance Officers		The new name for the National Association of Comptrollers and Accounting Officers originally established in 1906
1932	Municipal Finance Officers Association		New name for the International Association of Municipal Officers formed in 1931.
1934 and 1936	National Committee on Municipal Accounting (NCMA). Considered the 1 <sup>st</sup> Blue Book prototype	Issued (1) <i>A Tentative Outline-Principles of Municipal Accounting</i> and (2) <i>NCMA Bulletin No. 6 - Municipal Accounting Statements</i>	Financial statements should consist of two parts – (1) financial statements and (2) statistical facts of general interest to citizens on selected service efforts (for example number of employees) and levels of service provided.
1951	National Committee on Governmental Accounting (NCGA). Considered the 2 <sup>nd</sup> Blue Book	Published <i>Bulletin 14 - Municipal Accounting and Auditing</i>	Provided municipal accounting principles and procedures. Continued to view the statistical tables as part of the financial report.
1953	National Committee on Governmental Accounting	Published <i>A Standard Classification of Municipal Accounts</i>	
1966	American Accounting Association	Issues <i>A Statement of Basic Accounting Theory</i>	Accounting information should be evaluated based on relevance, verifiability, freedom of bias and measurability, and such information should be oriented to the user.
1968	National Committee on Governmental Accounting. Considered the 3 <sup>rd</sup> Blue Book	Issued <i>Governmental Accounting, Auditing, and Financial Reporting (GAAFR)</i>	Referred to as the “Blue Book” and considered the authoritative governmental literature up to 1968 and continued to use statistical tables as part of the financial report.
1971	American Accounting Association	<i>Committee on Concepts of Accounting Applicable to the Public Sector</i>	Entities are responsible for: financial resources; compliance with legal compliance and administrative policies; economy and efficiency in operations; and results of government programs as reflected in accomplishments, benefits, and effectiveness.
1974	American Institute of Certified Public Accountants	<i>Audits of State and Local Governmental Units</i>	Except as modified by the guide, GAAFR constitutes generally accepted accounting principles.



Table 2.1 - Continued

<b>Date</b>	<b>Organization/Person</b>	<b>Document</b>	<b>Action</b>
1979	National Council on Governmental Accounting	Statement 1, Governmental Accounting, Auditing, and Financial Reporting Principles	Restated accounting principles previously contained in the 1968 GAFFR
1980	National Council on Governmental Accounting (NCGA). Considered the 1 <sup>st</sup> Blue Book to focus on implementation rather than standard setting.	Publishes <i>Objectives of Accounting and Financial Reporting for Governmental Units: A Research Study</i> .	The goal of financial reporting is to: provide (1) financial information useful for making economic, political, and social decisions, and demonstrating accountability and stewardship, and (2) information useful for evaluating managerial and organizational performance (paragraph 9). Information useful for evaluating managerial and organizational performance has not been limited to financial information (paragraph 9).
1982	National Council on Governmental Accounting	Issued its Concepts Statement 1, <i>Objectives of Accounting and Financial Reporting for Governmental Units</i> .	Information useful for evaluating managerial and organizational performance helps in determining the cost of programs, evaluating efficiency and economy, evaluating results and effectiveness, and evaluating equity with which the burden of providing resources is imposed.

Notes: (1) See Stephen J. Gauthier, *Then and Now: 65 Years of the Blue Book*, June 2001, Government Finance Review; Kinney Poynter, Executive Director of the National Association of State Auditors, Comptrollers and Treasurers. AGA Nashville Chapter Presentation, January 2008; Foltin, 2008, 26-31 and Hardiman, 1989, 1-5

The above table shows a clear recognition in the early 1980's that governmental financial accounting and reporting should assist users in making not only economic decisions but also political and social decisions. What was not clear was who or what organization should lead that effort.

Prior to the establishment of the GASB, the primary authoritative source for governmental accounting and auditing guidance was the "Blue Book" issued by the Municipal Financial Officers Association of the United States and Canada (MFOA) and entitled *Governmental Accounting, Auditing, and Financial Reporting (GAFFR)*. Bluebooks were published in 1968 and 1980. Members of the MFOA and the subsequently formed National Committee on Governmental Accounting (NCGA) included major professional organizations representing elected officials, appointed officials, finance officers, and government executives.

In March 1979, the NCGA issued Statement 1, Governmental Accounting, Auditing, and Financial Reporting Principles that restated accounting principles previously contained in the 1968 GAAFR (MFOA 1968, p1). Subsequently the 1980 edition of GAAFR was issued to assist preparers, elected officials, and auditors in the interpretation of recommended accounting, auditing, and financial reporting practices and principles restated in NCGA Statement 1 (MFOA 1980, page i and 1).

While the purpose of the 1980 GAAFR was to address financial statement preparation, this book also recognized the existence of complicated economic, legal, political, and social forces, the need for elected officials to better understand the financial consequences of their policy decisions, and for voters to become more informed about the financial management activities of their government.

The 1980 GAAFR included a discussion noting that the primary objective of business enterprises is to make a profit. Since that profit can be expressed in monetary terms, net income provides a useful tool to assess performance. In contrast, the Blue Book also recognized that while governments exist to provide services, there existed no performance tool at the time that could be used to assess the bottom line for governments. This absence of a government capacity to assess such performance complicates the process of providing assurance that government programs contribute to social service organizational objectives.

In 1981, the National Council on Governmental Accounting (NCGA) published a study on *Objectives of Accounting and Financial Reporting for Governmental Units: A Research Study*. The 1981 study stated that the overall goal of accounting and financial reporting was “to provide (1) financial information useful for making economic, political and social decisions, and demonstrating accountability and stewardship; and (2) information useful for evaluating managerial and organizational performance” (page 7, paragraph 9). The study noted that “information useful for evaluating managerial and organizational performance has not been limited to ‘financial’ information” (NCGA, 1981, 7).

Subsequently, in 1982 NCGA Concepts Statement 1, “Objectives of Accounting and Financial Reporting for Governmental Units,” was issued and reinforced the 1981 NCGA study by again stating that the overall goal of accounting and financial reporting was “to provide: 1) financial information useful for making economic, political, and social decisions, and demonstrating accountability and stewardship; and 2) information useful for evaluating managerial and organizational performance” (NCGA, 1982; paragraph 8).

In NCGA Concepts Statement 1, six general objectives were presented including the following:

- For providing information useful for evaluating managerial and organizational performance

- For determining the cost of programs, functions and activities in a manner that facilitates analysis and valid comparisons with established criteria, among time periods, and with other governmental units
- For evaluating the efficiency and economy of operations of organizational units, programs, activities, and functions
- For evaluating the results of programs, activities, and functions and their effectiveness in achieving their goals and objectives, and
- For evaluating the equity with which the burden of providing resources for governmental operations is imposed.

From the above, it is evident that governmental accounting focused on maintaining accounting records in accordance with GAAP and preparing and issuing financial statements that demonstrated accountability, stewardship, and legal compliance. Also, prior to the establishment of the GASB there was recognition that government is different than the private sector where shareholder wealth is the most recognized measure of success. Accordingly, the NCGA and the MFOA recognized that additional information was needed to demonstrate the service efforts and accomplishments of government programs. Such additional information was not limited to financial information and would inform citizens and assist elected officials in making economic, political, and social decisions. While there was agreement on the need for such financial and nonfinancial information, there was not agreement on how or where that information would be shown in reports issued external to the government. In addition, it was not clear as to who or what organization would lead the performance measurement movement.

## **Private Sector and Non-profit Accounting to 1984**

**Origins of Accounting - Rooted in the Early Ages.** According to Hendrickson (1965, 15-49), the keeping of financial records can be traced back to early Greek and Roman periods about 3600 B.C. Double entry bookkeeping was first found around 1340 B.C. in records of an Italian merchant and related to trading with cities to the East. The first published work on double entry bookkeeping came in 1494 in Venice by Luca Pacioli in recognition that in joint venture and partnerships records are needed to recognize the accumulation of capital and the computation of wealth. Prior to the 16<sup>th</sup> century the focus had been to provide information for the owner or sole proprietor and two sets of records were often maintained - one to account the affairs of the home and another to account for the affairs of the business. Between the sixteenth and end of the eighteenth centuries, and expansion of trade to the New World, the critique of bookkeeping occurred and double entry accounting expanded from mercantile to other organizations such as monasteries and the state. With the nineteenth century and up to 1930 came many economic events and the movement from a system of bookkeeping into a system of accounting. Specifically, the teaching of accounting emerged, the Industrial Revolution brought a focus to cost

accounting, the growth of the railroads influenced commerce, government was expanded to regulate and tax business, and industry grew through mergers.

To a large extent, the development of cost accounting during the first two decades of the 20<sup>th</sup> century was significantly influenced by Frederick Taylor's writings on scientific management. Without cost accounting, the cost dimension of efficiency could not be calculated. During this period, Taylor also significantly influenced public administration.

The American Association of Public Accountants was formed in 1887 and its name was changed in 1917 to the American Institute of Accountants. During the 1920's and 1930's there was a significant change in the objective of accounting brought on by financial markets and stock exchanges. The move was from providing information to management and creditors to providing information to investors and stockholders. Since 1930, the income statement has been regarded as the most relevant financial statement as it addresses information of interest to investors and stockholders. In the private sector, income is a measure of efficiency and when net income is divided by invested capital; the result is called the rate of return on investment.

In government, return on investment has no meaning if one divides the excess of appropriations (or alternatively revenues from sources to include taxes, fees, and grants from federal or state government) over expenditures by invested capital (to include roads, bridges, government buildings). Therefore, in search for ROI in government one must look to other sources to include other financial and nonfinancial indicators. ROI in government logically made up of financial information provided by issued financial statements and information on government's service efforts and accomplishments provided by performance measurement reports. Certainly, an improved understanding of ROI for government occurs when a report user is provided financial statement and service effort and accomplishment information.

The following table shows that authoritative bodies and organizations have recognized the difficulty in measuring success in non-profit organizations. Table 2.2: Private sector and non-profit accounting activities to 1984

Table 2.2

Private Sector and Non-profit Accounting Activities to 1984

Year	Organization	Report/Committee	Action
1971	American Accounting Association Committee on Concepts of Accounting Applicable to the Public Sector	Issues a report	States that public entities are accountable for (1) financial resources; (2) faithful compliance and adherence to legal requirements; (3) efficiency and economy of operations; and (4) results of government programs as reflected in accomplishments, benefits, and effectiveness.
1972	American Institute of Certified Public Accountants	Appoints Trueblood Committee	The basic objective of financial statements should be to provide information useful for making economic decisions. An objective of financial statements should also be to report on those activities of the enterprise affecting society that can be determined and described or measured and are important to the role of the enterprise in its social environment. Indicators of earnings have limited value for assessing performance of governmental and not-for-profit entities. Financial statements should provide information useful for evaluating effectiveness of management of resources. Performance measures should be quantified in terms of identified goals (pages 50-51). <a href="http://www.gao.gov/archive/1996/ai96098a.pdf">http://www.gao.gov/archive/1996/ai96098a.pdf</a>
1973	Financial Accounting Standards Board	FASB Established	Responsible for establishing GAAP for the private sector and non-business organizations.
1978	Financial Accounting Standards Board (FASB)	Publishes research report on <i>Financial Accounting in Nonbusiness Organizations: An Exploratory Study of Conceptual Issues.</i>	In concept, financial accounting in nonbusiness organizations needs to include information about management performance, including how well money is spent
1978 - November	FASB	Issues FASB Concept Statement 1 on <i>Objectives of Financial Reporting by Business Enterprises</i>	The scope of financial reporting is extremely broad and includes financial statements and other means of communicating information that relates, directly or indirectly, to information provided by the accounting system. Such communication may take various forms and relate to various matters. Financial reporting is not restricted to information communicated by financial statements.

Table 2.2 - Continued

Year	Organization	Report/Committee	Action
1980	FASB	Publishes research report on <i>Reporting Service Efforts and Accomplishments</i> focusing on nonbusiness entities.	To the extent that general purpose external financial reporting (GPEFR) provides information about organizational performance, service efforts and accomplishments information is an appropriate component of such financial reporting (conclusion 1)
1980	FASB	Issues Statement of Financial Accounting Concepts No. 4, <i>Objectives of Financial Reporting by Nonbusiness Organizations</i> .	Nonbusiness organizations generally have no single indicator of performance comparable to a business enterprise's profit so other indicators of performance are needed. The objectives of financial reporting are affected by the economic, legal, political, and social environment in which financial reporting takes place. Quantified information in units other than money may be needed to understand information expressed in units of money or to help in assessing the performance of nonbusiness organizations. Financial reporting should provide information about the performance. Information on the service efforts and accomplishments of an organization are most useful in assessing performance. While the Statement was directed to nonbusiness organization, the Board noted that it was aware of no evidence that the objectives are inappropriate for GPEFR of governmental units.

As can be seen from the above, the American Accounting Association, the American Institute of Certified Public Accountants, and the Financial Accounting Standards Board (established in 1973 and prior to the establishment of the GASB in 1984) recognized that non-profit organizations, and government organizations, do not have one single indicator of success. Therefore (performance) measures other than money are needed for users of financial reports to assess the entity's service efforts and accomplishments.

### **Establishment of the GASB in 1984 and Activities to 2008**

The following section addresses performance measurement activities and publications of the GASB and staff from 1984 to 2008 and demonstrates the GASB's continued involvement in the reporting and experimentation with performance measurement. From the time of the GASB's establishment in 1984, the GASB has recognized the need to advance accounting and accountability through the issuance of concept statements, generally accepted accounting principles, and research documents. Publications issued by the GASB are intended for use by all state and local governments in the United States.

**Organization.** The GASB is an independent body created in 1984 by agreement (known as the “Structural Agreement”) of the Financial Accounting Foundation (FAF) and 10 national associations of state and local government officials. The organizations in addition to the Financial Accounting Foundation include the American Institute of Certified Public Accountants, the Council of State Governments, the Government Finance Officers Association, the National Association of State Auditors, Comptrollers and Treasurers, the National Conference of State Legislatures, the National League of Cities, the National Governor’s Association, and the US Conference of Mayors (GASB, Facts About GASB.)

The GASB is an operating component of the Financial Accounting Foundation, a not-for-profit organization. In addition to the GASB, the FAF also oversees the operation of the Financial Accounting Standards Board that has the responsibility for establishing accounting standards for the private sector as well as for not-for-profit organizations (GASB Rules of Procedure, 1998, 1).

**Board.** The GASB currently consist of seven members selected by the FAF. The GASB members may serve two five-year terms. Except for a full-time Chairperson, the remaining six Board members serve on a part-time basis. A Director of Research and a small, but very professional and knowledgeable staff assist the GASB in its activities. A due process procedure is followed in which proposed accounting standards are issued for written comment and oral testimony. The GASB Board meetings are open to the public and a record is maintained of Board actions. The GASB, as well as the FAF and FASB, are located in Norwalk, CT. (GASB - Facts About GASB).

**Mission.** The mission of the GASB is to establish and improve standards of state and local governmental accounting and financial reporting that will:

- Result in useful information for users of financial reports and
- Guide and educate the public, including issuers, auditors, and users of those financial reports.

**Concept Statements.** Concept statements guide the work of the GASB in establishing standards and precede Board issuance of accounting principles. They provide a frame of reference, or conceptual framework, for resolving accounting and financial reporting issues. This framework helps to set the bounds for financial reporting and helps the public to understand the limitations of financial reporting. Because of their long-range importance, concept statements follow the same due process procedure as accounting standards (GASB - Facts About GASB).

**Standards.** Standards are issued to improve the usefulness of financial reports based on the needs of financial report users. Such standards should meet the criteria of understandability, relevance, reliability, comparability, timeliness, and consistency.

**Operation.** The Board follows an open decision-making process that includes receiving input on its actions by issuance of discussion memorandums, invitations to comment, preliminary views documents, public hearings, Board meetings, exposure drafts, and appointed task forces.

**Relationship to Other Organizations that Encourage the Issuance and Audit of State and Local Government Financial Statements.** The work of the GASB has far reaching impact. The GASB has responsibility for issuing accounting standards applicable to all (approximately 90,000) state and local governments in the United States. For a state or local government entity to assert that issued financial statements are prepared in accordance with GAAP, the entity must follow the standards issued by the GASB and only the GASB in the preparation of its financial statements. When these financial statements are issued externally to the government, such organizations routinely engage independent public accountants to express an opinion of the fairness of presentation of the government's financial statements. The engaged independent public accountants must follow GAAS (Generally Accepted Auditing Standards) issued by the American Institute of Certified Public Accountants and Government Auditing Standards issued by the Comptroller General of the United States in the performance of audit work. To date, the only organization recognized by the American Institute of Certified Public Accountants to establish GAAP for state and local government is the GASB. For an independent public accountant to express an opinion on an entity's financial statement when in fact the entity did not follow GAAP issued by the GASB would be a violation of the AICPA code of professional conduct under AICPA Rule 203. As a consequence, an independent public accountant could be reprimanded or expelled from membership from the AICPA. Therefore, it is of significant importance for finance directors, responsible for preparation of externally issued financial statements, to actively review and provide input to the GASB on any proposed standard or concept statement that could have an effect on the entities issued financial statements and management structure (AICPA - Rule 203).

At the state and local government level, each state establishes thresholds that require not only the issuance of financial statements but also independent auditors to audit those statements and express an opinion on the fairness of presentation of those statements. In addition, if certain amounts of federal financial assistance are received by those governments, the U.S. Office of Management and Budget, pursuant to OMB Circular A-133, requires the entity's financial statements to be audited by an independent auditor in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. One of the criteria that must be met by those governments is



to issue financial statements prepared in accordance with generally accepted accounting principles (U.S. OMB Circular A-133).

The significance of the above is the Standards of the GASB that guide the preparation and issuance of financial statements are closely related to the U.S. Government Accountability Office that issues auditing standards to be followed by independent auditors auditing entities receiving federal financial assistance. The AICPA also issues auditing standards applicable to independent auditors auditing government financial statements. State boards of accountancy often adopt standards issued by the AICPA and GAO, and other state laws and regulations often address the audit of state and local government financial statements by independent public accountants and by government auditing agencies such as an elected or appointed state auditor (Government Auditing Standards, 2007, 78-79).

The introduction of another form of reporting on a government's performance, especially when those performance measures contain quantitative and qualitative, and financial and nonfinancial characteristics is reason for the GASB, independent auditors, finance directors, and professional organizations to have concerns. These organizations have historically supported GAAP and GAAS as protecting the public interest. Any actions that could either reduce the public's confidence in issued and audited financial statements, or threaten the standing they currently have in the arena of government financial management could have significant effects on those professions.

The U.S. Government Accountability Office has issued generally accepted auditing standards that address auditing the reliability of performance measures under the heading of performance audits. However, these standards are not subject to the same auditing standards issued by the AICPA and individual State Boards of Accountancy. Should an audit organization desire to audit performance measurement reports, they could do the audit as an attestation engagement or as a performance audit. The organization could state the audit complied with Government Auditing Standards as long as the organization also followed the GAO general standards relating to independence, competence, professional judgment, and external quality review. This research will study the extent that CPA's, non-CPAs, and others have audited performance reports submitted to the Association of Government Accountants, and implications and available alternatives.

The history of the GASB's involvement in SEA is presented below followed by more detailed discussion of each.

**Table 2.3: Establishment of the GASB in 1984 and activities to 2008**

Year	Organization	Document	Action
1984	GASB	Structural Agreement	Establishment of the GASB
1985	The Governmental Accounting Standards Board (GASB)	Passes a resolution.	Calls for SEA experimentation by state and local governments
1987	GASB	Issues its Concepts Statement No. 1, <i>Objectives of Financial Reporting.</i>	Financial reporting should assist governments to be publicly accountable and enable users to assess accountability. Financial reporting should assist users in assessing service, efforts, cost, and accomplishments.
1994	GASB	The GASB issues Concepts Statement No. 2 on <i>Service Efforts and Accomplishments Reporting.</i>	The role of financial reporting is to provide information to assess performance and the GASB believes that SEA information is an integral part of GPEFR (paragraph 49).
1996	GASB	Surveys 5,000 state and local governments regarding use and reporting of SEA. Report issued September 1997	More than one-half of respondents have developed some SEA measures and nearly one-half have used SEA measures for decision-making. Only one-third used output or outcome measures.
1997	GASB	Funding proposal submitted to the Alfred P. Sloan Foundation.	Request for funding over a six-year period on "Reporting Performance Measures by State and Local Governments."
1999-2001	GASB	GASB researchers visit 26 state and local governments and conduct 19-citizen discussion group sessions.	Feedback is obtained on use of SEA for budgeting, management, and reporting. Feedback is also obtained on the extent that governments are ensuring relevance and reliability of SEA.
July 2002	GASB	Publishes <i>Report on the GASB Citizen Discussion Groups on Performance Reporting.</i>	SEA continues to grow but measures tend to focus on input, activity, and output measures more than outcome measures.
November 2002	GASB staff and other researchers	Issued Performance Measurement at the State and Local Level - A Summary of Survey Results.	A survey of government organizations that report on performance

Table 2.3 - Continued

Year	Organization	Document	Action
2003	GASB	Publishes special report on <i>Reporting Performance Information: Suggested Criteria for Effective Communication</i> .	Sixteen criteria identified for use when preparing external reports on SEA performance information. Includes organization goals and objectives, citizen and customer perceptions, and reporting on a regular and timely basis. Includes condensed booklet to summarize criteria.
2005	GASB	Issues <i>Government Service Efforts and Accomplishments Performance Reports: A Guide to Understanding</i> .	Provides information to assist users to become consumers of SEA information. Prepares user for what they will see in an SEA report and how to assess the government's performance.
2006	GASB	Presentation to Board	GASB staff conducts additional interviews and telephone surveys. Suggested criteria are seen as valuable in preparing SEA reports. More reporting of outcomes to citizens.
2007	GASB	Possible revision to Concept Statement No. 2 added technical agenda and task force appointed.	Potential amendments to Concept Statement No. 2 considered clarifying the GASB intent on whether SEA would be part of standards or guidance.
2 – 2008	FAF	Change in Oversight Structure and Operations	Expanded organizations invited to nominate FAF Trustees and concluded that final authority for appointments rests with FAF. The GASB Chairman will determine the project plans and agenda for the GASB.
11 – 2008	GASB	Issues Concept Statement No. 5	Clarifies that it is beyond the scope of the GASB to establish the goals and objectives of state and local government services, to develop specific nonfinancial measures or indicators of service performance, or to set benchmarks for service performance.
11 – 2008	GASB	Issues Concept Statement No. 2 as amended by Concept Statements No. 3 and 5	Includes amendments made to the document by GASB Concepts Statements No. 3, <i>Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements</i> , and No. 5, <i>Service Efforts and Accomplishments Reporting—an amendment of GASB Concepts Statement No. 2</i> .

Notes: (1) In addition to the above, on July 31, 2008, the Governmental Accounting Standards Board (the GASB) issued a *Request for Response on Suggested Guidelines for Voluntary Reporting of SEA Performance Information*. The GASB was still taking comments to the request as of the end of this research. (2) Additional comments of significance and related to the above Table are provided below.

**1987 - GASB Concept Statement No. 1.** In May 1987, the GASB issued Concept Statement No. 1 on the Objectives of Financial Reporting and which superseded NCGA Concept Statement 1. The concept statement identified three groups as the primary users of externally issued state and local governmental financial reports:

- The citizenry,
- Legislative and oversight bodies, and
- Investors and creditors.

The GASB noted that financial reports are used to make economic, political, and social decisions and are needed: to compare actual financial results with the legally adopted budget; to assess financial condition and results of operations; to assist in determining compliance with finance-related laws, rules, and regulations, and to assist in evaluating organization efficiency and effectiveness (GASB - Concept Statement 1, 1987).

The Board believes that financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society. Public accountability is based on the belief that the taxpayer has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Use of financial reporting by citizens and legislative and oversight officials to assess accountability is pervasive and is implied in the uses noted above. From this accountability concept, an important objective included in the Statement 1 was that "financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity." GASB staff presentations note "accountability requires governments to answer to the citizenry – to justify the raising of public resources and the purposes for which they are used."

In 1989, the GASB issued a second resolution that encouraged the development of SEA measures and continued experimentation with SEA reporting. Specifically, the Board "strongly encourages state and local government entities to become familiar with SEA measurement and reporting and to undertake experiments in selecting SEA indicators, gathering SEA information, and reporting this information both internally and externally" (GASB SEA Overview page vi. 1990).

**1989 - Research Reports.** In 1989, the GASB began a project that resulted in the issuance of a series of research reports referred to as "Service Efforts and Accomplishments Reporting: Its Time Has Come." The research included an overview report (1990) as well as individual reports on the following 12 government programs:

- Colleges and Universities
- Economic Development Programs

- Elementary and Secondary Education
- Fire Department Programs
- Hospitals
- Mass Transit
- Police Department Programs
- Public Assistance Programs
- Public Health
- Road Maintenance
- Sanitation Collection and Disposal, and
- Water and Wastewater Treatment

Twenty-four researchers, the majority of which came from academia, reviewed the twelve programs and concluded their work by identifying specific indicators for external reporting for each of the above programs. These research reports did not represent standards. The Board recognized that additional widespread experimentation must be done before objective and generally accepted cost-beneficial SEA indicators could be established.

The researchers offered several findings and conclusions. For example, they identified and defined indicator types such as: inputs, outputs, outcomes, and efficiency. Explanatory information was to be presented when needed. They recommended disaggregation of data, comparisons between year and between jurisdictions; they recognized the benefit of client surveys and recognized that much work still needs to be done to verify SEA indicators in a cost-effective manner. They believed SEA reporting to the public could stimulate the public to take a more active role in government and could encourage officials to provide more improved services. The researchers concluded by recommending that government: begin experimenting with SEA by external reporting; place emphasis on outcomes; indicators should relate cost to measures of results; common-sense disclosure should be made; indicators should be thoroughly defined; and data should be verified through “some type” of formal review or audit process. Such verification processes should be done by an agency independent of the agency being reported on. Lastly, they recommended that a comprehensive set of indicators should be included in each entities comprehensive annual financial report (GASB – SEA Overview, 1990).

**1994 - GASB Concept Statement No. 2.** In April 1994, the GASB issued Concepts Statement No. 2 on concepts relating to Service Efforts and Accomplishments Reporting (GASB, 1994). This concept statement accomplished several objectives. It addressed the governmental environment, decision making in government, and accountability. Most importantly, it made known the GASB’s support for performance measurement information to be part of general purpose external financial reporting by stating it would represent a significant improvement in financial reporting practices. While calling for

external financial reporting of SEA, the GASB stated that a separate report would most likely be the vehicle needed for reporting and not the CAFR. The GASB recommended that prior to establishing reporting standards for SEA, there should be additional experimentation by state and local government in measurement and reporting. They called for accountants and other groups interested in financial management, to include elected officials and citizens, to become active in this experimentation. Such experimentation would not only help identify the benefits of reporting but would also help to identify the cost of collecting, verifying and reporting the data.

In Concept Statement No. 2, the GASB continued to maintain that citizens need information to assess the economy, efficiency and effectiveness of their government. To do this, they need not only an accounting for resources provided and expended, but also information on what had been accomplished by services provided. The Board stated that SEA information - both financial and nonfinancial performance measures - is an essential aspect of measurement of government performance and is necessary for assessing accountability and making informed decisions. The GASB made it clear they were not identifying the measures to be selected or reported. Rather, the purpose of the Concept Statement was to provide a framework for elements of SEA reporting and the characteristics of SEA information (GASB - Concept Statement 2, 1994).

**Proposal to the Alfred P. Sloan Foundation for Research Grant: *Reporting Performance Measures by State and Local Governments*.** In 1997, the GASB requested a grant from the Alfred P. Sloan Foundation to accelerate its research on the reporting of performance measures by state and local government. The request, in the amount of \$699,750 to be spent over a period of five years, would allow the Board to be in a position to consider by 2002 whether performance measurement had advanced to the point of requiring its reporting in general purpose external financial reports for state and local governments. Some of the deliverables for the project were a performance measurements clearinghouse, an evaluation of the effects of using performance measures for budgeting, management, and reporting, obtaining feedback through focus groups, and identifying how to effectively communicate performance measures.

In the grant request, the GASB made note of efforts to date to learn more about state and local government use of performance measures. For example, in 1996, the GASB sent surveys to 5,000 state and local governments to obtain feedback on their use and reporting of performance measures. Approximately 900 surveys were returned. Even so, there continued to be little known about the quality of measures being developed or the effect the use of the measures were having on program performance. The grant request cautioned sufficient research had not shown at that time that performance measures had developed to the point of establishing standards to require reporting. To do that, the Board had to first conclude that performance measures met the six characteristics necessary to

become part of GPEFR. The six needed characteristics were relevance, understandability, comparability, timeliness, consistency, and reliability. With information desired, the Board felt that by 2002 it would be in a position to add a project to its agenda to require SEA reporting or to take some other action. The GASB also observed in the proposal that without a requirement for governments to report service efforts and accomplishment information, most governments would not include nonfinancial performance measures in their external reports. Lastly, the GASB noted their belief that SEA information is essential to complete reporting by state and local governments (GASB Proposal, 1997).

**1997 - Report on Survey of State and Local Government Use of and Reporting of Performance Measures: First Questionnaire Results.** In September 1997, the GASB staff reported the results of a 1996 survey prepared in conjunction with the National Academy of Public Administration and its SEA Task Force. Of the 900 (18%) responses to the survey of 5,000 state and local governments, 479 (53%) had developed some type of performance measures and 42 (47%) had used performance measures in decision-making in some way. Some 698 (78%) respondents said they planned to use or continue to use performance measures. The survey belief was that the use of performance measures was relatively widespread. Interestingly, at the time, only 377 (42%) said they planned to report performance measures, only 24 percent of the governments reported performance measurement information to elected officials, and only 21 percent to citizens. As a result questions still remained as to whether those responding were actually using performance measures for decision-making and why governments seemed less willing to externally report performance measures (GASB Survey 1997).

**January 2002 GASB/FASB Staff Paper Submitted to the FAF on Financial Reporting and Nonfinancial Information.** In January 2002, the GASB/FASB staff submitted a paper to the FAF (Financial Accounting Foundation) to respond to the view of some that performance measures that are nonfinancial should not be part of general purpose external financial reporting. The primary point of the paper was that nonfinancial information has been viewed as included in financial reporting since at least 1973 and that the FAF has been informed of this interpretation by both the GASB and FASB. Staff cited studies and reports from various bodies that related to government, private, and non-profit entities. Support for non-financial information to be part of general purpose external financial reporting was linked together from sources such as the AICPA separate Wheat, Trueblood, and Jenkins Committees, FASB Concept Statements 1-5 and its Business Reporting Research Project, NCGA research reports, NCGA Concept Statements, GASB Concept Statements 1 and 2, and numerous GASB communications to the FAF about its actions to move forward with experimentation in SEA reporting (GASB Paper to FAF, 2002).

**July 2002 - Research Report on the GASB Citizen Discussion Groups on Performance Reporting.** In July 2002, the GASB issued a research report prepared by staff entitled "Report on the

GASB Citizen Discussion Groups on Performance Reporting. This report summarized staff discussions with nineteen citizen groups involving 133 individuals of which 110 citizens were not government staff. Meetings were held at twelve locations across the nation and participants represented nine cities, two counties, and four states. The discussions were led by the GASB staff and occurred between November 2000 and July 2001. The objective of the discussion was to obtain direct feedback to assist in developing criteria and methods on how to effectively communicate performance information. The Alfred P. Sloan Foundation funded this work. Some of the more significant findings gleaned from citizen feedback and presented in the research report (and as confirmed by this researcher by reading meeting transcripts) are as follows:

- Citizens should be involved in identifying the performance measures to report
- Performance reports should present measures that focus on outcomes, that show citizen perceptions based on surveys, and that relate outcomes to costs
- Citizens identified the term outcomes with many things to include quality of life and impact on the lives and those things that citizens value
- Citizens were in strong agreement that surveys of citizen perceptions were needed
- To provide for proper analysis, data should be disaggregated and reports should explain to the user what the data means
- Performance reports should be presented in multiple formats to include bound reports, reports for the media, on the internet, and verbally
- Performance information should be layered to meet user needs
- There should be an educational program for citizens and information presented should be independently verified

In summary, the primary reasons identified by focus groups for performance reporting were: increased accountability, involving citizens in all phases of measurement and reporting, and to increase citizen involvement and trust in their government (Ref. GASB Citizen Research report, pages v-vi). The GASB staff recognized that no inference could be made from focus group responses to the general population and concluded that at the time, wide distribution of citizen surveys and responses would not be helpful because distribution of state and local reports was not widespread.

Also, in this report, the GASB staff made reference to the New York Bureau of Municipal Research and its promotion of the concept of efficient citizenship. This reference clearly shows the GASB actions in 2002 were directly and purposefully linked to early public administration and the idea that government has a responsibility to report to citizens and citizens (the owners of the government) had a responsibility to be informed and involved in the affairs of their government (GASB Report on Citizen Focus Groups, 2002).



**November 2002 - Performance Measurement at the State and Local Levels: A Summary of Survey Results.** In November 2002, a research team that included two GASB staff and three faculty members from the Andrew Young School of Policy studies at Georgia State University reported survey findings on the use of performance measurement at the state and local levels. They found use of performance measures is continuing to grow; however, there was still a tendency to use input, activity, and output measures more than outcome measures. Importantly, the most cited reason for using performance measures was it fosters improved communication among various parties to include executive level and elected officials.

This survey showed there was strong agreement by 71.7% of respondents that the opinion of elected officials was considered in selecting performance measures, 61.2% agreed performance measures are developed by the agency with participation of the budget office, 50.2% agreed the opinion of citizens is considered in the selection of performance measures or benchmarks, and only 13.2 percent of respondents agreed that citizens actively participate in the selection of performance measures. Of the 19 questions asked relating to the effectiveness of performance measures for areas such as cost savings, reducing duplicative services, or changing appropriation levels, levels of agreement ranged from as little as 9.6 % to 54.8 %. State budget offices, state agencies, and city/county offices responded only 21.1%, 34%, and 33.5% of the time, respectively, that performance measures were effective or very effective in communicating with the public about performance.

The survey pointed to performance measurement research conducted in the 1990's that was reminiscent of the progressive era, but different. Compared to the Progressive Era where there was emphasis on economy and efficiency concerns, current performance measurement efforts focused on quality, variety, customizations, convenience, and timeliness of services. Only 2.2 percent of respondents indicated that external or nongovernmental boards/ auditors/ or oversight organizations verified performance measures and 9.8 percent responded that to their knowledge performance measures were not verified by anyone. Lastly, 70 percent of respondents agreed their governmental entity was better off since implementing performance measurement, concluding that a good performance measurement system lead to a better more efficient government (GASB Survey 2002).

**2003 - Reporting Performance Information: Suggested Criteria for Effective Communication.** In August 2003 the GASB issued a special report prepared by staff on *Reporting Performance Information: Suggested Criteria for Effective Communication* (GASB, 2003). In the 195-page report, sixteen criteria were identified for consideration by state and local governments when issuing external reports on performance information. The report included eight chapters that addressed the history of performance measurement during the 1970's and 1980's and included a discussion of governmental accountability and citizen engagement in government. The report recommended state and local

government continue experimentation with performance measures in budgeting, management, and reporting. The report brought in lessons learned with performance reporting and included suggestions received from focus group sessions conducted to date. The sixteen criteria identified for inclusion in issued reports were as follows:

- Purpose and scope
- Statement of major goals and objectives
- Involvement in establishing goals and objectives
- Multiple levels of reporting
- Analysis of results and challenges
- Focus on key measures
- Reliable information
- Relevant measures of results
- Resources used and efficiency
- Citizen and customer perceptions
- Comparisons for assessing performance
- Factors affecting results
- Aggregation and disaggregation of data
- Consistency
- Communication of Performance Information
- Regular and timely reporting

Importantly, the above listing of criteria relates to a framework for performance reporting but does not, nor was it intended to, identify specific measures that should be used. The GASB recommended state and local governments consider using as many of the criteria as practical when preparing and issuing performance reports.

**2005 - Government Service Efforts and Accomplishments Performance Reports: A Guide to Understanding and GASB 2006 White Paper.** In August 2005, the GASB issued another special report on *Government Service Efforts and Accomplishments Performance Reports: A Guide to Understanding (GASB, 2005)*. The objective of this 44-page “how to” report was to assist citizens and other users in obtaining a better understanding of issued reports and to encourage them to ask questions that raise issues about government results. The report provided a step by step guide on where to begin, how to find information that most interests the user, how to determine what the government is trying to achieve and how well it is achieving those objectives, and how to analyze the data to ask higher level questions.

In March 2006, a GASB Staff Report (a “white paper”) was issued on *Why Governmental Accounting and Financial Reporting Is – and Should Be - Different* (GASB, 2006). The Executive Summary of the document states that governments are fundamentally different from business in several important ways to include how they generate revenues (significantly from involuntary resource providers), who their stakeholders are (grantors, grantees, and citizens), compliance with budgetary obligations (legal and regulatory), and their propensity for longevity (not generally faced with going-concern issues).

Because government stakeholders include citizens and elected officials, they have different stakeholders than the private sector. “Public accountability” is the base from which all other financial reporting objectives are derived. In this paper, accountability is discussed in terms of the responsibility of stewards or agents to provide relevant and reliable information for resources under their control. By doing this, government demonstrates its responsibility to explain to citizens the need to collect taxes and other revenues and to fulfill the citizenry’s right to know how public resources have been spent.

This GASB paper observed since earnings per share and net income have no meaning in government, the focus is on providing services in an efficient, effective, economical, and sustainable manner. Also, and as importantly pointed out in this paper, in business, the emphasis is on making sound economic decisions. In government, the focus is on providing information necessary to make political and social decisions and that is as important as providing information necessary to make economic decisions. These additional objectives help to drive government accounting and financial reporting objectives. In business, accounting and financial reporting objectives are driven by economic information (GASB, 2006).

In this “white paper”, GASB staff ended with a sentence that was the same as where the paper began, “Governments are fundamentally different from for-profit business enterprises in several important ways.” This statement is very similar to Graham Allison’s 1979 comment that public and private management are fundamentally alike in all unimportant ways. Some of the examples that Allison identified that are different in significant ways include:

- Measurement of performance – little agreement on measures of performance
- Equity and efficiency – government focus is on equity and private focus is on efficiency and competitive performance
- Legislative and judicial impact – the public has close scrutiny in hearings and elsewhere
- Bottom line – the government bottom line is services rendered and in business it is shareholder wealth. Government does not usually have a clear bottom line.

Allison noted the sharpest distinction between public and private management is a fundamental constitutional difference. In business management is centralized into the CEO. In government, management involves the two houses of Congress, the executive head, and the courts. The goal is not efficiency, but to preclude the exercise of arbitrary power (Allison, 1980).

**December 2006 GASB Presentation to the FAF on Its Authority to Move Forward with its SEA Project.** In November 2006, the GASB presented to the FAF a comprehensive report on the results of additional telephone surveys and staff research on the GASB's involvement in SEA reporting to obtain their comments on the GASB plans to move forward with their SEA reporting project.

One of the documents presented to the FAF was an analysis of the result of a telephone survey to 124 cities and 70 counties on their uses or intended use of performance measures. The survey addressed how cities and counties were using outcome or results measures for planning, management, and budgeting purposes. The survey addressed the frequency that outcome or results measures were reported to elected officials and citizens, and the involvement of citizens to some degree in establishing performance measures. For the most part, cities were using the information more often than counties. The overall range of government using the measures frequently for planning, management and budgeting was around 40 percent, infrequently was 30 percent and not at all was around 20.

In addition, the GASB conducted field interviews with 88 people from 39 state or local governments and sent questionnaires to 10 additional governments to obtain citizen, senior management, and preparers rating on the value of each or the 16 suggested criteria. There was a very high degree of support (generally over 70 percent) for each criterion as being of high value. Lastly, the survey asked respondents whether the GASB should establish standards, establish non- authoritative guidance, continue research, or do nothing. Of the 74 responses to this question, 16 percent were in favor of standards and 76 percent of respondents were in favor of non-authoritative guidance.

As a result of information provided, along with oral responses provided, on November 28, 2006, the Board of Trustees of the Financial Accounting Foundation confirmed that the GASB had the jurisdictional authority to include "service efforts and accomplishments" in its financial accounting and reporting standard setting activities for state and local governmental entities.

**April 2007 – SEA Added to the GASB's Technical Agenda.** In April 2007, the GASB added to its agenda a project to provide suggested guidelines to governments to help them effectively communicate their accomplishments to the public. Robert Atmore, the Chairman of the GASB noted the GASB's project would help governments effectively communicate their accomplishments to their constituents. Further, he looked forward to working with the newly proposed separate Joint Performance Management Initiative

(led by GFOA and the Big Seven public organizations) to develop guidelines and to get performance information into the hands of the public and other users of government financial reports.

**Summary of the GASB SEA Actions from 1984 to 2008.** To date and as presented above, the GASB has been a leader in the development and experimentation of performance measures since its time of establishment, some 25 years ago. With the addition of SEA to the GASB's technical agenda and the establishment of the SEA Task Force, the GASB and GASB staff accomplishments to date can be summarized as follows:

- Beginning in 1990, a series of research reports were published for over a dozen government service areas
- Concepts Statement 2 was issued in 1994 on the need for SEA reporting and addressed the nature of government accountability
- Two national surveys were conducted on governments' uses and reporting of performance measures
- 26 state and local governments were visited to develop case studies of leading government organizations measurement and reporting programs
- 19 citizen discussion (focus) group sessions were conducted around the nation to obtain public views on performance measurement
- A document was issued in 2003 on suggested criteria for reporting performance measures
- A document was issued in 2005 on how to read and understand performance measurement reports

In 2008, efforts were underway to update GASB Concept Statement No. 2 that suggested there be standards for SEA reporting. The view as of the time of this research was guidelines would be established, not standards, for the use of governments that voluntarily choose to externally report on their performance. These guidelines would be principles based. The GASB has tried to make it clear that:

1. The project will not require governments to report on their performance
2. The project will not establish goals and objectives for governments, and
3. The project will not create specific performance measures governments would have to report, or
4. The project will not set benchmarks or required levels of performance that governments would be expected to meet (GASB News, April 2007).

The history shows the GASB wants all parties to know what it is doing. Notwithstanding the GASB's statements as to what the GASB is not doing, some continue to say the GASB will be setting the performance measures to be reported upon (Mead, 2008).

There is no question; the GASB's efforts have advanced external reporting of performance measurement information. Notwithstanding, the GASB's actions have troubled other organizations that believe the work of the GASB is clearly outside the authority of the GASB as they see it. As subsequently discussed, the GFOA and the Big Seven organizations believe the GASB should not be involved in SEA external reporting and such involvement will open the door for the GASB to subsequently set specific measures for governments for external reporting. The GFOA has said, "To a man with a hammer, everything looks like a nail." These organizations are among the most respected in the United States and their objections are important to this research.

One of the objectives of this research will be to review SEA reports submitted to AGA to assess whether external reporting of performance measurement usurps the role of elected officials. The GFOA and Big Seven argue SEA Reporting will reduce elected officials policy-making prerogatives. A contrary view is information that is voluntarily decided and externally reported at the local level will assist users in making informed decisions about public policy. The GASB has said that it has not "advocated" any specific performance measures. SEA reporting provides information for "analysis" and selection of the best policy alternatives by involving all concerned. Also, SEA reporting provides information on "what is" so others are in a better position to decide "what ought to be." One would think public officials would support external performance measurement reporting. It is consistent with principal agency theory as it allows the principal (the legislature) to monitor the actions and accomplishments of the agent (agency management). It also allows citizens (governments' owners) to provide feedback to those they have elected (hired) to carryout their preferences thereby promoting efficient citizenship.

**Canadian Initiatives.** The subject of performance measurement is not isolated to the United States. In 2006, the CCAF (Canadian Comprehensive Auditing Foundation) issued *Users and Uses: Towards Producing and Using Better Public Performance Reporting: Perspectives and Solutions* (CCAF, 2006, 1-60). As an organization, CCAF's mission is to provide exemplary thought leadership and to build both knowledge and capacity for effective governance and meaningful accountability, management and audit. The focus for, and beneficiary of, the CCAF's work is the public sector.

The CCAF began its work to recommend reporting performance to the public in 1999. In their publication, the CCAF stated:

We believe that government has an obligation to publicly report on its performance to those who have a right to know, in order to strengthen the accountability of government, and to build trust.

Similar to the GASB, the CCAF identified three purposes for the government's PPRs (Public Performance Reports):

1. To provide a sound basis on which the legislature can hold the government to account
2. To allow the media and the general public to better play their important roles in ensuring government accountability
3. To provide performance reports to government managers to manage better, develop budgets, or develop new programs.

While the goals and objectives and rationale for PPR appeared sound in theory, the CCAF actually found the legislature, the media, and the public have actually made little use of PPRs. Also, while these groups strongly supported PPRs, they said the reports often lacked information that directly related to them. They commented on the language used and the format often was not user friendly. This observation was helpful as it pointed out what government provides to the public in terms of how government measures services provided and accomplishments achieved are not the things the elected bodies and citizens are looking for or care about.

The six major conclusions that came from the CCAF study of PPRs are summarized as follows:

1. Legislators, the media, and the public need different information than the government. These bodies need to work together to address information needs of each.
2. Governments need to meet with legislators, the media, and citizens to identify the information needs of users.
3. Government performance reports are expensive to produce and absent such reports the accountability process is incomplete.
4. Democratic processes are strengthened when performance reports are issued and used by legislators, the media, the public, and others.
5. If users demanded information, there would a greater likelihood those demands would be met, especially if that information were used to hold government to account.
6. Legislators and auditors can call for use of reports. Auditors can perform assurance services on the credibility of the information thereby increasing user belief in performance information reported.

The CCAF takes the position governments should be the primary user of performance information in order to improve management. Further, these same governments have a responsibility to publicly report on their performance to strengthen accountability and build trust among report users.

The CCAF also points out the use of PPRs by citizens have not been significant. Nonetheless, Canadian research has shown that 2/3rds of citizens polled wanted more opportunities to influence the government. The President of Crossing Boundaries, Dom Lenihan commented, "Overcoming the democratic deficit is about more than parliamentary reform. It is about engaging citizens more directly in the political process."

The CCAF report concluded by quoting the needs of an 89-year-old respondent to the research. The respondent said she would want to know three things about government programs:

1. Are the people running them competent?
2. Are the programs achieving their expected results?
3. Are they doing it economically and efficiently?

It is likely that whether in Canada or the United States, these same three questions would be on the minds of most citizens (CCAF, 2006).

## **Association of Government Accountants SEA Certificate Program**

The AGA (Association of Government Accountants) was established in 1950 and in 2008 represents over 15,000 government financial management professionals at the federal, state, and local government level, as well as the private sector and non-profit organizations. AGA, also using the tag line "Advancing Government Accountability" has stated governments should issue SEA reports to improve their public accountability; assist their legislative body, management, and citizens make decisions; and help the delivery of public services.

AGA's involvement in performance measurement began at the federal level in 1996 at the request of the Chief Financial Officers Council and the U.S. Office of Management and Budget. AGA assisted by establishing its CEAR (Certificate of Excellence in Accountability Reporting) Program. The CEAR Program is overseen by a CEAR Board and helps federal agencies, their components, and smaller executive act agencies to produce effective PARs (Performance and Accountability Reports) in conformance with the Government Management Reform Act, and supports the requirements of the Reports Consolidation Act of 2000 and the Government Performance and Results Act. The CEAR program for federal agencies, much like AGA's later established SEA Certificate program for state and



local governments, involves the voluntary submission of performance and accountability reports to AGA and a rigorous review of those reports by five individuals from a pool of approximately 70 knowledgeable AGA member volunteers. Like the SEA program, the CEAR program has its own guidelines for evaluating performance and accountability reports issued by federal agencies (AGA CEAR, 2008)

The review team consists of federal senior officials, public accounting firm professionals who perform audits of federal agencies, and one AGA staff person. These individuals determine whether submitted reports shall receive the prestigious CEAR Award. To receive the Certificate, the agencies must have also received an unqualified opinion on their last issued financial report. For the last several years, the awards have been presented to agency representatives at the Washington Press Club in the nation's Capitol. To receive a CEAR Award is of significance to agency leadership and staff. Whether a recipient of the award or not, all agencies receive feedback from the CEAR reviewers on how to improve their reports. In 2007, 17 federal agencies received the prestigious CEAR certificate (AGA CEAR, 2008).

The U.S. Office of Management and Budget, the U.S. Department of the Treasury, and the U.S. General Accountability Office recognize receipt of the CEAR as evidence of a complete presentation of a participating agency's financial and program reporting responsibilities. Of interest and importance, the above three agencies are also responsible for appointing individuals to the Federal Accounting Standards Advisory Board that has responsibility for establishing GAAP for the federal government. The FASAB is one of the three bodies in the United States recognized by the AICPA under Rule 203 to establish GAAP as earlier noted. The other two GAAP standard setting organizations are the GASB and FASB. Since the inaugural pilot year in 1997, AGA has awarded a total of 66 CEAR Awards for the years 1998-2007 (AGA CEAR, 2008).

One distinguishing feature of the PAR is that federal agencies are required by the Reports Consolidation Act of 2000 to incorporate both financial and program performance information into their PAR reports (Congressional Budget Office, 2000). This requirement is significant when compared to state and local governments where SEA reports and the CAFR are two separate reports. As will be subsequently discussed, the GFOA has a long history of objecting to any action of the GASB that would include financial statement and performance measures in one combined report.

Similar to the CEAR program, AGA has established a Certificate of Excellence in Service Efforts and Accomplishments reporting program for state and local governments. This program received funding assistance from the Alfred Sloan Foundation to assist in its establishment and operation. As a result, to date state and local governments have not been charged a fee to participate in this program.

Important to this research, the AGA SEA Certificate program is structured around the GASB's sixteen suggested criteria for performance reporting as described in the GASB 2003 document *Reporting Performance information: Suggested Criteria for Effective Communication*. A three-person review team that includes one AGA staff person reviews reports submitted by participating state and local governments. The other two members of the review team are chosen from a pool of government financial management professionals in state and local government from around the nation. To be eligible to review a submitted report, reviewers must complete a four-hour AGA led course. As with the CEAR reports, whether or not an award is made, the review team provides recommendations to participating governments on how their SEA report can be improved in the future.

Since the pilot year in 2004, more than 50 SEA Certificates of Excellence in Accountability Reporting have been issued to state and local governments. The SEA program has been very important to AGA and the GASB as it has provided direct feedback on experimentation in SEA reporting and how such reporting meets the objective of general purpose external financial reporting. AGA's website contains a substantial amount of information and related Internet links to information about SEA reporting. A review of both AGA and the GASB websites shows both organizations have embraced the idea that governments have an obligation to report externally and directly to citizens (AGA and GASB website).

As to specifics in the AGA SEA program, in addition to assigning points, each report is reviewed to identify noteworthy features and weak practices. Each reviewer completes a 40-page point sheet and a one-page summary point sheet (AGA SEA, 2005). A conference call is held at the conclusion of the review for the review team to go over final comments and points. While any state and local government may request AGA to review its report, if the report is not issued to the public, certificates are not awarded.

AGA has developed a set of rubrics for reviewing each criterion. For example, for criterion 10 relating to *citizen and customer perceptions of the quality and results of major and critical programs and services*, the rubric is as follows:

0 points – No indication of citizen/customer perceptions reported

1 point – Citizen customer perceptions reported as supplemental to other “objective” measures for a few programs or services

2 points – Citizen/customer perceptions reported as supplemental to other “objective” measures for most programs or services for which such information would be appropriate

3 points – Citizen/customer perceptions reported as a supplement to other “objective” measures for all major programs or services for which such information would be appropriate

The AGA has found the rubrics approach is helpful to the review process. To receive the SEA certificate, two of the three reviewers have to conclude that for 13 of the 17 criteria (AGA divided one GASB criteria into two parts) the criterion was fully applied (at least 2 points assigned) and no criterion can be assigned a score of "0" by 2 of 3 reviewers.

For all SEA reports reviewed, this researcher was provided access to individual scoring sheets from all three reviewers and the combined scoring sheet for each government reviewed. It is evident that the review process is rigorous and only the governments that address each criterion are recognized with an SEA certificate.

In addition to establishing an SEA certificate program for state and local governments, AGA has sponsored Performance Measurement Conferences to bring together state and local governments to exchange ideas and experiences in performance measurement reporting. The first PMC was held in Portland Oregon in the fall of 2005, followed by like annual conferences held in Schaumburg, IL, Phoenix, AZ, and Seattle, WA. To demonstrate the interest the GASB places on the SEA Certificate program, the GASB members have attended the PMC's, have made presentations, and have moderated conference sessions.

AGA staffs assigned to work on the SEA Certificate program are of significant standing in government financial management. The Technical Director of CEAR and SEA programs previously served as the first Director of the U.S. Office of Federal Financial Management, established in 1991 to guide the implementation of the newly enacted Chief Financial Officers Act. In that role he also assisted Federal agencies in implementing the performance measurement aspects of the Government Performance and Results Act and in preparation of Federal Performance and Accountability Report. In 2007, he was appointed as a member of the Federal Accounting Standards Advisory Board that establishes GAAP for the federal government. In addition to the AGA SEA program, this individual also heads up AGA's CEAR program previously described. In 2008, AGA obtained the services of a former GASB Board member to assist in the AGA SEA program.

In November 2006, the AGA wrote to the GASB staff on their three-years of experience reviewing state and local government SEA reports. Two of the sixteen criteria this research is especially interested in are criterion 3 and 10. For criterion 3, Involvement in establishing goals and objectives, AGA commented back to the GASB staff this criterion indicates the report should discuss the involvement of citizens and others in the establishment of organization goals and objectives and establishment of measures. Regarding criterion 10 on citizen and customer perceptions, AGA suggested to the GASB a report of just citizen and customer perceptions, unaccompanied by presentations of objective measures and results, is not a sufficient report on performance.

## **Sloan Foundation Support of Projects**

The Alfred P. Sloan Foundation is a philanthropic nonprofit institution established in 1934 by Alfred Pritchard Sloan, Jr., the President and Chief Executive Officer of General Motors. The Foundation is located in New York City and for the year ending 2007, the Foundation had assets in excess of 1.9 billion dollars (Foundation, Sloan Annual Report, 2007). The Alfred B. Sloan Foundation (Sloan) has provided significant grants to the GASB, AGA, and NCCI and other municipal governments to further the advancement of performance measurement reporting with an emphasis on promoting initiatives “that matter to ordinary people.” The goal of these grants is to make municipal government more responsive to their citizens.

The emphasis in Sloan’s municipal governments program is to encourage widespread citizen-informed and citizen-based performance measurement and reporting. Reporting is citizen-informed when done by the government with citizens taking an active part in assisting in developing measures important to them and providing input on how the information will be reported. Reporting is citizen-based when it is done outside of the government, usually by a non-profit organization and preferably with the cooperation of the government.

With this framework, Sloan has encouraged the GASB to continue with its project to identify guidelines for voluntary reporting of performance measures by state and local governments. Sloan would like to see government leaders encourage citizen-informed participation and for communities to strengthen both citizen-informed and citizen-based performance measurement reporting (Foundation, Alfred P. Sloan, Economic Performance. 2008).

In September 2008, the Sloan Foundation listed some 35 entities receiving grants to address citizen-informed and citizens based performance measurement and reporting. Grants have been awarded to engage government officials to encourage citizen-informed performance measurement and reporting; to build a community of practitioners and infrastructure; and to engage the media in performance measurement efforts. The Sloan grants that directly relate to this research and discussed elsewhere include: (Foundation, Alfred P. Sloan, Grants. 2008):

- Governmental Accounting Standards Board – To encourage the GASB to Promote Citizen-Informed Performance Measurement and Reporting.
- Association of Government Accountants – To support AGA’s promotion of citizen-informed performance measurement and reporting.

- National Center for Civic Innovation – To create and continue a group of government managers that have adopted and will promote citizen-informed performance measurement and reporting.
- CCAF-FCVI – To increase the relevance to potential users of Canadian Public Performance Reports and to infuse the experience of the CCAF-FCVI into work of the GASB in the United States.
- IIA Research Foundation – To help the Institute of Internal Auditors further strengthen and expand auditor’s roles in government performance measurement and reporting.
- Association of Government Accountants - To support AGA’s new Citizen Centric Government Reporting.
- University of Central Florida – To add citizen-informed performance measurement to the Florida Benchmark Consortium.
- North Carolina League of Municipalities – To bring citizen-informed performance measurement and reporting to cities in North Carolina.
- Des Moines Neighbors – To launch the use of ComNET in Des Moines.
- Community Research Council, Chattanooga – To add a strong component to ongoing performance measurement and reporting in Chattanooga.
- Governing – To enable Governing Magazine to continue a multi-media publishing program on performance measurement and reporting.

In 2004, the NCCI started a Sloan supported Government Performance Reporting Demonstration Grants Program. The program encouraged state and local governments to use the GASB’s sixteen suggested criteria for performance reporting. The three-year grants were for \$30,000 each. Selected governments were expected to produce two annual reports, to report to their citizens within six-months after the end of their fiscal year, and to revise their reporting as appropriate based on feedback from citizens (AICPA Members in Government Newsletter - February 2004). Sixteen of those governments are participants in the AGA SEA program and studied in this dissertation.

## **GFOA and Big Seven Objections to the GASB Involvement in SEA**

The GFOA (Governmental Finance Officers Association) is a professional association whose stated purpose is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and practices and promoting them through education, training and leadership. As one of the leading government associations in the United States, the GFOA has a long history of supporting government accounting and government auditing. GFOA was one of the organizations to lead in the establishment of the GASB in 1984 and has consistently been a leading voice in government accounting and financial reporting.

In 1989, five years after the GASB was established, the GFOA issued a public policy statement continuing its support for a separate standard-setting body for governments. In that policy statement, GFOA stated the current jurisdiction of the GASB should not be reduced, and GASAC (the Governmental Accounting Standards Advisory Council made up of representatives of over twenty public organizations, associations, and others that advise the GASB) should continue with the FAF in the approval of the GASB members (GFOA, 1989.) GFOA's support in this public policy statement came after the five-year review of the GASB by the FAF and GASAC. That review recommended the continuation of the GASB, under the FAF, with responsibility for establishing GAAP for state and local governments (FAF/GASAC, 1989).

While GFOA membership represents a cross section of most local government financial management, the core membership consists of accountants, finance officers, and auditors. One of the most recognized programs of the GFOA is its awards program that recognizes state and local governments that have produced exemplary financial statements and budgets. GFOA's Certificate of Achievement for Excellence in Financial Reporting is awarded to governments that are judged by their peers as issuing complete comprehensive annual financial (statement) reports. GFOA's Distinguished Budget Presentation Award is awarded to governments judged by their peers as issuing exemplary annual budget documents. Both awards are highly sought after by state and local government and copies of each certificate are normally and proudly included as part of the externally issued CAFR (Comprehensive Annual Financial Report).

Notwithstanding support for the GASB's accounting agenda and its leading role in the issuance of comprehensive financial reports as noted above, at least since 1993, the GFOA and seven other public organizations have consistently objected to the GASB including performance measurement within the GASB's scope of authority. To understand this objection requires an analysis of the opposite ends of competing views. One can be referred to as a constrained view and the other as an expansive view.

The constrained view of governmental financial reporting is supported by a traditional accounting framework in which transaction based information is classified, recorded, and summarized from currently known facts. The information is reported externally in audited financial statements with the intent that users will assess the information to determine legal compliance, efficiency, and economic condition. Constrained view proponents take the position that the GASB's authority and responsibility is limited to the issuance of GAAP (Generally Accepted Accounting Principles) where the focus is on accounting for events having already occurred or that are foreseeable in the near future, in a neutral fashion, and following to the extent possible a prescribed systematic approach. Constrained view proponents see performance measurement reporting that includes nonfinancial measures as well beyond the traditionally defined scope of accounting, and therefore beyond the scope of GAAP and the GASB. They publicly

support performance measurement for management and elected officials internal use and believe such information is inherent to and should be presented in the budget only. To them, reporting performance information externally infringes on the policy-making prerogatives of elected public officials and moves the GASB beyond its original purpose of accounting and into the GASB's "ill-defined" concept of accountability. Constrained view proponents more closely associate with political control of bureaucracy theory where the role of the politician is to set policy and the role of the administrator is to carry out that policy with the greatest degree of efficiency. The constrained view proponent would also support Herbert Simon's logical positivism by separating facts and values in search of facts that lead to a science of administration.

By comparison, proponents of the expansive view toward government financial reporting assert the standards-setting authority of the GASB should encompass the development and reporting of transaction-based information and of other forms of information (to include non-financial information) that are necessary to reveal the government's service efforts and accomplishment, or performance. The expansive view proponents maintain government organizations with the support of public officials and management should externally report their service efforts and accomplishments to citizens and other users of government financial reports.

Advocates of the expansive view assert that financial reporting standards should encompass both financial information as well as SEA information to better serve users, especially citizens. The expansive view embraces the concept of accountability (the responsibility to explain one's actions and to be held accountable) and is supported in public administration theory by efficient citizenship, bureaucratic politics, and democracy theory. Accountability to the public has been described as making sure government is truly pursuing the will of the public (Williams, 2003, 643). This expansive view recognizes that to fully understand and have an appreciation for how government actually works, information needs to be provided that necessarily addresses issues of both facts and values and has policy implications. The purpose of the information presented by the government is not to set or advocate a certain policy, but to provide information to allow improved analysis and setting of policy. The expansive view would see the GASB as identifying a framework for reporting performance measures to be voluntarily done by others and not as establishing or setting the specific measures to report. Once reported, all stakeholders can use the information to make improved economic, political, and social decisions and to improve the well being of citizens (Klay and McCall, 2005).

Several professional and public organizations that oppose the GASB involvement in SEA formed a National Performance Management Advisory Commission in February 2008 to develop a comprehensive, conceptual framework for public sector performance measurement (GFOA, February 2008). One must ask why these organizations are in favor of performance measurement when done by them (for internal

management use) and not in favor of performance measurement activities when led by the GASB (and intended for a larger audience to include the public).

Both the constrained view and expansive view have merit and deserve closer examination. Displaying opposing positions may help to identify issues more clearly with recognition that often the truth lies somewhere in the middle.

A comparison of the constrained and expansive view is presented as follows.

**Table 2.4: The constrained view compared to the expansive view - Government accounting and accountability**

<b>Constrained View</b>	<b>Expansive View</b>
Focus on Accounting only	Focuses on Accounting and Accountability
Addresses Facts	Addresses Facts and Values
Addresses “what is” leaving “what ought to be” to be decided by the elected body	Addresses “what is” to raise the level of knowledge of “what ought to be” to be decided by all involved
Addresses efficiency and effectiveness	Addresses efficiency, effectiveness, and social equity
Goal is efficiency (a market approach)	Goal is democracy (an equality approach)
Focus on what is good for the profession	Focus on what is good for every user, especially citizens
Focus on citizen customer	Focus on citizen owner (efficient citizenship)
Focus on reporting internally for management	Focus on reporting externally for all users
Striving for neutrality	Realization and mindful that to decide is to choose and that necessarily involves facts and values
Information reported primarily assist in making economic decisions	Information reported is used to make economic, political, and social decisions
Separation of administration from politics	Recognition that government by its very nature involves both politics and administration
Views elected officials as the only ones involved in the policy process	Recognizes that there are many actors in the policy process to include elected and appointed officials, agency management, lobbyist, and citizens
Protecting the discipline of accounting and budgeting	Relying on the discipline to help advance the well-being and satisfaction of citizens
Sees accounting as a closed mechanistic system that functions first to the needs of management and the organization	Sees accounting as an open system that provides energy to the environment and draws energy from the environment
Seeks to insulate financial reporting from ambiguities by defining SEA as something beyond the parameters of accounting and therefore beyond the authority of accounting standard setters	Sees SEA as requisite to the fulfillment of accountability and reporting responsibilities of government and therefore seeks to manage the ambiguities inherent in SEA

The above Table helps to identify fundamental differences between the types of information that should be included in General Purpose Financial External Reporting as identified by the GASB (an expansive view approach) as compared to others (a constrained view approach). These fundamental differences in views are important to performance measurement research. They respond to observations



that the differences in what the GASB “is” verses what the GASB “ought to be” relate only to personalities in one or more of the involved organizations.

Additional research is needed on this constrained versus expansive view to identify what information citizens truly need, when (how often) that information should be provided, how that information should be presented, and who should provide that information. The information should be provided within a consistent reporting framework so it can have meaning when citizens move from one community to another. Ultimately, citizens need information that can be used when expressing their voting preferences at the ballot box.

Since at least 1993, the Government Financial Officers Association (GFOA) has provided written comments and expressed oral concerns and objections to the GASB’s involvement in SEA. For the most part, GFOA’s objections have been supported by the “Big Seven” public organizations, but not by the separate and also influential National Association of State Auditors, Comptrollers and Treasurers. Even so, GFOA has been the primary organization that is out front on this issue. This objection has gone as far as the GFOA meeting with the FAF in April 2007 to request the responsibility for establishing GAAP for government be transferred from the GASB to FASB and doing so would effectively abolish the GASB. The GFOA and the Big Seven believe performance measurement reporting is outside of the GASB’s mission and authority (Lemov, June 2007).

The controversy does not seem to be whether or not government should collect performance measurement information, but (1) who should be in charge (GFOA and the Big Seven or the GASB), (2) where it should be reported (in the budget only or also externally reported), and (3) who is the primary beneficiary of the information reported (management and elected officials but not the public, or all report users to include citizens). The GFOA Executive Director does not believe performance reporting should be under the GASB’s authority. He points out the GASB’s mission is to deal with financial reporting – not the budget process. In February 2001, the Executive Director wrote to the Chair of the Governmental Accounting Standards Board and after providing several reasons why the GASB should not be involved in SEA, he concluded, “The real issue is GASB’s legitimate authority” (GFOA, February 2001).

GFOA is opposed to the GASB’s involvement in SEA and recognizes that as a standard-setting body, “when they (the GASB) put their rubber stamp on something, it carries weight.” The concern seems not to be so much on what the GASB is doing, but on what the GASB can and might do. The GFOA Executive Director expressed GFOA’s concerns at the 2008 GFOA Annual Meeting by saying:

- The state’s delegation of power to the GASB in 1984 to set accounting standards was limited to accounting and financial reporting

- The GASB is confusing accounting with accountability
- The GASB has said that its charge extends to not just accounting, but to all aspects of accountability, staking out a claim to set future standards for virtually all aspects of public administration, both financial and nonfinancial

In addition to questioning the GASB's jurisdiction, this researcher also noted a significant comment made by the "Big Seven" public associations and organizations to the Chair of the GASB in February 2000 (Big Seven, 2000). All organizations signed the letter and stated in part:

"In our view, it is elected officials who must set the priorities in making difficult resource allocation decisions for our communities. Stated differently, we view any accounting standard that is based upon what a government *ought to be doing* (emphasis added) as an improper attempt to influence public policy."

The above statement by the GFOA and the Big Seven that the GASB should not be involved in "ought to be doing" issues is primary to this research. As earlier described in efficient citizenship, bureaucratic politics, and democracy theory in public administration, government is not solely about issues of fact. Government necessarily deals with issues of fact (what is) and questions of value (what ought to be). As previously noted, public administration addressed this very issue in the 1940's, Dwight Waldo clearly recognized that public administration has to deal with both facts and values or said another way, questions of "is" and also questions of "ought." While the Science of Administration and control of bureaucracy theory attempt to separate and build a wall between administration and politics (the politics/administration dichotomy), the reality was brought to light in the mid twentieth century through bureaucratic politics theory and democracy theory that government is not solely about efficiency, it is about democracy, and that necessarily and often is inefficient (Waldo, 1948). Most importantly democracy theory and social equity theory focus on citizen well-being and citizen satisfaction.

The GASB has not viewed its work on SEA as improperly influencing policy. The GASB has viewed performance reporting (that this research concludes as necessarily involving issues of facts and values) as providing a more complete reporting of the government's performance. SEA external reporting is something management and elected officials have a responsibility to support in a democratic society, something for citizens to review and to provide feedback to their elected officials, and something for all stakeholders to use to improve the well being of the citizenry. Evidently, this complication and necessary overlapping of issues of "what is" and issues of "what ought to be" in government is reason for concern for those that take a constrained view of governmental accounting. They believed the GASB's "irredeemably nebulous concept of accountability" could potentially lead to the GASB's potential jurisdiction over virtually any aspect of public administration and finance (Klay and McCall, 2004, 115-140).

**The History of GFOA Involvement in SEA Reporting.** The following paragraphs will present reasons of record of why the GFOA so strongly objects to the GASB involvement in SEA. In Chapter 4 of this research report, the objective will be to compare each objection put forth by GFOA to SEA reports submitted to the AGA. The research will assess whether reports submitted support the GFOA concerns. This research will also review GFOA objections to assess the support, or lack there of, in public administration theory.

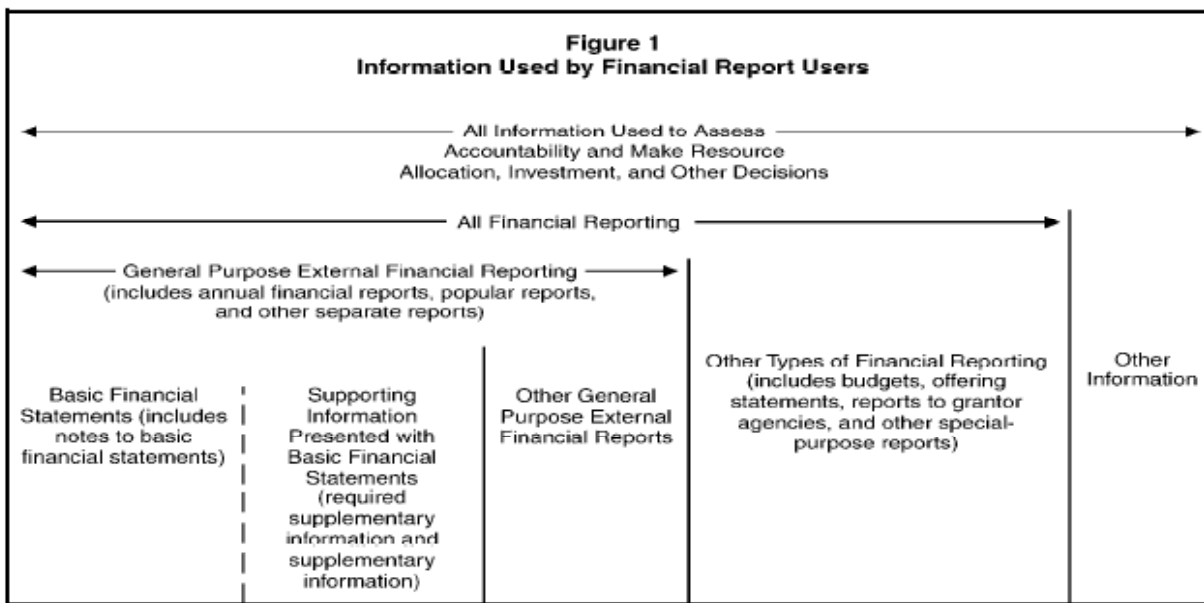
In June of 1993, the GFOA adopted a policy statement on *Service Efforts and Accomplishment Reporting* supporting further experimentation in performance measurement reporting. Notwithstanding this support, the GFOA stated the GASB should be clearer on the scope and directions of GASB research. The GFOA expressed concern the GASB might require, through its authority to establish GAAP, a requirement for general purpose external financial statements to include indicators that measure not the cost, but the quality of goods and services provided to citizens. The GFOA expressed the belief that for the GASB to mandate the reporting of “outcome” indicators would go beyond the GASB jurisdiction and technical knowledge.

A summary of the 1993 GFOA policy statement and expressed concerns are as follows:

- The GASB members are fully competent in accounting and financial reporting and have the full support of GFOA in this arena.
- Many SEA measures, particularly nonfinancial outcome measures, are beyond accounting and financial reporting.
- Accountants do not have the specialized professional expertise to make decisions on quality of service or outcome measures.
- The GASB would be exceeding its authority if it attempted to use GAAP as the authority to require the presentation of nonfinancial measures on the quality of services as part of GPEFR.

GFOA further expressed concern: if the GASB were to use GAAP to require SEA reporting as part of “required supplemental information” (RSI); if the GASB required SEA measure to be reported within the Comprehensive Annual Financial Report (CAFR); or if the GASB required the issuance of SEA information in a separate report to receive an unqualified opinion on the financial statements. Lastly, GFOA expressed the view that SEA reporting was outside of the scope of GPEFR and suggested GFOA, not the GASB, should join with other organizations to encourage greater use of SEA indicators (GFOA, 1993).

The following Figure shows the GASB’s framework for financial reporting and identifies items that the GASB consider to be within the heading of “General Purpose External Financial Reports.” The GFOA is in agreement that GPEFR includes the Basic Financial Statements and the Supporting Information Presented with the Basis Financial Statement (RSI) that collectively and currently comprises the CAFR (Comprehensive Annual Financial Report). The GFOA has strong disagreement with the GASB that the caption shown, as “Other General Purpose Financial Reports” should include externally issued performance reports.



**Figure 2.2: Information used by financial report users with emphasis on general purpose external financial reporting.**

Source: GASB, 2008, Concepts Statement No. 2 as amended by GASB Concept Statements No. 3 and 5

In February 2000 the GFOA was joined by the Council of State Governments, International City/County Management Association, National Association of Counties, National Conference of State Legislatures, National Governors’ Association, National League of Cities, and The United States Conference of Mayors, collectively referred to as the Big Seven Public Organizations, and notified the GASB Chairman that “In our view, it is elected officials who must set priorities in making difficult resource allocation decision for our communities. Stated differently, we view any accounting standard that is based upon what a government *ought to be doing* as an improper attempt to influence public policy.” While this statement was made relating to infrastructure reporting, it provides significant insight into GFOA’s objection to the GASB involvement in SEA reporting. The letter went on to say although the public organizations listed above encourage the use of performance measurement, the organizations opposed any efforts by the GASB to use the GASB to impose performance measurement reporting

requirements on state and local governments. The organizations expressed the view, which continues, that performance measurement must be addressed as part of policy-making and the budget process. Local elected officials and not the GASB must address those issues (Big Seven Letter, February 2000).

In March 2001, the GFOA Executive Board approved strategies for their performance measurement initiative. Those strategies were to promote performance measurement, educate governments about performance measurement importance, provide the Distinguished Budget Award Program with criteria to recognize performance measurement, and to promote the linking of performance measurements to the budget process (GFOA, March 2001). In September of that same year, the GFOA President and Executive Director wrote to the Chairman of the GASB and stated objections to the GASB involvement in SEA to include:

- The GASB does not intend to limit itself to purely financial measures.
- The GASB's ultimate goal is to mandate, not recommend.
- The GASB is significantly expanding the boundaries of what constitutes "accounting and financial reporting."
- The GASB has already made up its mind.
- The GASB may seek the advice of experts before setting SEA standards, but intends to have the final word all to itself.
- There will need to be some level of auditor involvement, which will result in increased cost for state and local governments.

The GFOA concluded the letter by stating, "The real issue is GASB's legitimate jurisdiction." GFOA expressed the view that the GASB standards of accounting and financial reporting do not and never have included performance measurement. Also, GFOA expressed the view that the GASB is an "accounting organization" and had used the "concept" of *accountability* to justify its involvement in performance measurement. The GFOA believed the GASB was well intentioned but misguided in its efforts to promote performance measurement (GFOA, September 2001).

In the October 2001, the GFOA President noted that while GFOA normally tries to work with other groups to seek common goals, the GASB's actions to move forward with SEA has caused the GFOA, in this instance, to oppose the GASB's involvement in performance measurement. Performance measurement must be thoroughly integrated into the government's budgetary process. The GFOA President also stated GFOA could not support the GASB's efforts even if it were limited to research and recommendations rather than standard setting, as that would take away from the GASB's primary mission of establishing standards for accounting and financial reporting – which GFOA describes as separate from performance measurement (Grewe, 2001, 4-5). In February 2002, the Multnomah County Auditor in Oregon responded that while the budget is a public document, it is not a report to citizens. Further she

believed the GASB was correct in asserting that accounting and accountability goes beyond financial data that is understandable by few citizens and should include reports on outcomes and other measures important to citizens (Flynn and Landis, 2002).

Subsequently, in February 2002, the GFOA issued another public policy statement on *Performance Measurement and the Governmental Accounting Standards Board*. In this policy statement, GFOA continued to express its support of performance measurement in the public sector but expressed its objections, in the “strongest possible terms”, to any efforts by the GASB to be involved in the development of performance measurement for public organizations. The GFOA continued that performance measurement should be expected to vary from government to government and the proper place for performance measures was in the budget document (GFOA, February 2002.) GFOA then provided an updated summary of their continued opposition to the GASB’s involvement in performance measurement by noting:

- Performance measures are inherently budgetary and managerial in character and clearly fall outside the purview of accounting and financial reporting, as those disciplines have traditionally and commonly been understood. The GFOA emphatically rejects the GASB's attempt to assert its own self-imposed and ill-defined concept of "accountability" to justify the extension of its jurisdiction to virtually all aspects of public finance.
- In the public sector, goals and objectives are the concrete realization and reflection of public policy. In a democracy, it is the unique prerogative of elected and appointed officials to set public policy. If the GASB were to mandate the reporting of specific performance measures it would effectively be usurping this prerogative.
- There is no such thing as a "neutral" performance measure. The selection of what to measure will inevitably drive performance. Therefore, it is unrealistic to believe that performance measures mandated by the GASB would remain purely informational and somehow not have an effect on how governments manage their programs. Even were the GASB to establish completely "voluntary" measures of performance for those governments wishing to use them, the very existence of benchmarks established by a national standard-setting body would put pressure on governments to conform their own performance measures to the GASB's model measures.
- The GASB standards or recommendations would inevitably involve generic measures, which would break the crucial link between performance measurement and a government's specific goals and objectives.

- The inclusion of performance measures as part of financial reporting inevitably would require at least some degree of involvement on the part of the government's independent auditor, resulting in additional audit costs. While we freely admit that data verification is essential if performance measurement is to be credible, we do not believe it should be necessary to involve independent auditors for this purpose. Internal auditing procedures should suffice.
- The GASB's expertise is limited to accounting and financial reporting. Expertise in accounting and financial reporting, while invaluable in many aspects of public finance, does not provide a sufficient basis for making decisions regarding how to measure the quality of services. Even if subject-matter experts were consulted, as the GASB promises, the fact remains the ultimate decision would still be the GASB's.

The GFOA believed the GASB should return to its proper role as an accounting and financial reporting and standards-setting body. GFOA's position on the GASB's involvement with SEA did not change subsequent to 2002 and in December 2006 the GFOA Executive Board voted to reassess the GASB's continued role as the accounting standards setting body for state and local governments. Also in 2006, the GFOA received funding from the Alfred P. Sloan Foundation to develop a performance measurement sourcebook that would identify organizations in the United States and Canada that are using performance measurement systems in their government. This source book would provide case studies based on the experience of exemplary governments involved in performance measurement and would result in a database for other governments to network.

The GFOA also posted on its website several questions and answers on the GFOA's Executive Board position on the GASB. In this document, "the GFOA Executive Board concludes that the GASB's time had come and gone, and some other vehicle would better meet the authentic need of state and local governments for accounting standards." The GFOA concludes the series of questions by stating that it intended to continue to provide financial support to the GASB (since 1984, GFOA has contributed more than \$7 million dollars in support of the GASB). However, the Executive Board believed it would not be appropriate to increase funding to the GASB until issues of concern are satisfactorily resolved (GFOA, Questions and Answers, 2008).

In November 2006, the FAF confirmed that the GASB has the authority to include SEA in its financial accounting and reporting standards activities for state and local governments. In response, the "Big Seven" state and local government organizations wrote to the GASB Chairman stating their organizations strong opposition to the GASB placing SEA on its technical agenda. They stated their opposition to any GASB action believing "the establishment of such (performance) measures is inherently a policy decision

that must remain the exclusive purview of government officials.” It was their view that accounting and accountability are not synonymous in the public sector (Big Seven, February 8, 2007).

The above letter continues the concern the GASB would either intentionally or unintentionally use its authority to prescribe **what measures** to use as opposed to establishing a **framework for reporting** measure the government may identify. Their comments were guided in part by their interpretation of comments made by participants at a January 2007 Roundtable Meeting on the topic of SEA reporting held in Washington D.C. The Big Seven believed the suggestions made by many participants would lead to standards for all performance measures and encroach on government policy-making and undermine the authority of elected officials. Representatives of virtually all state and local government organizations to include the Big Seven, the GFOA, and the Association of Government Accountants attended the meeting.

At the above January 2007 meeting, the GFOA representatives passed out a document that proposed establishing a Joint Performance Management Initiative to develop a framework for performance management (GFOA National performance advisory commission, 2008). By their actions and based on the above letter, these organizations provided notice to the GASB they strongly supported performance measurement. The issues in part related to where performance measures are reported (in the budget for elected officials and management internal use versus in a document for distribution to citizens) and who should lead further efforts (the Big Seven and GFOA versus the GASB through its jurisdictional authority as confirmed by the FAF) to address performance measurement.

Also, in February 2007, the Association of Government Accountants weighed in on this issue by writing to the FAF in support of the GASB’s **accountability** efforts and stated any move to limit the GASB’s independence would be viewed by citizens as an attempt to reduce the transparency of information received from their government (AGA letter to FAF, February 2007). In addition, NASACT (the National Association of State Auditors, Comptrollers and Treasurers) wrote to the FAF stating the GASB was the proper body to address the unique aspects of government accounting and disagreed with moving the GASB function to the FASB (Foltin, 2008, 30). Previously, in August 2006, NASACT informed GFOA, in response to a request for support of GFOA’s position that SEA reporting was a worthy goal, the SEA should be supplementary separate from the financial statements but could be presented with the CAFR, that SEA communicates facts and measurers users consider important, and that Standards setting bodies should not issue mandatory standards for SEA.

In March 2007, the *Bond Buyer* reported the GFOA wanted to put the GASB out of business and summarized the view of Arthur Levitt, Chairman of the Securities and Exchange Commission from 1993-2001, as supporting changes in representation on the Financial Accounting Foundation. Mr. Levitt



supported membership on the FAF as those that have a demonstrated record of public service rather than rather than being from constituent corporate and government groups. He also supported selection of the GASB and FASB members based on who is best qualified to serve rather than based on recommendations from constituent groups. The FAF made it known that GFOA had no standing to recommend the abolishment of the GASB and by doing so threatened the GASB's independent standard setting process (FAF, 2007). As Mr. Levitt, Chairman of the SEC from 1993 to 2001, reinforced, "Over time, special interest have chipped away at that (GASB and FASB) independence and undermined these organizations' commitment to meeting the needs of investors and the public. It is time to re-engineer our accounting standard-setters to serve the public that relies on their work" (Levitt, 2007).

In April 2007, members of the FAF, GASB, and GFOA met to discuss GFOA's call for the elimination of the GASB and the transition of the GASB's functions to the FASB. In its written response to GFOA on June 5, 2007, the Chairman and President of the FAF stated in its May 2007 meeting the FAF Board of Trustees unanimously adopted a resolution affirming the continued role of the GASB, separate from FASB, as the independent standards setting body for financial accounting and reporting for state and local government entities. The FAF also concluded the GASB had the necessary expertise to serve its diverse users. The FAF Chairman concluded by calling on GFOA to continue to work collegially with the GASB and to continue to provide financial support. On June 29, 2007, the FAF also wrote to the Bond Buyer to state it was unfortunate that GFOA had continued to express their desire for the GASB to be eliminated and standards setting responsibilities for state and local government to be transferred to FASB when GFOA had already been informed of FAF's unanimous support for the GASB to remain as the body to establish GAAP for state and local governments. The FAF concluded that, "Mr. Glasser's speech clearly demonstrates the rationale and necessity for financial accounting and reporting standards setting to be independent from commercial, political and other influences that put specific self-interest above the public interest and erode the trust in government. And, that's what the FAF is here to protect against" (FAF, June 5, 2007 and FAF, June 29, 2007.)

The speech that the FAF referred to above was made by the outgoing President of the GFOA at their June 2007 Annual Conference in Anaheim, CA. Mr. Glaser comment that the GASB's "time had come and gone" and subsequent comments were greeted with repeated applause by the more than 3000 delegates in attendance. In that speech, Mr. Glaser also commented "GASB insist that its charge extends not just to accounting, but to all aspects of accountability, thereby staking out a claim to set future reporting standards for virtually all aspects of public administration, both financial and nonfinancial." Further, "GASB's involvement in SEA reporting has expanded the scope of its mission beyond accounting and financial reporting to government accountability, which is more properly a part of budget and management processes." Further, at the same conference in 2008, Charles S. Cox, the 2008 GFOA President told the audience GFOA's "continued efforts for accounting standards" would be for accounting,

not accountability.” Mr. Glasser and Mr. Cox’s comments are of significance to this research and demonstrate the diverging views on the role of the GASB (Governing, 2008, The Bond Buyer, June 2007, and Lemov, 2007).

In February 2008, the GFOA Executive Board refined its position that standards setting responsibilities of the GASB should be transferred to the FASB. The stated reason for this change in position was the uncertainty of the continued presence of FASB in light of the SEC approving a proposal to allow foreign companies to use international accounting standards. By this action, it was viewed as likely that U.S. corporations might choose international standards over U.S. GAAP established by the FASB for the private and non-profit sector. If this were to occur, the continued role and existence of FASB may be in question and caused GFOA to refine its previous position.

Another major piece of the GASB/GFOA conflict centers on placing performance measurement information in the budget only and deferring to elected and appointed officials to make all policy decisions. The weakness in this approach is it leaves out the citizen, also an important user of performance measurement information and a major actor in the policy process. This approach is not in keeping with efficient citizenship theory that came out of the New York Bureau of Municipal Research and democracy theory that recognized government is not about efficiency; it is about democracy that is often inefficient. Notwithstanding, the inclusion of performance measures in the budget, as GFOA points out, is consistent with recommendations of NACSLB (National Advisory Council on State and Local Budgeting). NACSLB recommendations were advisory only and after concluding their work, NACSLB permanently adjourned. Compared to the GASB that establishes GAAP for state and local government, there is currently no comparable standard setting body for budgeting.

The GFOA has stated it will conceptually ground its performance measurement activities in the planning, budgeting, and management activities of the organization. Citizens would be involved through participation in steering results-managed organizations in the right direction. The GFOA goal through this performance initiative is to increase the ability of its members to measure results and utilize this information to benefit the taxpayer (Kreklow and Ruggini, 2005, 50-52). While the GFOA notes citizens will assist in steering, how that will be accomplished absent external reporting to them on the government’s performance in some manner other than a voluminous budget document has, not at the time of this research, been made clear.

## **Summary of Historical and Theoretical Framework**

Chapter 2, The Historical and Theoretical Framework, for this research prospectus has provided a somewhat lengthy, but necessary, history of this important research. The history of government’s

responsibility to externally report to citizens on its performance goes back well over 100 years and the issues involved address the very substance of public administration and government financial management. Today, there is substantial disagreement on: who should lead this effort - the GASB or an assembly of professional and public organizations; where performance measures should be reported – to the public or only in the governments budget document; and to whom the data should be reported – to all potential users to include citizens or only internally and to elected officials that represent the citizens. The objective of this research is to study the theory that supports performance reporting to include political control of bureaucracy, efficient citizenship, bureaucratic politics, and democracy theory. It is possible that through improved SEA reporting and a return to theory supporting efficient citizenship, voters may make better ballot decisions leading to different leaders and different policies. This research studies the history of performance reporting through the lens of governmental financial management and private and nonprofit accounting. This research also reviews innovative practices in external performance reporting done by local governments as part of the GASB, AGA, and NCCI initiatives. Lastly, the historical and theoretical framework reviews objections (GFOA propositions) that have been made that are contrary to initiatives made by the GASB, AGA, and governments participating in the NCCI program that have also submitted their published reports to AGA.

This study's review of a group of local government external performance reports will add to the literature on this topic and address the extent the reports sustain, or cast doubt upon, the validity of the posited objections.

## CHAPTER 3

### RESEARCH METHODOLOGY

From 2004 to 2007, some of the leading local governments in performance reporting from across the United States submitted their performance reports to the Association of Government Accountants for evaluation. AGA scored the reports based on sixteen criteria recommended by the GASB for service efforts and accomplishments reporting. These governments submitted their reports voluntarily and received feedback from AGA on how their reports excelled and where their reports could be improved.

The population of participating governments included 26 cities and 20 counties. The cities and counties varied in size with the largest having a 2000 census population of 8,808,278 citizens (New York) to the smallest government serving a population of 16,822 citizens (Saco, ME.) The average population for the 46 local governments was 720,827 with the median being 448,607. There were 34 governments having a population of less than the average of 720,827. Participating cities and counties represented 23 states. Western states had the most city and county participants with 19, followed by southern states with 16, the Midwest with 6, and the northeast states with 5. Based on this research, the states that appear to be leaders in performance measurement include Washington, Oregon, Iowa, California, Arizona, and North Carolina. As subsequent Tables will show, cities and counties in these states produced exemplary SEA reports.

The research methodology to be employed will consist of case study analysis of all (100 percent) of the local government SEA reports submitted to AGA for recognition in its Certificate of Excellence in Service Efforts and Accomplishment program. The advantage of using the reports submitted to AGA for this research, as opposed to selecting a random sample of similar reports across the nation for comparison to the GASB criteria, is these governments were aware of the GASB criteria and voluntarily submitted their reports for review against those criteria.

Forty-six local governments have participated and have submitted almost 80 reports for review from the 2004 pilot year through summer 2008. In 2004, reports were reviewed but not scored. Rather, participating governments received written comments and suggestions on criteria not addressed and how to improve their reports for subsequent year submission. Constructive comments were provided by peers with the intent of improving reports and increasing the likelihood of the government being recognized as issuing a report worthy of recognition. In 2005 the reports were scored and SEA certificates were issued for the first time. The following Table shows local governments that have participated since the pilot year, those governments that have received the AGA Certificate of Excellence in SEA reporting for one or more years, and the number of reports submitted by government from the pilot year through the summer of 2008.

**Table 3.1: Participating local governments**

	Fiscal Year	Pilot Year Participants (Includes Those Submitted after Pilot Year for Comments and also not Scored)	Fiscal Year AGA Award Received	Number of SEA Reports Submitted From Pilot Year Through FY 2007
1.	City of Albuquerque, NM	<b>Yes</b>		1
2.	City of Ankeny, IA	<b>Yes</b>	<b>05,06,07</b>	4
3.	City of Austin, TX	<b>Yes</b>		1
4.	City of Bellevue, WA	<b>Yes</b>	<b>05,06,07</b>	4
5.	City of Chattanooga, TN	<b>No</b>		1
6.	City of Charlotte, NC	<b>Yes</b>		1
7.	City of Des Moines, IA	<b>Yes</b>	<b>05,06,07</b>	4
8.	City of Detroit, MI	<b>Yes</b>		1
9.	District of Columbia	<b>Yes</b>		1
10.	City of Durham, NC	<b>No</b>		2
11.	City of Henderson, NV	<b>No</b>		3
12.	City of Kansas City, MO	<b>Yes</b>	<b>05</b>	2
13.	City of Kirkland, WA	<b>No</b>		1
14.	City of Mt. Lebanon, PA	<b>Yes</b>		1
15.	City of New York, NY	<b>Yes</b>		1
16.	City of Palo Alto, CA	<b>Yes</b>	<b>05,06,07</b>	4
17.	City of Phoenix, AZ	<b>Yes</b>		2
18.	City of Pocatello, ID	<b>Yes</b>		2
19.	City of Portland, OR	<b>Yes</b>	<b>05,06,07</b>	4
20.	City of Richmond, VA	<b>Yes</b>		1
21.	City of Saco, ME	<b>Yes</b>	<b>05,06,07</b>	4
22.	City of San Diego, CA	<b>Yes</b>		1
23.	City of San Jose, CA	<b>Yes</b>		1
24.	City of Salisbury, NC	<b>No</b>		1
25.	City of Stockton, CA	<b>No</b>	<b>07</b>	1
26.	City of Tucson, AZ	<b>No</b>		1
27.	Arlington County, VA	<b>Yes</b>		1
28.	Blount County, TN	<b>Yes</b>		1
29.	Cambria County, PA	<b>No</b>		1
30.	Clark County, WA	<b>No</b>		1
31.	Cumberland County, PA	<b>No</b>		1
32.	Dekalb County, GA	<b>Yes</b>		1
33.	Franklin County, OH	<b>Yes</b>		1
34.	Guilford County, NC	<b>No</b>		1
35.	King County, WA	<b>Yes</b>	<b>06</b>	2
36.	King County Washington Department of Natural Resources	<b>Yes</b>	<b>05,06,07</b>	4
37.	Maricopa County, AZ.	<b>Yes</b>	<b>05</b>	2
38.	Metro Nashville and Davidson County, TN	<b>No</b>	<b>07</b>	1
39.	Nashville Davidson County Health Department, TN	<b>No</b>		1

Table 3.1 - Continued

	Fiscal Year	Pilot Year Participants (Includes Those Submitted after Pilot Year for Comments and also not Scored)	Fiscal Year AGA Award Received	Number of SEA Reports Submitted From Pilot Year Through FY 2007
41.	Multnomah County, OR	<b>Yes</b>		<b>1</b>
42.	Palm Beach County, FL	<b>Yes</b>		<b>1</b>
43.	Prince William County, VA	<b>Yes</b>	<b>05,06,07</b>	<b>4</b>
44.	Sacramento County, CA	<b>No</b>		<b>1</b>
45	Sustainable San Mateo County, CA	<b>Yes</b>		<b>2</b>
46	Washington County, MN	<b>No</b>	<b>05</b>	<b>1</b>
	Total	<b>30 Yes 16 No</b>	<b>30 Certificates issued to 14 local governments</b>	<b>78 Reports Submitted</b>

Notes: In 2008, Vancouver, Canada and Charlotte, NC received their first Certificate of Excellence for their Performance Reports. This recognition was received subsequent to the study period. It is especially noteworthy for Charlotte, NC as that City was a pilot year participant and chose to resubmit a report for the year ending 2008 (Ref - <http://www.agacgfm.org/performance/sea/seaprioryear.aspx> retrieved 01-24-09).

## Methodology to Address Research Objectives

The objectives of this research are threefold:

- First, this study compiles a useful history of the conflict over performance reporting, also called Service Efforts and Accomplishments (SEA) reporting, including the antecedents of the GASB's activities which are rooted in public administration theory and traditions dating back to the Progressive Era.
- Second, this study will investigate the utility of a set of criteria, developed by the GASB, to ascertain the "state of the art" in performance reporting; specifically, what does applying these criteria to evaluate the quality of performance reports submitted by that group of local governments reveal about the attainability of various aspects of reporting quality.
- Third, this study will investigate whether the actual practices of a self-selected group of governments that are doing performance reporting sustain, or cast doubt upon, the validity of some organizations posited objections to the GASB's involvement in SEA.

The first of the above objectives has been accomplished in the historical and theoretical framework and literature review chapter. The second of the above objectives will be to (1) study the sixteen criteria developed by the GASB, (2) review the AGA SEA program to include its scoring process and the program to train volunteers that score the reports, (3) summarize the results of AGA scoring, and (4) present the strengths and weaknesses identified in issued reports as determined by AGA and as supplemented by this researcher's study of reports.

**The Sixteen Criteria Developed by the GASB.** As discussed in the historical and theoretical framework chapter of this research, in August 2003 the GASB issued "Reporting Performance Information: Suggested Criteria for Effective Communication." The GASB researchers identified the following sixteen criteria for externally communicating performance:

**Table 3.2: Sixteen suggested criteria**

1	Purpose and scope
2	Statement of major goals and objectives
3	Involvement in establishing goals and objectives
4	Multiple levels of reporting
5	Analysis of results and challenges
6	Focus on key measures
7	Reliable information
8	Relevant measures of results
9	Resources used and efficiency
10	Citizen and customer perceptions
11	Comparisons for assessing performance
12	Factors affecting results
13	Aggregation and disaggregation of information
14	Consistency
15A	Easy to find and access
15B	Easy to understand
16	Regular and timely reporting

This researcher will carefully review the 195-page GASB Special Report (*Reporting Performance Information: Suggested Criteria for Effective Communication*) to obtain a clear understanding of each measure. In addition, to gain the perspective of how read a performance report, this research will carefully review the July 2005 publication of the GASB on *Government Service Efforts and Accomplishments Performance Reports: A Guide to Understanding*.

**Review of the AGA SEA program to include its scoring process and the process used to train volunteers that score the reports.** As previously discussed in the historical and theoretical framework chapter, AGA has developed a set of rubrics for reviewing each criterion. To understand the scoring

process and the process followed by AGA to train volunteers who score reports, this researcher has successfully completed the 4-hour AGA course. An example summary scoring sheet is presented below.

**Table 3.3: AGA scoring sheet for SEA reports reviewed**

Criteria No.	Criteria	Reviewer #1	Reviewer #2	Reviewer #3	Average score	Number of reviewers scoring 2 or above	Number of reviewers scoring 0
1	Purpose and scope						
2	Statement of major goals and objectives						
3	Involvement in establishing goals and objectives						
4	Multiple Levels of Reporting						
5	Analysis of results and challenges						
6	Focus on key measures						
7	Reliable information						
8	Relevant measures of results						
9	Resources used and efficiency						
10	Citizen and customer perceptions						
11	Comparisons for assessing performance						
12	Factors affecting results						
13	Aggregation and disaggregation of information						
14	Consistency						
15A	Easy to find and access						
15B	Easy to understand						
16	Regular and timely reporting						
	Totals						
	Number of criteria scoring 2 or above						
	Number of criteria scoring below 2						
	Number of criteria not addressed at all, i. e., scoring zero						

With regard to the above, having successfully completed the AGA 4-hour training course for volunteer reviewers, this researcher has an understanding of the scoring process and the responsibilities and expectations of volunteer reviewers.



**Summarizing the results of AGA scoring.** This researcher has been provided the AGA scoring sheets for all local government submissions. There are three reviewers each independently scoring the submitted reports. The AGA SEA Director accumulates scores for the review team and a conference call is made to discuss agreement and disagreement on scoring. The SEA Director strengthens the scoring process as he has reviewed every report submitted for every government to date. Descriptive statistics will be used as needed to strengthen the scoring analysis. The availability of scoring sheets strengthens findings and overcomes subjectivity that could be inferred should this researcher independently attempt to score data not having access to scoring sheets or having participated in conference call discussions of volunteers and the Director.

**Present the strengths and weaknesses identified in issued reports as determined by AGA and as supplemented by this researcher's study of reports.** Scoring sheets will be tabulated to determine where participating governments excelled or where reports were found to be weak. This researcher was provided access to correspondence from the AGA Program Director to submitting local governments that identify where the Director and volunteers believe the submitted reports were exemplary along with recommendations for improvement.

To restate objective two above, the methods planned for study will use a set of criteria, developed by the GASB, to ascertain the "state of the art" in performance reporting; specifically, what does applying these criteria to evaluate the quality of performance reports submitted by that group of local governments reveal about the attainability of various aspects of reporting quality.

The third of the above objectives will be to investigate whether the actual practices of a self-selected group of governments doing performance reporting sustain, or cast doubt upon, the validity of the objections. This research will present and address each issue identified by the GFOA on why performance measurement reports should be presented only in the budget and primary for use by management and elected officials. For each identified reason, this research will review issued reports to see if concerns expressed by GFOA about performance measurement have been addressed and/or appear to be overcome by issued reports. In addition, this research will address GFOA objections in the context of whether arguments presented are or are not supported by public administration theory. Specific attention will be given to efficient citizenship, bureaucratic politics, and democracy theory.

The primary research propositions presented by GFOA as to why the GASB should not be involved in performance reporting were most comprehensively presented by GFOA in its 2002 policy statement as follows:

- Performance measures are inherently budgetary and managerial in character and clearly fall outside the purview of accounting and financial reporting, as those disciplines have traditionally and commonly been understood. The GFOA emphatically rejects the GASB's attempt to assert its own self-imposed and ill-defined concept of "accountability" to justify the extension of its jurisdiction to virtually all aspects of public finance.
- In the public sector, goals and objectives are the concrete realization and reflection of public policy. In a democracy, it is the unique prerogative of elected and appointed officials to set public policy. If the GASB were to mandate the reporting of specific performance measures it would effectively be usurping this prerogative.
- There is no such thing as a "neutral" performance measure. The selection of what to measure will inevitably drive performance. Therefore, it is unrealistic to believe that performance measures mandated by the GASB would remain purely informational and somehow not have an effect on how governments manage their programs. Even were the GASB to establish completely "voluntary" measures of performance for those governments that wish to use them, the very existence of benchmarks established by a national standard-setting body would put pressure on governments to conform their own performance measures to the GASB's model measures.
- The GASB standards or recommendations would inevitably involve generic measures, which would break the crucial link between performance measurement and a government's specific goals and objectives.
- The inclusion of performance measures as part of financial reporting inevitably would require at least some degree of involvement on the part of the government's independent auditor, resulting in additional audit costs. While we freely admit that data verification is essential if performance measurement is to be credible, we do not believe it should be necessary to involve independent auditors for this purpose. Internal auditing procedures should suffice.
- The GASB's expertise is limited to accounting and financial reporting. Expertise in accounting and financial reporting, while invaluable in many aspects of public finance, does not provide a sufficient basis for making decisions regarding how to measure the quality of services. Even if subject-matter experts were consulted, as the GASB promises, the fact remains that the ultimate decision would still be the GASB's.

Each of the above objections will be carefully studied to see whether the actual practices of a self-selected group of governments doing performance reporting sustain, or cast doubt upon, the validity of the posited objections. This research will approach each of the above objections as "propositions" and not as hypothesis as to date the GFOA and the Big Seven public organizations have not fully grounded their objections in either accounting or public administration research. Though they are not grounded in empirical research, each of the stated objections is a proposition that, for methodological purposes, will

be treated as if it were a working research hypothesis. The submitted SEA reports will be examined to ascertain whether the practices of the submitting governments sustain or refute the propositions. For each of the above objections and as applicable, tables, charts, and/or graphs will be prepared from data found in local government reports submitted to AGA that address each proposition.

## **CHAPTER 4**

### **ANALYSIS OF PERFORMANCE MEASUREMENT REPORTS**

Chapter 4 addresses the second and third objective of this research. The first objective was addressed in Chapter 2 by compiling a history of performance reporting including the antecedents of the GASB's activities that are rooted in public administration theory, and traditions dating back to the Progressive Era.

The second objective of this research is to study the utility of a set of sixteen criteria, developed by the GASB, to ascertain the "state of the art" in performance reporting. The GASB criteria were adopted by AGA and have been used to evaluate and score state and local government performance reports. Local governments voluntarily submitting reports to AGA are aware of the GASB's call for experimentation in performance reporting and of the SEA Certificate program that utilizes the GASB criteria. The second objective of this research investigates what applying these criteria to performance reports reveals about the attainability of various aspects of reporting quality.

The third objective of this research is to investigate whether the actual practices of a self-selected group of governments doing performance reporting sustain, or cast doubt upon, the validity of the posited objections of a group of professional and public organizations. These organizations oppose the GASB including external performance reporting within General Purpose External Financial Reporting (GPEFR).

As shown in Chapter 3 - Research Methodology, through fiscal year 2007, forty-six local governments comprising 26 cities and 20 counties, have participated in the AGA SEA Certificate Program. For the review period, these governments submitted almost 80 reports. During the first year of the program in 2004, AGA did not issue certificates; rather, comments were provided back to participating governments that identified areas for report improvement. Scoring began in fiscal year 2005. Through 2007, AGA has issued 30 certificates to fourteen local governments. Some governments have received certificates several years in a row.

For objective 2, several Tables will be presented and analysis performed. Table 4.1 shows average scores by criteria for fiscal year 2005- 2007. The Table will identify where governments have excelled and where they have difficulty in meeting each criterion to receive an SEA Certificate. Then, Table 4.2 shows a comparison of a related study of state agencies to this study of local governments. Table 4.3 presents noteworthy features for the 2004 pilot year and Table 4.4 shows the response to an AGA conducted survey to obtain participant comments and suggestions about the program. Table 4.5 describes noteworthy features of SEA reports for 2005. For the pilot year and 2005, the AGA program director prepared the summary. For 2006 and 2007, AGA staff did not prepare a summary. Therefore, this

researcher prepared Table 4.6 that describes report strengths for 2006 and 2007. Table 4.7 is a critical table to this research. It shows how well local governments performed on each criterion to include the percent of criteria that met the scoring requirements to receive an SEA Certificate. Table 4.8 shows by city/county and criteria how 14 local governments receiving the SEA Certificate excelled. Users of this research can refer to Table 4.8 to determine by government and by criteria where Certificate recipients excelled. Further, they further could use this information and the related reports to help to prepare or improve upon their own report. Table 4.9 provides an analysis of how scores have changed over time for governments that have submitted their SEA report to AGA for two or more years. Based upon these described Tables and analysis of those tables, this research should be able to conclude on what applying these criteria to performance reports reveals about the attainability of various aspects of reporting quality.

For objective 3, each GFOA objection to the GASB's involvement in performance measures will be analyzed to evaluate how performance measurement reports submitted to AGA sustain, or cast doubt upon the objections. Tables will be prepared, analysis will be performed, and findings explained within the context of the posited objections. As applicable, reference will be made to public administration theory.

## **Research Objective 2 - What is the State of the Art in Performance Reporting and What do Submitted Reports Reveal About the Attainability of Various Aspects of Reporting Quality?**

**Scoring Summary.** To obtain an understanding of how governments have scored on each criterion subsequent to the pilot year, scoring data was obtained from AGA and average scores for all submissions for 2005, 2006, and 2007 were tabulated. To receive the SEA Certificate the score must be 2.0 or better for 13 of the 17 criteria.

**Table 4.1: Average score by criteria  
Fiscal years 2005, 2006, and 2007**

Criteria No.	Criteria	2005 Average Scores	2006 Average Scores	2007 Average Scores	Sum	Average for the Three years	Standard Deviation
1	Purpose and scope	2.32	2.37	2.46	7.15	*2.38	.071
2	Statement of major goals and objectives	2.09	2.3	2.10	6.49	2.16	.118
3	Involvement in establishing goals and objectives	1.54	1.53	1.56	4.63	**1.54	.015
4	Multiple Levels of Reporting	2.26	2.00	2.20	6.46	2.15	.136
5	Analysis of results and challenges	1.89	1.75	1.57	5.21	1.74	.160
6	Focus on key measures	2.00	2.17	2.10	6.27	2.09	.085
7	Reliable information	1.91	2.06	1.82	5.79	1.93	.121
8	Relevant measures of results	2.33	2.30	2.06	6.69	2.23	.147
9	Resources used and efficiency	1.54	1.67	1.39	4.6	**1.53	.140
10	Citizen and customer perceptions	2.16	2.42	2.52	7.1	*2.37	.186
11	Comparisons for assessing performance	1.67	1.92	1.7	5.29	1.76	.137
12	Factors affecting results	1.98	2.00	1.64	5.62	1.87	.202
13	Aggregation and disaggregation of information	1.54	1.61	1.58	4.73	**1.58	.035
14	Consistency	1.80	1.75	1.92	5.47	1.82	.087
15A	Easy to find and access	2.26	2.58	2.28	7.12	*2.3	.179
15B	Easy to understand	2.54	2.4	2.56	7.5	*2.5	.087
16	Regular and timely reporting	1.70	2.00	1.92	5.62	1.87	.115
	Total	33.56	34.92	33.37	101.74	33.91	.845

# Of Criteria Where the Average Was 2.00 or More	8	11	8	N/A	N/A	N/A
# Of Criteria Where the Average Was Less Than 2.00	9	6	9	N/A	N/A	N/A

Notes: \* Identifies those criteria where local governments did very well.

\*\* Identifies those criteria where local governments had more difficulty.

The above Table shows where participating governments excelled and where those governments had difficulty for each criterion. On the whole for the three years for all governments, the highest scores were received on criteria relating to the purpose and scope of the report, citizen and customer perceptions, and that the reports were easy to access and understand. These findings would indicate that governments had a clear understanding of why they were preparing the report (criteria 1), they were actively conducting citizen surveys on performance (criteria 10), and the governments were making a conscious

effort to prepare a report that would be easy to access and understand (criteria 15A and 15 B) - what the Sloan Foundation has referred to as “communicating with ordinary people.”

The above Table also shows submitted reports needed to be improved to meet criteria relating to: involvement in establishing goals and objectives (criteria 3), commenting on how resources are used and efficiency (criteria 9), and aggregation and disaggregation of data (criteria 13).

For the criteria shown above, the average score (last column) for eight of the above criteria was 2.0 or above and for nine criteria the average score was less than 2.0. This distribution of scores both above and below 2.0 is an indication of rigor of the Certificate program and the effort required to receive the certification. Although the GASB identified sixteen suggested criteria, AGA chose to score 17 in categories by dividing criteria 15 into two parts. For individual governments to receive the award, they must score 2.0 or above on 13 of the 17 criteria.

The above Table 4.1 of average scores by criteria by year shows remarkable consistency between years. Such consistency in scoring is an indication of the quality of AGA training, the scoring process, communication between the team and with the AGA program director, and competence of individual review team members. The AGA training program includes four hours of face-to-face or teleconference instruction. The reviewers are provided detailed training to include a training manual consisting of approximately 40 pages, comments on the history of the SEA program, instruction on how to perform the reviews and use the rubrics. The above guidelines are also available to governments that choose to prepare and submit their reports to AGA for scoring (AGA, 2009).

An analysis of the pilot year along with the above Table also provides additional reasoning for consistency in scoring as, to a considerable extent, the population remained homogenous. For example, for the pilot year 30 governments submitted their reports for comments. Of those, 17 have not resubmitted their reports. Of the 13 governments continuing from the pilot year, 10 of those have received the Certificate one or more years with 8 governments receiving the award in 2005, 2006, and 2007. Of the 16 new submissions since the pilot program, four additional local governments received the certificate.

Some relationships emerge from the above. For example, participating governments are involving citizens and customers by obtaining feedback through citizen surveys (criteria 10 and a three-year average score of 2.37) but they do not appear at this time to be involving citizens and customers on the front end in establishing goals and objectives and in identifying performance measures the government should use (criteria 3 and a three-year average score of 1.54). This finding supports the view that citizens and customers were are often not directly involved on the front end to help in establishing goals and

objectives and performance measures, but their input was highly sought through surveys once a performance measurement program had begun.

The primary point made by criterion 10 is citizen and customer perceptions and direct involvement are important and citizens should have a voice in the operation of their government. Barbara Cohn Berman emphasizes this point in *Listening to the Public* by concluding that “people’s comments and observations about government performance are indeed worth listening to” and “when municipal governments do not hear or understand the ways in which their constituencies evaluate their performance, a “disconnect” ensues; government is evaluating its effectiveness using one set of criteria; the public may be applying quite another.” The result of such disconnect is the government may believe it is doing a good job based on its criteria but the public is using an entirely different set of measures to gauge the government success (Cohn Berman, 2005). If the government only requests feedback on the measures it chooses, it misses the opportunity to obtain feedback on additional areas the public thinks is important.

Epstein makes a similar observation by stating that engaging citizens in deciding what to do, or in deciding what results to measure, what goals to measure against, is vital. He identified the critical factors in performance measurement as engaging citizens, measuring results, and getting things done. Further, it is a mistake for measures to be determined by managers without assurance they reflect the citizens concerns (Epstein et al, 2006).

A study related to this research and the above table was published in Summer 2008 *Journal of Government Financial Management*. The authors analyzed performance reports from the web sites of 200 state agencies. They chose to look at 4 state agencies in each of the fifty states and specifically at corrections, education (K-12), human services, and transportation. The four professors and seven research assistants (master’s level graduate students) reviewed the reports applying the sixteen GASB suggested criteria and AGA’s scoring rubrics. Of the five raw scores exceeding 100 percent presence of addressing the criteria, they believed two agencies could have earned the certificate: Iowa’s Department of Human Services and Kentucky’s Department of Education. Only Oregon achieved an average score of greater than 100 percent across all four reviewed agencies. Unlike this research study, the state agencies evaluated were not aware that the GASB criteria would be used as the measurement tool.

With regard to the sixteen suggested criteria, they found that on average 2% of reports exceeded all 16 criterion; 18% met all criterion; 46% attempted all criterion; and 34% of reports failed all criterion. They found report strengths were related to criteria for a statement of goals and objectives (criteria 2), multiple levels of reporting (criteria 4), relevant measures of results (criteria 8), and aggregation and disaggregation of data (criteria 13). Weaknesses in state reports related to criteria for user involvement in



establishing goals and objectives (criteria 3), having reliable information (criteria 7), and citizen and customer perceptions (criteria 10). For this last criterion, 85% of the reports failed in obtaining citizen and customer perceptions (Smith, 2008).

As noted above, one important difference is revealed in the study of state agencies and this research on local governments. For criteria 10 in this research – citizen and customer perceptions - the percentage of local governments that met or exceeded the criteria requirements was 64.3% (see Table 4.7). Whereas, for the state study, citizen and customer perceptions received the lowest score for all criteria with 97 percent of reports reviewed receiving less than a passing score. This indicates that State agencies in the state study have to date placed very little emphasis on receiving citizen and customer feedback. This finding is consistent with the Harris poll discussed in the Introduction Chapter of this research that found citizens are more directly involved and more satisfied with information provided by local government when compared to state government.

An overall comparison of the state study with the results of this study is presented as follows:

**Table 4.2: Comparison of combined scores for all criteria  
State study compared to AGA SEA study**

<b>Combined Sores for All 17 Criteria</b>	<b>State Study</b>	<b>AGA SEA Study</b>	<b>Difference</b>
% Failed - Score 0 to 1	34 %	<b>12.1%</b>	21.9%
% Some Effort - >1 to 1.99	46%	<b>33.2%</b>	12.8%
% Fully Met - 2 to 2.66	18%	<b>27.5%</b>	9.5%
% Exceed Meets - 2.67 to 3.00	2%	<b>27.2%</b>	25.2%

The above Table 4.2 shows that overall, local governments faired much better on the criteria (54.7% of the criteria met by scoring 2.0 or above) compared to the state study (20% of the criteria met by scoring 2.0 or above).

For the state study, their research concluded AGA criteria were relatively easy to apply and use of three scorers helped to obtain agreement; consistency among scorers was fairly high, and they identified no insurmountable barriers to quality reporting. They also noted several criteria could have been met with only a few additional written words. Of the four principal researchers in the state study, two have served as reviewers in the SEA program and all have been studying and writing about performance measurement for almost 15 years.

**Noteworthy Features of Local Government SEA Reports.** For the AGA Pilot Year, 30 local governments voluntarily submitted their reports for review. Review teams were assembled to review (but not score) the reports and to make suggestions for improvement. Governments were encouraged to

consider team suggestions when preparing subsequent year reports for external reporting and for submission to AGA.

The following Table summarizes noteworthy features by criteria as identified by AGA review teams. The teams were comprised of three individuals including the AGA project director.

**Table 4.3: 2004 Pilot year implementation phase - noteworthy features**

<b>Criteria Number and Description</b>	<b>Organization</b>	<b>Noteworthy Feature</b>
No. 1 Purpose and Scope	Bellevue, WA	An introduction that explains the rationale for performance reports and places Bellevue's report in context, followed by the identification of other reports the City issues to report accountability and the Internet addresses at which these reports can be accessed, and an explanation of the performance information presented by the report.
	Blount County, TN	Community Profile providing a succinct, easy-to-read introduction to Blount County.
	Charlotte, NC	An Overview of City Strategy identifying the corporate objectives, focus areas and priorities reported upon in the report; and the vision, mission and strategic plan providing the foundation for the objectives; and then provide a graphic display of how all of these items interrelate.
	Des Moines, IA	Concise introductory letter from the City Manager identifying report's purpose, scope, citizen involvement, preparation process, survey process, data sources and limitations, and key results from each of the core issue areas.
	King County, WA Department of Natural Resources and Parks	Transmittal letter providing an excellent list of reasons for measuring and reporting performance and listing major changes in report from prior year.
		Introduction's explanation of the report's content.
	Maricopa County, AZ	County Auditor's transmittal letter that clearly and succinctly presents the context for preparation of the Report, the Report's purpose and content, and its limitations, and is reinforced by an easily read introduction that explains what the Report does and why it is needed.
	Portland, OR	Summary section containing a succinct presentation of information to help readers understand the report, including the frequency of the reporting, the report's purpose and content, a notation that two citywide surveys were conducted to obtain information on satisfaction with City services.
		Description of the relationship between the Service Efforts and Accomplishments Report and the City's Managing for Results process.
	Prince William County, VA	Highlighting the organization chart to identify the departments for which performance was reported.
Saco, ME	Summary's clear and complete identification of the purposes of the report.	

Table 4.3 - Continued

<b>Criteria Number and Description</b>	<b>Organization</b>	<b>Noteworthy Feature</b>
	San Jose, CA	Use of graphics to clearly and completely depict the relationship between the City's vision, City Service Areas, Core Services, and departments responsible for delivering core services.
No. 3 Involvement in Establishing Goals and Objectives	Ankeny, IA	Identification of background of citizens that defined the City's initial performance measures, as a way of demonstrating their ability to understand the task.
	Charlotte, NC	Beginning the summary report with descriptions of ways the citizens can help guide the City.
	Des Moines, IA	Involvement of citizens in development of vision and strategic goals, development of performance measures, and surveys of results.
No. 4 Multiple Levels of Reporting	Albuquerque, NM	Succinct and easy-to-read letter from Mayor, identifying City's goals, and drawing reader into report.
	Charlotte, NC	Issuance of a summary report for citizens and a more detailed report for City management and elected officials.
	Des Moines, IA	Graphically identifying for each key result cited in introductory letter, the page number in the report at which additional information for that result is presented.
	King County, WA Department of Natural Resources and Parks	Summary of Report presented on inside back cover classifying the different types of performance measures and using color-coding to show status of performance relative to both near-term and long-term targets.
	Palo Alto, CA	Transmittal letter that provides a comprehensive, easy-to-read summary of the highlights of the City's performance.
	Portland, OR	Inclusion of a synopsis in the summary section of the citizen's and business' overall satisfaction rates and succinct summaries of performance and challenges in each of five service areas.
	San Jose, CA	Accompanying charts and graphs in Executive Summary with captions that summarize the results in terms of benefits for the City.
	Sustainable San Mateo County, CA	Use of the Table of Contents titles to identify results of the measured activities.
No. 5 Analysis of Results and Challenges	Bellevue, WA	Introductory summary of performance presenting and explaining, in quantitative terms, the "vital sign trends," i. e., both residents' opinions of the City and objective measures of specific aspects of the City's services, and potential reasons for performance shortfalls.
No. 6 Focus on Key Measures	Palo Alto, CA	Introduction section titled <i>Selection of Indicators</i> provides clear understanding of reasons underlying the choice of measures for which performance was presented.
	Prince William County, VA	Explanations of how measures were selected.
No. 7 Reliable Information	Portland, OR	Clear and succinct description of what the City did to assess and assure data relevance and reliability.
	Prince William County, VA	Explanations of how data were reviewed for reliability.
	Saco, ME	Identification of plans for providing additional information with which readers can better assess the reliability of reported performance information.
No. 8 Relevant Measures of	Ankeny, IA	Providing definitions for the different types of measures.
	Bellevue, WA	Labeling each department's measures as workload, effectiveness, or efficiency.

Table 4.3 - Continued

<b>Criteria Number and Description</b>	<b>Organization</b>	<b>Noteworthy Feature</b>
Results	Maricopa County, AZ	Identification of measures as inputs, outputs, efficiency, or outcomes, which contributes to readers' understanding of the significance of the measures.
No. 9 Resources Used and Efficiency	Ankeny, IA	Presenting a pie chart depicting how much of the taxes paid by the owner of a house assessed at \$100,000 was needed for each type of City service.
	Prince William County, VA	Extensive presentation of efficiency measures.
No. 10 Citizen and Customer Perceptions	Saco, ME	Explanation of process used to conduct citizen surveys and identification of resulting confidence level and margin of error.
	San Jose, CA	Acknowledgement that high scores for customer satisfaction should be viewed in conjunction with lower objective measures of actual performance.
No. 11 Comparison for Assessing Performance	Bellevue, WA	Inserting a check symbol to indicate whether a target has been met or exceeded.
	Charlotte, NC	Separating the presentations of performance for each objective into two categories, challenges and achievements, and presenting as challenges the instances where objectives were not met.
	King County, WA Department of Natural Resources and Parks	Clear definitions for each measure/indicator of what constitutes needing attention and what constitutes meeting the target.
	Mt. Lebanon, PA	Presenting detailed descriptions and demographic data for each community with which Mt. Lebanon compares its performance.
	Palo Alto, CA	Comparisons of 1) citizens' satisfaction with selected services with 2) citizens' satisfaction with the same services in other cities, which provide another view of the City's performance.
	Prince William County, VA	Explanations of how comparative jurisdictions were selected.
No. 12 Factors Affecting Results	Albuquerque, NM	A structured presentation for each indicator, containing the indicator's title, comparisons with prior years and other jurisdictions, descriptions of the indicator, explanations of why the indicator is important, data sources, and what can be told from the data.
	Kansas City, MO	Presenting a section titled "Why Is It Important" for each measure in order to describe why the condition addressed by each measure matters.
	Prince William County, VA	Explanations of the purposes of the measures.
	Saco, ME	Identification, for each Department Service Delivery Goal, of why the goal is important.
	Sustainable San Mateo County, CA	Division of discussion for each measure into two parts, "Why Is This Important" and "How Are We Doing;"
No. 13 Aggregate and Dis-aggregate Information	Portland, OR	Geographical breakdowns by neighborhood presented in GIS-based maps and other graphics.
No. 15A Easy to Find	Des Moines, IA	Advising readers that more information about the City can be obtained on the Internet and providing the Internet address.

Table 4.3 - Continued

Criteria Number and Description	Organization	Noteworthy Feature
and Access	Palo Alto, CA	Inclusion of numerous Internet addresses at which readers can obtain additional information about the City and its services and performance.
	Phoenix, AZ	Printing summary report, <i>Performance Count</i> , in both English and Spanish and making it available in alternate format upon request.
		Providing a phone number and e-mail address in <i>City Manager's Executive Report</i> for answering questions or obtaining more information about the report.
	Pocatello, ID	Providing the name, phone number and Internet address of a contact for each department included in the report.
	Portland, OR	Identifying, in the summary section, the sites at which hard and electronic copies of the report can be obtained.
	Saco, ME	List of the name, e-mail address, and phone number for a point of contact for each service for which performance is reported.
Inclusion of a feedback form, accompanied by instructions for completing and returning the form, in the report		
No, 15B Easy to Understand	Albuquerque, NM	A letter from the entity responsible for reporting performance, and sections titled Creating a Community Report Card, How to Use the Albuquerque Progress Report 2004, and Message from the Chief Administrative Office-How the City Uses the Albuquerque Progress Report, explaining the purpose, structure, process and uses for performance measurement and reporting in Albuquerque.
		Extensive use of charts and graphs to portray results.
	Arlington County, VA	Description of the County's organization structure; brevity and layout of the document; simplicity of the text.
	Des Moines, IA	Presenting pictures, phone numbers, and e-mail addresses of City Council members, and a statement that they can be contacted.
		Including phone numbers for individual programs that can be called for more information.
		Including a tear out postcard with which readers can provide feedback on the report.
		Including a glossary to explain terms with which citizens would not be familiar.
	Maricopa County, AZ	Inclusion, with each program's performance measures, of a phone number, address, and e-mail address to contact for questions or additional information.
	Palo Alto, CA	Consistent use of well formatted charts and tables.
	Phoenix, AZ	Using clip art to present measures, which enables presentations to be concise and easy-to-scan.
	Prince William County, VA	Sidebars on each page to advise readers of nature of the information presented on the page.
		Summary tables that report spending, efficiency, and results indicators for each service area.

Table 4.3 - Continued

Criteria Number and Description	Organization	Noteworthy Feature
		Judicious use of graphics to simplify reading a data-intensive document.
	Saco, ME	Consistent format for presenting each department's performance which, combined with the layout, type size, tables, and charts, facilitates finding information.
		Establishment of an icon for each strategic goal, followed by the use of the icons to depict the strategic goal(s) to which each performance measure is related.
	San Jose, CA	Table of Contents' descriptions of the content of the major sections.

Notes: (1) As this was the pilot year, criteria 16 on regular and timely reporting was not an applicable criterion.

The above Table shows that governments participating in the pilot year had a different product in mind than their annual budget to include involvement of citizens in establishing measures, issuance of the reports to citizens as one of the primary users, providing the results of citizen satisfaction surveys to include geographical breakdowns by neighborhood, and including tear-out postcards for citizen feedback.

**AGA Pilot Year Survey.** For pilot year participants, AGA followed up with a survey to obtain feedback. Seventeen governments responded to include 10 cities, 5 counties, and two states. This research is limited to local governments and not states or units of the state. As 88 % of the responses were from local government, and because state responses were not separately identified, it is believed that the following Table showing survey responses is relevant for purposes of this review:

**Table 4.4: Summary of participant responses to survey**

	Strongly Agree				Strongly Disagree	% Of Responses as 1 or 2
	1	2	3	4	5	
Overall participation was beneficial	7	7	1	2		82 %
Draft review criteria were valuable	7	7	1	2		82 %
Review team's comments were valuable	1	10	2	4		65 %
We will incorporate the recommendations into our FY 04 report		8	7	2		47 %
Review results received within reasonable timeframe after the report was submitted	7	6	3	1		76 %

The above Table shows that overall participating governments were positive about the program. Eighty-two percent of survey participants agreed participation was beneficial and that the review criteria were valuable. Sixty five percent agreed the review team's comments were valuable, and 47 percent indicated they were in agreement to incorporate the recommendations into their next years SEA report.

In addition, participants were asked to comment on their current performance reporting efforts. Comments received help to see the variation in how governments view the purpose of the report, dissemination of reports, and the intended audience or user of reports. For example, one government stated the City Auditor issues an annual SEA report for the city council that is intended to provide information to the council and the public on performance of services, to strengthen public accountability, and to help improve government. As would be expected, the city auditor does not prepare the budget.

Another government where the report was prepared by financial management stated their report containing over 275 county programs was primarily for the city council and the public was not viewed as the primary customer. Another commented that in their government the city manager issues a monthly executive report that is posted on the city's Internet site so citizens have the same performance data as city management.

Possibly the most comprehensive response on current performance reporting an effort was:

The government writes two reports: (1) a benchmarking report through the ICMA Comparative Cities Program and (2) their own Performance Measures Report. The government presents findings from both reports to the Council at least once a year. They conduct an extensive citizen survey program through a statistically valid telephone survey that addresses both municipal performance and budget priorities. Departments, the Budget Division, City Manager and others use findings to assess budgets, program challenges, and other issues. Findings are presented to the City Council and all surveys, benchmarking, and performance reports are available to citizens on the website.

As part of the survey, AGA also requested participants to comment about the program. For the most part, participants believed review comments were helpful and would be considered when preparing the next years SEA report. There was support for the GASB criteria. On the other hand, and as this was AGA's first year evaluating reports, some survey respondents felt the review team may have missed or overlooked information contained in their report. As will be subsequently discussed in this research, this could have occurred as four governments submitted their annual budget that contained from 350 to almost 600 pages.

Some governments felt reviewers may have been too stringent in applying the sixteen criteria and suggested every jurisdiction needs to be aligned with what works for the organization. They commented the review should be applied more flexibly with a generous allowance for the diverse types of reports and circumstances, and for the jurisdictions purpose. One frustrated respondent stated an always irritating but perhaps unavoidable aspect of a critique like this (and similar to the GFOA assessments of financial statements and budgets) is the presence of contradictory recommendations. As an example, the respondent cited the review for a recommendation to condense and shorten the report while at the same time recommending more information about survey methods, disaggregation of data, and discussion on criteria of how measures were selected. As will be subsequently discussed, the AGA SEA Certificate program has recognized governments that have prepared reports containing from as few as 37 pages to as many as 370 pages.

Another significant issue identified by participants related to governments where the auditor issues the SEA report. This issue will be subsequently addressed in more detail; however, participants disagreed with any inference that auditors should have a secondary role in SEA reporting and that being one of verification only. Further, because the auditor does SEA reporting, a number of criteria may put those governments at risk of not receiving an AGA SEA certificate. They were concerned that a bias against auditors issuing SEA reports was built into the criteria or the review teams' interpretation of such criteria.

A last significant issue was who is the primary audience for the SEA report. Is it management, the governing (City or County Commission or Board of Supervisors) or outside users to include citizens? Some raised the question of whether there has to be one primary audience or can reports be prepared to meet multiple users needs. Some of the above issues raised in the pilot year will be addressed subsequently but they are identified here, as they are a topic of continued discussion and importance.

For the 2005 fiscal year review period, 11 local governments were recognized by AGA with Certificates of Excellence in SEA Reporting. For 2005, the three-person review teams staff continued to identify noteworthy features and the AGA project director prepared a combined summary. The following is a summary of 2005 noteworthy features identified in SEA reports:



**Table 4.5: Noteworthy features for 2005 reports**

Criteria	Number and Description	Organization	Feature
1	Purpose and Scope.	Des Moines, IA	Identification in a transmittal letter of the services presented in the report, the reasons why, and the percent of the budget represented; as well as identification of the overall results--positive and negative--of the services not presented in the report.
		Maricopa County, AZ	Presenting in a succinct, yet comprehensive transmittal letter, the purpose and scope of the report, the frequency with which it is issued, the source of the goals and objectives, the approach used regarding assuring the reliability of the data, and the Internet address at which an electronic copy of the report can be accessed.
		Palo Alto, CA	A clear, concise introduction presenting the report's purpose, scope, and content.
		Pocatello, ID	Including in the report's introduction, a comprehensive description of the report's contents.
		Prince William County, VA	Listing the questions the information presented in the report addresses for the report's readers.
		Saco, ME	Presenting a clearly stated, easy to understand, helpful explanation of the report's purpose.
2	Statement of Major Goals and Objectives.	Henderson, NV	Pictorially displaying the vision, priorities, mission, and values, which provides considerable insightful information.
		Pocatello, ID	Identifying how each department's services contribute to the Council's goals and objectives.
		Portland, OR	Identifying, in an auditor-prepared report, the departments' status in regard to establishing targets.
		Prince William County, VA	Introducing each measure with a statement of its purpose.
		San Jose, CA	Use of graphics to depict the relationship between the City's vision, City Service Areas, Core Services, and departments responsible for delivering core services.
		Washington County, MN	Identifying the associated performance goal for each performance measure.
3	Involvement in Establishing Goals and Objectives.	Bellevue, WA	Presentation of how the City engaged the citizenry and determined the type of and formats for presenting performance information.
		Durham, NC	Request for input to the report and assistance with developing the performance measurement process.
		Maricopa County, AZ	Providing an extensive description of the multiple processes used to obtain citizen and other stakeholder input and involvement.
		Salisbury, NC	Providing explicit questions for which feedback is requested.

Table 4.5 - Continued

Criteria	Number and Description	Organization	Feature
4	Multiple Levels of Reporting.	Ankeny, IA	Describing a plan to present summary of the Service Efforts and Accomplishments Report within the City newsletter mailed to City residents.
		Des Moines, IA	Presenting a succinct, yet informative summary (in the report's transmittal letter) of positive and negative results for each area presented, including the goal each result is striving to achieve; a symbol to indicate whether the results are positive, negative, or mixed; and the page number in the report that provides the complete presentation.  Providing information on the Internet for each indicator, and in particular, the explanations of the significance of the indicators and the results.
		King County, WA Department of Natural Resources and Parks	Providing a color-coded summary chart on the inside back cover depicting the results for each outcome goal and performance indicator.
		Palo Alto, CA	Publishing the report's transmittal letter as a separate Summary Service Efforts and Accomplishments Report.
		Saco, ME	Issuing an abbreviated version of the performance report that presents financial information and the results for one performance goal for each department; plus information on how copies of the complete report can be obtained, how to volunteer for the City, how to comment on the report, and how to do business online with the City.
		Salisbury, NC	Including a footer on each page, advising readers that in-depth information can be obtained on the Internet and providing the Internet address.
		Salisbury, NC	Providing on the Internet home page of the performance report, a well-marked link to a request for feedback, as well as links to the more detailed results, results of a citizen survey, and the City Council's outcomes and goals.
		San Jose, CA	Presenting charts and graphs in the Executive Summary with captions that summarize the results in terms of benefits for the City.
		Tucson, AZ	Presenting the report as a supplement to the Sunday edition of the local newspaper.
		Tucson, AZ	Presenting an easily readable, highly informative Message from the Mayor that succinctly and clearly summarizes the City's major accomplishments and challenges.
		Washington County, MN	Including a section titled "Washington County, Minnesota 2005 At-A-Glance" that provides extensive demographic and other descriptive information about the County.

Table 4.5 - Continued

Criteria Number and Description		Organization	Feature
5	Analysis of Results and Challenges.	Pocatello, ID	Using a “folksy,” highly readable style in the executive analysis to present the major results and identified challenges.
		Portland, OR	Identifying in the Summary, the areas of concern for each City goal.
		Saco, ME	Providing in the report’s Executive Summary, a comprehensive, clear presentation of challenges facing the City.
		Washington County, MN	Providing a clear, succinct presentation in the Report’s Summary of the challenges facing the County.
6	Focus on Key Measures.		None this year
7	Reliable Information	Portland, OR	Describing the process used to assess the reliability of the reported performance data.
		Washington County, MN	Identifying the data source for each chart presenting performance results.
9	Resources Used and Efficiency.	Bellevue, WA	Including a table that identifies added and deleted measures, and the reasons for the changes.
		Clark County, WA	Consistent presentation of workload and staffing information for each of the reported programs, which provides readers a sense of the trends in the County’s responsibilities and the resources provided to fulfill the responsibilities.
		Saco, ME	Presenting a set of financial indicators that includes for each indicator, an explanation of how the indicator is calculated, the values for the current and two prior years, and an interpretation of the results.
10	Citizen and Customer Perceptions.	Chattanooga, TN	Including a request for readers to comment on the report and an e-mail address to which they can provide the comments.
		Clark County, WA	Including an appendix of the questions and responses for the citizens’ survey.
		San Jose, CA	Acknowledgement that high scores for customer satisfaction should be viewed in conjunction with lower objective measures of actual performance.
11	Comparisons for Assessing Performance.	Des Moines, IA	Explanation (in the report’s transmittal letter) of why comparisons with other cities’ performance do not always encompass the same cities.
		Palo Alto, CA	Identifying the percentile rankings in which the responses to the citizens’ surveys placed Palo Alto in relation to other jurisdictions.
		Portland, OR	Including an appendix that provides descriptive data for each of the cities with which performance is compared.
13	Aggregation and Disaggregation of Information.	Portland, OR	Presenting geographical breakdowns by neighborhood using GIS-based maps and other graphics.

Table 4.5 - Continued

<b>Criteria Number and Description</b>		<b>Organization</b>	<b>Feature</b>
14	Consistency	King County, WA Department of Natural Resources and Parks	Presenting a table that identifies the major changes in performance measures and calculation methodologies and explains the reasons for the changes.
15 A	Easy to Find and Access.	Bellevue, WA	Presentation in the Report's introduction, of the Internet address at which the Annual Performance Report, as well as other Bellevue documents presenting the City's plans and accomplishments, can be accessed.
		Pocatello, ID	Listing the name, phone number, and e-mail address for a person to contact for each service.
		Portland, OR	Including a side bar on the first page of the Summary and the Introduction that provides information for obtaining printed and electronic copies of the report.
		Saco, ME	Listing in the Summary, the variety of places where printed and electronic copies of the report can be obtained.
		Tucson, AZ	Making the report available at numerous City facilities.
		Tucson, AZ	Providing the phone numbers and e-mail addresses of the Mayor, City Council members, and departments/services.
		Washington County, MN	Breaking the Internet version of the Annual Performance Report into numerous files to facilitate downloading.
15 B	Easy to Understand.	Bellevue, WA	Providing an explanation of how to read the report.
		Bellevue, WA	Using a symbol that enables readers to quickly ascertain whether a target has been met or exceeded.
		Des Moines, IA	Improving the report's readability by using reproductions of works of art located throughout the City for the cover design and as section dividers.
		Des Moines, IA	Using side bars to present other useful information, e. g., points of contact for working with volunteer boards and commissions; conditions for which the Neighborhood Inspection division should be contacted; process for obtaining a tax abatement.
		Des Moines, IA	Providing a glossary that both defines and explains the significance of terms.

Table 4.5 - Continued

15 B	<b>Criteria Number and Description</b>	<b>Organization</b>	<b>Feature</b>
	Easy to Understand	Henderson, NC	Providing consistent presentations of the strategic issues, strategic outcomes, achievements, and measures of success for each priority allows the reader to grasp the information being conveyed as opposed to first having to figure out the layout of the section before concentrating on the information.
King County, WA Department of Natural Resources and Parks		Including a section in the introduction that provides a clear and complete explanation of the report's contents.	
King County, WA Department of Natural Resources and Parks		Including a list of acronyms and a glossary of terms providing definitions for the numerous technical terms associated with natural resource and environmental programs.	
King County, WA Department of Natural Resources and Parks		Acknowledging by name the Performance Measure Lead Team Members and Contributors.	
Palo Alto, CA		Presenting the residents' demographics, attitudes, and practices.	
Prince William County, VA		Using sidebar "thumb-nails" to identify what is presented on each page.	
Prince William County, VA		Providing consistent page layouts; a good mix of narrative and graphical content; and an abundance of useful information.	
Salisbury, NC		Presenting a table on the page facing the front cover, of "Quick Stats" that provide an overview of the City.	
Salisbury, NC		Including a page that explains, through graphics, how to read the report.	
San Jose, CA		Including in the Table of Contents, descriptions of the content of the major sections.	
Washington County, MN		Including, in the Report's Summary, a section titled "How to Read the Report".	
Washington County, MN		Acknowledging the individuals who prepared and otherwise contributed the report.	
16		Regular and timely reporting	Washington County, MN

For the 2006 Award Year AGA staff continued to provide individual governments with comments on where reports were strong and to provide suggestions for improvement. However, a summary of findings was not prepared as was done in the two prior years.

In the absence of a summary of noteworthy features contained in reports for 2006 and 2007, this research included a review of those governments receiving a Certificate in report years 2006 and 2007. If a government received a certificate in both years, the most recent report was reviewed for noteworthy features.

The following Table presents this researcher's analysis by criteria

**Table 4.6: Noteworthy features for 2006 and 2007 reports**

Criteria Number And Description		Location	Noteworthy Features in Report
1	Purpose and scope	Palo Alto, CA	Introduction clearly describes report purpose as having three parts to include accountability to the public
		Portland, OR	Explains why the report was produced, the objectives of documenting efforts to deliver services to residents and accomplishments. Discloses activities and programs not assessed. Includes 78% of budget and 85% of personnel.
		Stockton, CA	Contains a report summary describing purpose of report, what is contained within the report, and describes what is and what is not in the report.
2	Statement of major goals and objectives	Nashville Davidson County, TN	Introduction describes what is in the report, where the data comes from, verifiability of the data, and how the government uses the information.
		Portland, OR	Clearly identifies six city goals and reports on goal through graphs, charts, citizen survey perceptions, trends, and areas of concern affecting ability to meet goal.
3	Involvement in establishing goals and objectives	King County, WA	Chapter devoted to vision, mission, and description of five major goals and then within program areas, related department goals at a lower level are shown for that program. .
		Bellevue, WA	Describes citizen involvement in identify "Bellevue vital signs" through structured discussion groups
		Nashville Davidson Country, TN	Citizens are involved through surveys, responding to department surveys on services provided and through direct contact with 40- member council.
4	Multiple Levels of Reporting	Ankeny, IA	Summarizes key measures in executive summary and presents more detailed measures in a statistical appendix – good use of layering data.
		Bellevue, WA	Has 16 Vital signs and presents performance measures at a much more detailed level through departmental performance scorecards
5	Analysis of results and challenges	Palo Alto, CA	For each major program discussed changes over the last five years as well as citizen comments on the quality of services for each area.
		Portland, OR	For each Bureau/Unit positive trends are described along with challenges.
6	Focus on key measures	Bellevue, WA	Of 16 vital signs, seven measures developed through citizen involvement and remaining 9 more technical measures somewhat of interest to citizens but significantly more important to management.
		Portland, OR	Key measures are shown for each service area.
		Metro Nashville Davidson County, TN	Contains a fiscal year summary for all departments/programs that describes major changes by program and provides a page number for further information.

Table 4.6 - Continued

Criteria Number and Description		Location	Noteworthy Features in Report
7		Palo Alto, CA	Government auditing standards followed in preparation of report. Reviewed sources of departmental data and provides reasonable assurance as to accuracy of information presented.
		Portland, OR	City auditor reviewed data for consistency, accuracy and management representations.
		Saco, ME	No internal audit department to verify information. There was no outside verification. To help the user of the report, data source is shown for each performance measure for the reader's assessment.
		Stockton, CA	Describes process followed to review and question data from inside the government well as from comparable cities. Also cautions the report is not an audit. Use Government Audit Standards to guide the work but not to audit the information presented.
8	Relevant measures of results	Portland, OR	Data elements are reviewed consistently. For each Bureau/Unit ten years of data is shown to include workload measures, efficiency measures, effectiveness measures, comparisons to other cities and resident and business survey results. ,
		Saco, ME	City's nine strategic goals are identified along with symbol for each. Subsequently, symbols are used throughout the report in conjunction with goal description for each Department/unit presented.
9	Resources used and efficiency	Palo Alto, CA	For each program identifies expenditures by program and for the last five years. Shows expenditures per resident served.
		Portland, OR	Reports workload, efficiency, and effectiveness measures as well as data from other cities for comparison purposes – very comprehensive.
10	Citizen and customer perceptions	Ankeny, IA	Presented Citizen perceptions for each major program and identified changes of interest from 2003 to 2005.
		Portland, OR	Conducted 17 <sup>th</sup> annual survey of residents and fifth survey of businesses. Survey instrument and results are available on the web site.
		Saco, ME	Back page of report contains a feedback form for user to provide comments on and provide recommendations on how the report can be improved.
		Stockton, CA	Use the National Citizens Survey instrument. Included results as one section of the report and also presented survey responses with data presented for each program area.
11	Comparisons for assessing performance	Palo Alto, CA	Comparisons for up to nine similar governments shown
		Stockton, CA	Comparisons for seven other comparable cities in California. Includes information on population, revenues, expenditures, and per capita data.

Table 4.6 - Continued

<b>Criteria Number And Description</b>		<b>Location</b>	<b>Noteworthy Features in Report</b>
12		Bellevue, WA	Each Department contains information on significant influences affecting the program, steps taken to improve performance, and next steps.
14	Consistency	Palo Alto, CA	Expenditure and performance data shown for the last five years
		Portland, OR	Information has been collected for 17 years and is shown for the last 10 years.
15a	Easy to find and access	Ankeny, IA	Table of contents clear in identifying sections of the report
		Bellevue, WA	Table of contents makes clear the departments included in the report and their location
		Palo Alto, CA	Table of contents in sufficient detail to identify major programs and areas of interest within the program
		Portland, OR	Table of Contents on first page and identifies major programs such as public safety and departments within those programs.
		Saco, ME	Report is easy for a user to find as it can be seen and printed from the web site, seen at the library, City Hall, community centers, supermarkets, and banks. The report can be obtained free upon in-person request or requested by phone and mailed to the requestor.
		Nashville and Davidson County, TN	For each program section, there is an internet link for users wanting to know more about the program.
15b	Easy to understand		Consistent format used for each department to include mission and description, trends and issues, budget, citizen perceptions, and output measures.
		Palo Alto, CA	Use of charts and graphs help to show overview and tables provide significant detail for users interested in a specific program or activity.
		Stockton, CA	Used consistent format from section to section thereby increasing user understanding and familiarity of how to use data.
16	Regular and timely reporting	Palo Alto, CA	Sixth Annual SEA Report
		Portland, OR.	Seventeenth Annual SEA Report
		Stockton, CA	This was the first annual report and issued December 2007 shortly after the end of the fiscal year. The report was issued by the City Auditor.

Notes: (1) Does not include noteworthy features for Des Moines, IA, Kansas City, MO, King County DNRP, WA, Maricopa County, AZ, Prince William County, VA, and Washington County, MN as their report containing the highest number of scores of 2.67 or greater were in the 2005 year as reported in the Table 4.5.



For the 2007 Award Year, AGA has revised its program and staff indicated that responding back to individual governments with detailed comments, while helpful, consumed significant amounts staff time and available resources were limited. The Sloan Foundation grant for this program was coming to a close. In response, changes are being made to the program on how governments will be informed of criteria for improvement. For example, they will be provided more general suggestions and other governments will be identified that have done well on that criterion. Staff hope that when governments considering to either begin SEA reporting or those currently reporting and seeking ways to improve their reports see what other governments have done to address particular criteria, they will benefit. This research has shown several governments not receiving the Certificate have also submitted noteworthy reports. Example governments in this category include Durham, NC, Guilford County, NC, Henderson, NV, Phoenix, AZ, Pocatello, ID, Sacramento County, CA, and San Mateo, CA. The criteria these governments have not sufficiently addressed to date could be overcome if the governments use Table 4.8 to identify other government that have done well on a particular criteria. The above listed governments have done exceedingly well on many criteria and achievement of the certificate with some additional effort appears very doable.

Table 4.7 was prepared to show what applying the SEA criteria to performance reports reveals about the attainability of the sixteen suggested criteria and reporting quality. The Table represents scoring for all submitting governments by each criterion. Government scoring was categorized by criteria as to the percentage of all governments that failed (scored 1 or less), put forth some effort (scored greater than 1 and less than 2), fully met the criteria (scored 2 and less than 2.66), and significantly exceeded the meets criteria (scored 2.67 to 3.0). For governments that submitted more than one report during that period, the scoring represents the latest submitted report. This table includes local government that both received and did not receive the SEA Certificate.

**Table 4.7: Attainability in meeting scoring criteria  
for 2005, 2006, and 2007**

<b>Criteria Number</b>	<b>Criteria Description</b>	<b>% Failed Score 0 to 1</b>	<b>% Some Effort - &gt;1 to 1.99</b>	<b>Columns 3 &amp; 4 Total % &lt; 1.99</b>	<b>% Fully Meets 2 to 2.66</b>	<b>% Exceed Meets 2.67 to 3.00</b>	<b>Columns 6 &amp; 7 Total % 2.00 or Greater</b>
1.	Purpose and scope	3.6%	25%	28.6%	**35.7%	**35.7%	71.4%
2.	Statement of major goals and objectives	0%	42.9%	42.9%	** 25%	**32.1%	57.1%
3.	Involvement in establishing goals and objectives	* 17.9%	*53.3%	71.2%	14.4%	14.4%	28.8%
4.	Multiple Levels of Reporting	7.1%	25%	32.1%	**35.8%	**32.1%	67.9%
5.	Analysis of results and challenges	* 17.9%	* 42.8	60.7%	25%	14.3%	39.3%
6.	Focus on key measures	7.1%	35.7%	42.8%	**42.9%	**14.3%	57.2%
7.	Reliable information	14.3%	17.9%	32.2%	**46.4%	**21.4%	67.8%
8.	Relevant measures of results	0%	42.8%	42.8%	**25%	**32.2%	57.2%
9.	Resources used and efficiency	21.4%	28.5%	49.9%	**32.2%	**17.9%	50.1%
10.	Citizen and customer perceptions	14.3%	21.4%	35.7%	**7.1%	**57.2%	64.3%
11.	Comparisons for assessing performance	* 17.9%	* 50%	67.9%	21.4%	10.7%	32.1%
12.	Factors affecting results	14.3%	35.7%	50%	25%	25%	50%
13.	Aggregation and disaggregation of information	* 39.3%	25%	64.3%	25%	10.7%	35.7%
14.	Consistency	* 14.3%	*42.8%	57.1%	25%	17.9%	42.9%
15A.	Easy to find and access	3.6%	25%	28.6%	**21.4%	**50%	71.4%
15B.	Easy to understand	0%	10.7%	10.7%	**42.9%	**46.4%	89.3%
16.	Regular and timely reporting	* 14.3%	*39.3%	53.6%	17.9%	28.5%	46.4%
	<b>Total</b>	<b>12.1%</b>	<b>33.2%</b>	<b>45.3%</b>	<b>**27.5%</b>	<b>**27.2%</b>	<b>54.7%</b>

Notes- \* If individual lines in columns 1 and 2 are combined and the total amounts to more than 50 %, it means the governments did not meet the scoring criteria more than 50 percent of the time – poor performance on the criteria.

\*\* If individual lines in columns 3 and 4 are combined and the total amounts to more than 50 %, it means the government met the scoring criteria more than 50 percent of the time – excellent performance on the criteria.

The above Table reveals significant information about local government reports submitted to AGA for scoring and their success in meeting the GASB suggested criteria. For example, for 10 criteria local government exceeded the criteria requirements more than 50 percent of the time. The total percentages for columns three and four show the governments met or exceeded the criteria more than 60 percent of the time on criteria 1, 4, 7, 10, 15A, and 15b. For six criteria governments struggled to meet those criteria more than 50 percent of the time. The total percentages for columns one and two show governments failed more than 60 percent of the time to meet criteria 3, 5, 11, and 13. The 60 percent used above was an arbitrary percentage used to emphasize greater success or difficulty in meeting the criteria.

**Analysis of Exemplary Reports.** With an understanding of the above and the overall positive results, this research now turns to an analysis of those government that have received the Certificate to identify exemplary reports and specifically where those government excelled on specific criteria. Recognizing the difficulty in identifying where a government addressed an individual criterion in a report (where the average report is 109 pages long) this researcher chose to look at a sample of reports where the government received a significant number of scores of 2.67 or 3.00 for individual criteria. Such exemplary work should be more easily identified should a government choose to use this research as a guide in preparing or improving their report. The following table shows the results of this analysis.

Table 4.8: Exemplary government reports scoring 2.67 – 3.00

Government	Fiscal Year With the Most Number of Criteria Receiving a Score of 2.67 or 3.00	Number Of Criteria Receiving A Score > than 2.67 And # of Pages in the Report	Criterion Receiving Score of 2.67 or 3.00																	
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15a	15b	16	
	Fiscal Year																			
City of Ankeny, IA	07 FY	9 Criteria > 2.67	✓		✓	✓							✓		✓	✓		✓	✓	✓
		35 Pages																		
City of Bellevue, WA	06 FY	13 Criteria > 2.67	✓	✓	✓	✓		✓	✓				✓	✓	✓		✓	✓	✓	✓
		128 Pages																		
City of Des Moines, IA	05 FY	10 Criteria > 2.67	✓	✓		✓	✓	✓		✓			✓			✓		✓	✓	
		42 Pages																		
City of Kansas City, Mo	05 FY	4 Criteria > 2.67	✓		✓								✓						✓	
		69 Pages																		
City of Palo Alto, CA	07 FY	11 Criteria > 2.67	✓	✓		✓		✓	✓	✓	✓	✓				✓	✓	✓		
		85 Pages not including survey attachment																		
City of Portland, OR	07 FY	11 Criteria > 2.67	✓			✓	✓	✓	✓	✓	✓	✓					✓	✓	✓	
		81 Pages																		
City of Saco ME	07 FY	11 Criteria > 2.67	✓	✓		✓	✓			✓			✓	✓		✓		✓	✓	✓
		79 Pages																		
City of Stockton, CA	07 FY	4 Criteria > 2.67	✓										✓				✓		✓	
		114 Pages plus 87 page attachment																		

Table 4.8 - Continued

Government	Fiscal Year With the Most Number of Criteria Receiving a Score of 2.67 or 3.00	Number of Criteria Receiving a Score > than 2.67 and # of Pages in Report	Criterion Receiving Score of 2.67 or 3.00																
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15a	15b	16
	Fiscal Year																		
King County, WA	06 FY	3 Criteria > 2.67	✓										✓				✓		
		109																	
King County WA Dept. Of Natural Resources & Parks	05 FY	10 Criteria > 2.67	✓	✓		✓				✓		✓	✓	✓	✓			✓	✓
		187																	
Maricopa County, AZ	05 FY	8 Criteria > 2.67	✓	✓	✓	✓			✓	✓	✓	✓							
		49 plus Appendix																	
Metro Nashville and Davidson County, TN	07 FY	6 Criteria > 2.67	✓			✓		✓				✓					✓	✓	
		41 plus Appendix																	
Prince William County, VA	05 FY	12 Criteria > 2.67	✓	✓	✓	✓			✓	✓	✓	✓		✓	✓	✓	✓		
		370																	
Washington County, MN	05 FY	5 Criteria > 2.67	✓				✓							✓				✓	✓
		138																	
Total Scores of 2.67 or above for criteria indicated			13	8	5	10	4	5	5	7	4	12	3	6	5	4	9	11	6

Notes: Regardless of the number of scores shown above that are greater than 2.67, each government shown had to receive at least 13 scores of 2.0 or greater to be recognized with an SEA Certificate. All of the above governments are considered to be exemplary in that they have all been awarded the SEA certificate. The above table indicates governments have clearly communicated their purpose and scope, they have shown multiple levels of reporting, they have made good attempts to make reports reliable by reviewing the data internally, and reports were viewed as easy to access and easy to understand. They had more difficulty obtaining citizen involvement in establishing goals and objectives, in explaining and analyzing results, aggregating and disaggregating data, and comparing themselves to others

The above Table shows the scoring results for 14 local governments that have received the AGA Certificate of Excellence in SEA Reporting for fiscal years 2005 – 2007 (AGA Prior Year Results, 2008). The reason for preparing this Table was to show those governments that are considered exemplary, the number of scores of 2.67 or above for those local governments, the length of their SEA report, the number of governments that performed extremely well for particular criteria, and where those governments that did not reach the exemplary level by obtaining a score of 2.67 or above for the listed criteria. To receive an average score of 2.67, two of the three report reviewers would have to score the criteria as a 3.0 and one reviewer would have to score the criteria as a 2.0 thereby providing an overall average of 2.67. While a score of 2.00 meets the criteria for SEA recognition, this researcher chose a score of 2.67 or above for this table as it represents best practices for other governments to consider when preparing their own report.

The Table shows that Bellevue, Des Moines, Palo Alto, Portland, King County DNR, and Prince William County received a score of 2.67 or above for 10 or more of the 16 criteria. The Table also shows that governments as a whole did extremely well for criterion 1 (Purpose and Scope), criterion 4 (multiple levels of reporting), criterion 10 (citizen and customer perceptions), and criterion 15 B (easy to understand). However, these governments as a whole struggled somewhat on criterion 5 (analysis of results and changes), criterion 9 (resources used and efficiency), criterion 11 (comparisons for assessing performance) and criterion 14 (consistency).

The above would suggest that exemplary governments have a clear idea of the purpose and scope of the SEA report, they have made a conscious effort to obtain citizen feedback through citizen surveys, and the governments see the need to consider the user by being as clear as possible in issued reports. As a whole, governments can improve in analyzing the results and changes in their government and demonstrating the efficient use of resources. Efficiency measures generally are used to relate resource input in terms of money divided by service output or outcomes. This would suggest that governments are still experimenting with how to collect and show cost data in issued reports and indicating the difficulty in aligning accounting and cost accounting systems with government programs, activities, and functions.

Lastly, governments can improve their reports by comparing their performance with peers either within the state or outside their state. Difficulties may be encountered in finding other governments that are similar to their government for comparison purposes.

Programs such as the ICMA Comparative Cities Program and more local programs such as the Florida Benchmarks Program are good examples of established programs for comparative information. While no two jurisdictions are completely comparable, there are ways to deal with this difference as explained by Hatry. In “Comparative Performance Measurement”, the authors explain that comparative performance measurement can be use as a motivator for performance, as an accountability tool, and as a tool for determining best practices. They note that elected officials having the ultimate responsibility for services provided and citizens who are often recipients and customers of the government need better ways of understanding what agencies are accomplishing and more effective means of accountability (Morley, 2001). In this sense, elected officials are the principal, the people carrying out the day-today work of providing services by the government are the agent, and citizens providing the resources to carry out the work of the government are the owners of the government. Comparability to other governments could help to bring about more transparency and accountability.

Table 4.8 could be very valuable for governments wanting to know which governments have done extremely well on specific criteria in SEA scoring. By having the above information, those governments can look at the exemplary governments’ reports for helpful suggestions on how to assemble and present information in a SEA report.

Table 4.8 also shows the length of reports for those governments receiving recognition. Report length ranges from 35 pages in Ankeny to 370 pages in Prince William County, VA. The average page length for the above 14 reports is 109 pages, the median length is 81 pages and the most frequent length of issued reports ranges from 79-85 pages. Report length is further addressed in research objective 3.

As part of this research, a review was made to determine if scores received by participating governments changed from one year to the next. The following Table shows the average score received from the three-person review team for individual governments and the number of criteria in a report scoring 2.00 or greater for 2005, 2006, and/or 2007.

**Table 4.9: Changes in scores over time  
2005, 2006, and 2007**

	Organization	Total Average Score			Increase Decrease During Most Recent Year	Number of Criteria Scoring 2.0 or Greater			Increase or Decrease During Most Recent Year
		2005	2006	2007		2005	2006	2007	
1.	City of Ankeny, IA	34.34	32.25	39.02	Increase	13	11	15	Increase
2.	City of Bellevue, WA.	42.35	44.34	44.67	Increase	16	15	17	Increase
3.	City of Des Moines, IA	39.68	35.66	35.66	No Change	14	13	13	No Change
4.	City of Durham, NC	26.67	29.33	N/A	Increase	10	11	N/A	Increase
5	City of Henderson, NV	34.33	27.33	29.66	Increase	13	11	11	No Change
6.	City of Palo Alto, CA	33.34	41.00	42.01	Increase	14	16	15	Decrease
7.	City of Portland, OR	44.01	43.34	42.35	Decrease	16	16	16	No Change
8.	City of Saco ME	44.34	44.34	45.00	Increase	17	17	17	No Change
9.	King County Washington DNPR	41.01	40.32	36.00	Decrease	15	14	11	Decrease

Table 4.9 shows nine local governments have submitted reports for two or more years. In terms of average scores, six governments received a higher average score for the most recent year a report was submitted when compared to the prior year. Of the nine governments, Durham and Henderson being the exceptions, the remaining seven governments were recognized by AGA with a certificate. While Durham and Henderson have not been recognized with a Certificate, the scores for both governments improved from one year to the next. Both of these governments are very close to being recognized, as for their most recent year of submission, they both received scores of 2.0 or above for 11 of the criteria. By reviewing Table 4.9 and reviewing reports of exemplary governments, it is probable that these two governments can meet the required number of criteria with a few additional changes. As previously noted, to be recognized a government has to receive 13 or more scores of 2.00 or above and the government cannot receive a score of “0” for any one criteria from two reviewers.

While the above analysis of increase and decrease in total scores is helpful, the Table also suggests a high degree of inter-rater reliability as most scores whether increasing or decreasing, changed very little from year to year. That a governments scores increased or decreased once they met the AGA criteria could also mean they were satisfied with their report as presented and saw little or no reason to significantly change the report presentation or content



In terms of excellence in reporting, the City of Ankeny, Palo Alto, Portland and Saco received a score of 2.0 or above for 15 or more of the criteria. Saco received a score of 2.0 or above for each of the established criteria. Governments desiring to submit a report to AGA would likely improve their reports by reviewing all of the above exemplary reports and specifically reviewing the above four reports. For those governments that choose not to submit their report after the pilot year (governments), it is possible by reviewing research results relating to Objective 2 they could make modifications to their report to receive the certificate.

The preparation of an SEA report requires significant effort and time. For example, one reported preparation of their report required 600 department hours and 517 auditor hours. Another county indicated by interview two auditors spent 40 percent of their time working on their report. A city reported investing 1800 hours of staff time. Conservatively, the cost to produce an SEA report could easily exceed \$50,000. Some governments see the importance of an SEA report and have established a performance measurement coordinator position. Governments interviewed consistently stated performance measurement reports have an improved chance of being continued when there is a “champion” in the government that strongly believes in this type reporting. Essential to this effort is a supportive City/County Manager and City/County Commission.

**Summary of Objective 2.** Based upon review of submitted reports, this research concluded the following relating to the GASB 16 suggested criteria and the AGA SEA Certificate Program:

- The GASB suggested criteria for report content are viable and the result of years of significant input from citizens, report preparers, and report users
- AGA has established a rigorous SEA Certificate program. Staffs are knowledgeable, training and related materials are thorough, there is consistency between teams indicating a common level of knowledge among team members. The Certificate is viewed as valuable by governments that have participated.
- At this point in the reporting of performance measures, participating governments that have received the SEA certificate may be viewed as model or state of the art in performance measurement reporting.
- For those 13 governments that continued to submit reports to AGA after the pilot year, 10 received the certificate and 8 governments have received the certificate for the three years included in this research – 2005, 2006, and 2007 fiscal years.
- When the criteria are applied to performance reports submitted to AGA, 14 of 46 governments were recognized as meeting AGA scoring criteria.
- A review of those criteria where improvement is needed, nevertheless, showed (Table 4.7) governments attained the reporting criteria 54.7% of the time for all criteria. For individual

criteria, the lowest overall level of attainability was for criteria 3 (Involvement in establishing goals and objectives) at 28.8 % and the highest level of attainability was 89.3% for criteria 15B (Easy to understand). As would be expected, SEA Certificate recipients did much better on individual criteria, as they were required to meet 13 of the 17 reporting criteria.

- Governments have been able to attain the SEA certificate with as few as 37 pages and as many as to 370 pages. The average page length for the SEA Certificate reports is 109, the median length is 81, and the most frequent length of issued reports ranges from 79-85 pages.
- A detailed study of reports not receiving the SEA Certificate showed that when the submitting government did not meet several of the suggested criteria, the resulting report was incomplete. Notwithstanding, several governments could meet several of the criteria with only a minimum amount of additional data and/or explanation.
- Each criterion has been shown to be attainable.

The purpose of a Certificate program is not to make the program so easy all applicants obtain the highest-level recognition. While only 14 of the 46 governments submitting SEA reports were recognized with a Certificate, this speaks to the rigor of the criteria and the AGA review process and not to the fairness or attainability of the criteria. Preparing a report requires significant effort and staff resources.

Subsequent to this research, the AGA adopted a new award structure for the Certificate of Achievement in SEA reporting. One primary reason for this is noted above – the program rigor. To encourage more governments to submit their SEA report for review and to receive recognition for their efforts, three new levels of recognition are available:

- The Bronze Award is given for reports that receive a minimum of 17 points. Most governments should be able to achieve this accomplishment.
- The Silver Award is given for governments that receive a minimum of 24 points with all criteria receiving at least 1 point.
- The Gold Award is for governments that fully apply 13 of the 17 AGA criteria and receive no scores of zero from more than one reviewer.

AGA believes this new award structure will encourage additional governments to participate in the SEA program. Increased participation and internal and external distribution of the reports may increase organizational efficiency and citizen involvement, and thereby further expand the number and quality of local government performance reports.

### **Research Objective 3 – Study of GFOA Objections to the GASB Including Service Efforts and Accomplishments Reporting within the Definition of General Purpose External Financial Reporting.**

The third objective of this research is to investigate whether the actual practices of a self-selected group of governments doing performance reporting sustain, or cast doubt upon, the validity of the posited objections of a group of professional and public organizations that oppose the GASB including external performance reporting within its financial reporting framework. The GFOA is the primary organization in opposition to the GASB's SEA activities and is joined by seven other respected public organizations referred to in this research as "The Big Seven."

GFOA's strong objections to the GASB's involvement in SEA go back at least to 1993 when GFOA issued its first formal policy statement on this issue. GFOA stated at the time it was important for the GASB to define the scope and direction of its SEA research and the affects on future standard setting activities. The GFOA objected to any attempts by the GASB to move towards standards on the topic. GFOA expressed the belief that SEA was clearly outside of the GASB's jurisdiction and not part of General Purpose External Financial Reporting (GPEFR) (GFOA, 1993). Subsequently, in 2002, GFOA issued a more comprehensive policy statement going on record again against the GASB including SEA within its authority and opposing any actions by the GASB to play any role in the development of performance measures for the public sector (GFOA, 2002).

This research will present each of the 2002 GFOA policy objections to the GASB's involvement in SEA. As applicable, this research will study how SEA reports issued by governments participating in the AGA SEA Certificate program address each GFOA policy objection. Reference will be made to public administration theory. Additional significant objections by GFOA and the Big Seven since 2002 will be addressed as considered significant to this research objective.

As noted above, from AGA's SEA Certificate program pilot year in 2004 through 2007, 46 local governments have submitted their reports to AGA for scoring and/or suggestions for improvement. This researcher has chosen to review all (100 percent) of the local governments that chose to submit their reports to AGA for evaluation in its SEA Certificate program. Almost 80 reports have been submitted as some local governments have submitted reports for multiple years. Program participation was completely voluntary. This study is not of a sample of governments that might be representative of a larger population. Other governments have also developed performance measures and have performance measurement systems. However, those governments have not chosen to have their reports evaluated against the sixteen suggested criteria. Therefore, the design used here is a study of best practices and not inferential statistics to some larger population. If some of the participating government reports

adequately address the sixteen criteria, there would be evidence that the sixteen GASB suggested criteria are attainable.

Of the 46 local governments participating, 16 were recipients of NCCI grants. Through 2007, 14 local governments have received the certificate. Also, for the three-year period, a total of 30 local government Certificates have been issued meaning some governments have received the Certificate multiple years. The participating governments are viewed as leaders in performance measurement reporting and several governments were reporting performance internally within their organization and externally to the public prior to the establishment of AGA's SEA program in 2004. For example, Portland has been externally reporting performance information for 17 years.

The remainder of this chapter addresses each GFOA objection to the GASB including SEA (performance reporting) within its authority and as part of GPEFR. The objective of this research is not to support or cast doubt on the sincerity or beliefs of each respective organization. It is hoped that any differences in opinion that may exist between these two organizations on SEA can be resolved to the benefit of the organizations, the governments and report users they represent, and the public.

**Objection 1 - Performance measures are inherently budgetary and managerial in character and clearly fall outside the purview of accounting and financial reporting, as those disciplines have traditionally and commonly been understood.** For analysis, the first objection raises two separate issues as follows:

1. Performance measures are inherently budgetary and managerial in character, and
2. Performance measures clearly fall outside the purview of accounting and financial reporting, as those disciplines have traditionally and commonly been understood.

The first issue will be addressed by studying the type document governments participating in the SEA Certificate program chose to report their performance. In other words, did they submit their annual budget document to AGA for review as evidence that displaying performance measures in the budget is the preferred approach or did they feel some other type document could be used to communicate performance? The second issue to be studied is whether performance measures “clearly” fall outside the purview of accounting and financial reporting, as those disciplines have traditionally and commonly been understood.

To address the first issue, an analysis was made of reports submitted by the 46 local governments to determine the type report submitted, how the report was titled, and some basic characteristics of the report if either the government's annual budget or some other type report.

Of the 46 reports submitted, only four governments chose to submit their budget. All four of the budget documents were submitted during the AGA 2004-2005 pilot year. The remaining 42 participating governments chose to submit a report that was clearly different than their budget. Those 42 governments had a different communication report in mind.

While all 42 local governments addressed performance measurement within the body of their report, 22 of the 42 governments specifically included the words Service Efforts and Accomplishments, Performance Measurement, or Progress Report in the report title (cover). They wanted the user to immediately know the report focused on the government's performance. For example, Ankeny, IO referred to its report as "Ankeny SEA Report." In addition, nine of the 42 governments specifically included the words Citizen or Community in the report title (cover). Chattanooga referred to their report as "A Report to the Citizens of Chattanooga." An obvious difference in these reports was the common theme that the report was intended for external users and specifically citizens. Actions by these governments to issue a performance measurement report separate from the budget indicates their desire to communicate with an audience broader than management and elected officials.

While it is certainly an accepted practice to include performance measures in the annual budget, SEA reports and budget reports have several differences. SEA reports often include comparisons to other governments, nonfinancial charts and graphs relating to services provided, photos of the community and each major program, identification of challenges facing the community, citizen and customer perceptions obtained through periodic surveys, and language that would be understood by an "ordinary citizen".

In contrast, budget documents are more technical and require a high level of financial management knowledge to understand. Budgets may display revenues and expenditures for 20 or more funds to include the general fund, special revenue fund, internal service fund, enterprise funds, and capital budget funds. While fund level budget documents are essential to the budgeting and appropriation processes to show financial resources expected and received and expenditures planned and incurred, they are not particularly user friendly if the user happens to be a citizen. A typical citizen is not expected to be knowledgeable of government financial management and Generally Accepted Accounting Principles. Citizens are not expected to know the reason for the differences or basis of accounting for these funds. In addition, a citizen may not need information at the level of detailed displayed in a budget. To include performance data within the same document as fund level data could be intimidating to a citizen and discourage them to use the budget as a resource on performance even of the measures as reported therein.

This is not to say a budget should not include performance measurement information, as it is helpful for internal management purposes and for decision-making. However, a budget that is several hundred pages long is not very user friendly. For example, for the governments that submitted their annual budget to AGA, the report length ranged from 232 to 560 pages in length and the average length was 384 pages. For the remaining 42 governments submitting a performance measurement report, the reports ranged from 11 to 372 pages or an average of 98 pages long. When Prince William County's report is not considered (a comprehensive 372 page report) the average report length goes down to 77 pages.

Because of their length, budget documents available to the public are not easily navigated from a web site, and to print such a voluminous (several hundred page) document for further study would generally be out of the question. Printed budget documents are generally available only in limited quantity and are not normally distributed to the public. Recognizing this obstacle, governments participating in the GFOA Distinguished Budget Presentation Award Program produce a summary Budget in Brief. However, that document, while very helpful and informative, does not give the same level of attention to financial and non-financial performance measures as the SEA reports.

As an example of the above observation of the difference in an SEA report and a budget, the SEA report for 2007 for Des Moines was printed and distributed to its 89,500 residents. For Des Moines, the 56-page SEA report cost 61 cents per copy to produce and mail. Of those distributed they found 28% of citizens read the report and liked the quality, content, and artwork in the report. Through the SEA report, Des Moines tried to tell the citizen "What we did with your money." They stated if citizens are not told what the government is doing, it is wasting its time. In contrast, the operating and capital improvement budget for Des Moines in 2008 was 637 pages long. While the Des Moines budget document does an excellent job of displaying revenues and expenditures by Department, there is significantly less data in the report that relates resources and expenditures to accomplishments. In addition, no data was noted in the budget on citizen satisfaction.

In an August 2007 AGA audio conference on performance measurement systems, a representative of Des Moines stated that his city had been measuring performance for decades. However, this was done by the budget office and of no use to management. Past budget documents were several hundred pages long and the approximately 1000 measures displayed were rarely used. For a citizen, the past budget documents were "like eating celery - not a bad taste but absolutely of no nutritional value." Further, the average person cannot penetrate the financial report or the budget. While the budget document was good for internal use, it was not helpful to the public. He found the GASB criteria as very helpful and commented listening to the public was essential and by doing so, citizens identified additional helpful measures that had never come up internally. Des Moines also found being open with the public resulted in greater citizen trust and satisfaction.

Similar to comments from Des Moines, AGA observed in their Harris Poll on *Public Attitudes Toward Government Accountability and Transparency 2008*, “without accurate fiscal information, delivered regularly, in an easily-understandable format, citizens lack the knowledge they need to interact with – and cast votes for –their leaders. Further, a lack of government accountability and transparency undermines democracy and gives rise to cynicism and distrust” (Harris Poll, 2008).

As additional analysis relating to the four budgets submitted to AGA in the pilot year, the following Table shows the number of pages contained in annual budgets for the fourteen governments that have received an SEA Certificate as compared to the number of pages these same governments have included in their annual performance measurement report.

**Table 4.10: Comparison of pages in the budget versus the SEA report**

	Organization – AGA SEA Certificate Award Winner	Received GFOA Distinguished Budget Presentation Award in 2007, Years to Date	Number of pages in Budget	Number of Pages in Most Recent SEA Report	Number of Pages in Budget in Excess of Pages in SEA Report
1.	Ankeny, Iowa	Yes 8 years	323	35	288
2.	Bellevue, WA	Yes, 20 years	598	126	472
3.	Des Moines, Iowa	No	637	58	579
4.	Kansas City Mo.	Yes, 20 Years	544	36	508
5.	Palo Alto, CA	Yes, 7 Years	755	86	669
6.	Portland, Or	Yes, 17 Years	705	83	622
7.	Saco, ME	Yes, 5 Years	338	80	258
8.	Stockton, CA	No	272	114	158
9.	King County, WA	No	302	109	193
10.	King County Dept. of Natural Resources	No	N/A	N/A	N/A
11.	Maricopa County, AZ	Yes, 14 Years	1349	62	1287
12.	Metro Nashville and Davidson County, TN	Yes, 16 Years	727	50	677
13.	Prince William County, VA	Yes, 19 Years	782	372	410
14.	Washington County, MN	Yes, 9 Years	354	138	216
	<b>Total Pages</b>		7686	1349	6337
	<b>Average Number of Pages</b>		591	104	487

Notes: 1. Page length for the annual budget was obtained by reviewing each respective government’s web site. The number of years each government had received the GFOA Distinguished Budget presentation was obtained from GFOA’s Annual Report for Fiscal Periods Beginning 2006.

The above Table shows each government produces both a legally required budget and they also chose to produce an SEA report. Ten of the governments have also received the GFOA Distinguished

Budget Presentation Award. The most significant difference was that this group of budgets average 591 pages in length compared to SEA reports that average 104 pages in length. The budgets are an average 487 pages longer than the SEA reports.

From the above one could conclude while there can be agreement that performance measures are inherently budgetary and managerial in character (support for that statement goes back at least to the 1960's with experimentation with program performance budgeting systems) that does not mean performance measures cannot or should not also be reported to citizens through other type reports. The finding that 42 of 46 local governments chose to report performance outside the budget document suggests officials in those governments believe performance should not be limited to budget documents. They have chosen to prepare a different type report to assist citizen understanding and help hold officials accountable.

Emphasis on the budgeting process began at the federal level when the Taft Commission called for a national executive budget. Subsequently, in 1921 the Congress passed the Accounting and Budget Act of 1921 that created the Office of the Budget and the General Accounting Office. In the 1930's line item budgets stressed accountability and control and performance budgets stressed work measurement that is related to scientific management. In 1940 V.O. Key observed the emphasis on mechanics in the budget and not enough emphasis on how or why government decides to spend limited dollars one program over another. Then, in 1949, performance budgeting was recognized by the Hoover Commission and emphasized work management and efficiency analysis. In the 1950's the budget was viewed as a tool for work measurement and efficiency analysis and in the 1960's the focus of budgeting turned to PPBS with the focus being shifted away from the line item budget towards program goals, services provided, and levels of funding. In 1966, Allen Schick summarized budgeting processes as line item for control, performance for managerial efficiency, PPBS (Planning Program Budgeting System) for planning and efficiency. While many budgeting approaches have been taken to include PPBS, zero based budgeting, and performance budgeting Aaron Wildavsky's view on budgeting seems to have endured over time. He noted that budgeting is an incremental process, proceeding from a historical base, where there is a notion of fair shares and where decisions are made subject to repeated feedback mechanisms (Schick, 1966).

The history of budget reform literature strongly affirms that performance measures are inherent to the sound budgeting processes and documents; this does not mean performance reporting should not occur elsewhere in another type report. To argue that performance measures are inherent to budgeting, which they are, does not constitute an argument that the measures are not also inherent to fulfilling a government's reporting obligations to its citizens.



While there are currently differences in SEA reports and budget documents, this is not to say a government has to choose one over the other. It would be an acceptable approach as exhibited above, to produce an SEA report in addition to the lengthy legally mandated budget. A review of websites for the governments that have been recognized by AGA with an SEA Certificate showed the governments have produced an SEA in addition to the required budget. Some of the budgets contain performance measures, some do not, and some contain more performance measure information than others. These governments appear to have accepted that performance information is not solely budgetary or managerial in character. These governments have issued SEA reports externally to the government and intended for citizens.

**The second issue to be studied with objection one is whether performance measures clearly fall outside the purview of accounting and financial reporting, as those disciplines have traditionally and commonly been understood.** As discussed in the Historical and Theoretical Framework section of this research, the discussion of reporting on performance for government and not-for-profit organizations in the context of accounting and financial reporting has been a topic of discussion for almost 40 years. Clearly, the issue of where or if performance reporting fits within the accounting and financial framework occurred well before the creation of the GASB.

For government, the National Committee on Municipal Accounting in the 1930's concluded that financial statements should consist of the financial statements and statistical facts of general interest to citizens on elected service efforts and level of service provided. In 1969, the National Committee on Governmental Accounting continued to view statistical tables as part of the financial report. In 1980, the National Council on Governmental Accounting concluded that the goal of financial reporting is to provide financial information useful for making economic, political and social decisions and demonstrating stewardship and accountability. Further, information useful for evaluating managerial and organization performance should not be limited to financial information.

The American Institute of Certified Public Accountants concluded in 1971 that public entities are also accountable for results of government programs as reflected in accomplishments, benefits, and effectiveness. The AICPA's Trueblood Committee in 1972 concluded indicators of earning have limited value for assessing performance of government and not-for-profit entities and therefore financial statements should provide information useful for evaluating the effectiveness of management of resources through performance measures identified to organization goals.

In 1978 and 1980, the Financial Accounting Standards Board through their Concept Statement No. 1 and Concept Statement No. 4 (FASB, 1980) concluded financial reporting is extremely broad and is not restricted to information communicated by financial statement and in nonbusiness organizations

information other than money may be needed to understand information expressed in units of money. They stated when financial reporting provides information about performance and information on service efforts and accomplishments it is most useful in assessing performance. While these two Concept Statements were directed to not-for-profit organizations, the FASB concluded they were aware of no evidence the objectives were inappropriate for governmental units.

In view of the above research on this objection, history has shown there has been significant discussion on the topic of SEA reporting as part of accounting and financial reporting. The conclusion is the NCGA, AICPA, and FASB all recognized the need to report such information externally and to the public well before the establishment of the GASB. This issue was further addressed by the Financial Accounting Foundation in December 2006 when they confirmed the GASB had the jurisdictional authority to include "service efforts and accomplishment" in its financial accounting and reporting standards activities for state and local government. This confirmation was made after the GASB's experimentation and study on the topic over a 20-year period. The GASB's continued role as the independent standard setting body for financial accounting and reporting for state and local government was reaffirmed in May 2007 in response to a GFOA call for the responsibilities of the GASB be transferred to FASB.

One very important point needs to be made regarding this issue. There is a significant difference between General Purpose External Financial Reporting and General Purpose External Financial "Statement" Reporting. The GFOA has consistently been opposed to any attempt by the GASB to require the reporting of SEA in GPEFR and specifically in a government's external financial statement report. In response, the GASB actions to date have been to include SEA in GPEFR and not in the financial statements. The GASB continues to identify a framework for the reporting of performance by governments that voluntarily choose to report SEA within the broad category of GPEFR (see exhibit 2.2).

Does GFOA have reason to be concerned about any actions by the GASB that might cast doubt on the credibility and value of financial statement reporting? Clearly they should be concerned. While citizens may not understand and comprehend the generally accepted accounting principles that must be understood by trained accountants when preparing government financial statements, they have and continue to trust their government and its technical, and often professionally certified accountants to maintain accounting systems and internal controls that show with a great deal of accuracy the governments financial position and operations.

The public also may not understand how to conduct an audit of the financial statement, but they place a significant degree of confidence in audited financial statements issued by independent public accountants (CPA firms) that provide a high level of assurance the government has complied with laws, rules, and regulations, properly safeguarded monies entrusted to it, and there has been no fraud or abuse

that would be material to the fair presentation of financial statements taken as a whole. This framework for the establishment of Generally Accepted Accounting Principles established by the GASB, the preparation and issuance of those financial statements by governments and the audit of those financial statements in accordance with standards issued by the AICPA and the U.S. Government Accountability Office is one of significant history, standing and merit. GFOA has diligently supported the accounting and accountability framework. Klay and McCall concluded in their article on “Confronting the Perplexing Issue of SEA Reporting” if governments are to report SEA information, ways must be found for them to do so that do not compromise transaction-based financial reporting. For this study, none of the participating governments chose to make their SEA report part of the CAFR.

Research has shown performance measures do not “clearly” fall outside the purview of accounting and financial reporting, as those disciplines have traditionally been understood. It is a topic that has received considerable focus, attention, and dialog for almost 40 years. Not including performance measures within the financial statements does not mean or support that such measures are not part of General Purpose External Financial Reporting or they are not part of accounting and financial reporting.

**Objection 2 - In the public sector, goals and objectives are the concrete realization and reflection of public policy. In a democracy, it is the unique prerogative of elected and appointed officials to set public policy. If the GASB were to mandate the reporting of specific performance measures it would effectively be usurping this prerogative.** Based on actions to date by the GASB, the part of the above objection to be addressed first is - if the GASB were to mandate the reporting of specific performance measures it would effectively be usurping the role of elected and public officials to set public policy. By issuance of GASB Concept Statement 5 in November 2008, the GASB concluded it is beyond the scope of the GASB to establish the goals and objectives of state and local government services, to develop specific nonfinancial measures or indicators of service performance, or to set benchmarks for service performance. To emphasize this point, Concepts Statement 5 removes an entire section of Concepts Statement 2, titled, “Developing Reporting Standards for SEA Information.” Further, the GASB noted that one objective of the updated Concepts Statement 5 is to provide a framework to inform the GASB as it considers proposed suggested guidelines for voluntary reporting of SEA performance information by state and local governmental entities (GASB Concepts Statement 5, 2008). As of March 2009, those guidelines have not been issued as the GASB continues to research and take public comments on the issue.

Notwithstanding the above, as late as November 2008 at a GASB public hearing in Orlando, FL, a person providing testimony continued to express concern the GASB will mandate certain performance measures for state and local government. In follow-up to the testimony one of the GASB members asked why this concern continues to be expressed contrary to clear statements that it is beyond the scope of the

GASB to establish performance measures. The response was there continues to be a belief this issue is similar to the idea of “the camel getting its nose under the tent.”

Similar comments were made at a Florida Benchmarks Consortium meeting in April 2008 also attended by this researcher. That presenter stated he was a member of GFOA and those in the audience should be aware and concerned the GASB was going to mandate performance measures local governments would have to use. As to the above objection and expressed concerns, there appears to be a question of “trust” between what some GFOA leaders and members believe to be the GASB’s agenda and what the GASB has said is its agenda. Notwithstanding, the GFOA continues to financially support the GASB even though at this time they agree to disagree on the GASB’s role in SEA.

On trust, Dyer notes trust is the central factor in any relationship and once lost or lessened it is very difficult to regain. Dyer would observe that the objective of both the GASB and GFOA should be to continue to trust that both organizations will seek to continue their longstanding relationship and seek to work out disagreements in the best interest of the two organizations, the constituents they represent, and the public (Dyer, 1995).

**This second GFOA objection is that if SEA reports are issued externally in a document other than the budget, that would, in a democracy, interfere or infringe on the unique prerogative of elected and appointed officials to set public policy.** This research has identified four public administration theories relating to this objection. The first theory that most closely supports GFOA’s objection is Control of Bureaucracy Theory. That theory takes the view it is the role of elected officials to set policy and for the administration to carry out those policies without question, with the greatest degree of efficiency, and in a neutral fashion. In Control of Bureaucracy Theory, politicians decide public policy and are believed to know the values and interest of the citizens they represent. This leaves to the administration, the responsibility to carrying out policy without question and in the most efficient manner available.

The following three public administration theories raise questions about GFOA’s concern that public reporting of performance measures outside the budget process would infringe on the prerogative of elected officials to set public policy.

Efficient Citizenship Theory is grounded in the belief government has a responsibility to report to citizens on its activities and given such information informed citizen owners can then actively participate in the decisions of the government. In addition, the informed citizen can express his or her belief about whether elected officials are carrying out their wishes through the voting process.

Bureaucratic Politics Theory – what Waldo calls “Administration as Politics” (Fry, 1998, 218) recognizes that the bureaucracy deals daily with facts and values, politics and administration, and “what is” as well as “what ought to be” questions. This theory recognizes while elected officials may set broad policy direction, it is the administration that often influences that direction and it is administration that will ultimately be involved in interpreting and implementing those often broad, often vague, and undefined policies at the “street level” (Lipsky, 1978)

The final policy relating to GFOA’s objection is Democracy Theory that recognizes that administration in its search for efficiency, supported by the work of Frederick Taylor and scientific management, has failed to recognize government is not solely about efficiency; it is also about democracy and that is often inefficient.

Efficient citizenship, bureaucratic politics, and democracy theory support a view that elected officials, administration, and citizens affect policy. The essential argument of this theory is that government will likely be less efficient when citizens are not well informed about the performance of their government.

To address GFOA objection 2, this research analyzed SEA reports to see whether policy makers seemed to have embraced the responsibility to externally issued SEA reports to citizens and whether they have exhibited a sense of ownership for issued SEA reports. This sense of ownership would be demonstrated by who in the government issues the report and to whom the report is issued. The following Table identifies the issuing authority for the performance reports submitted by the 46 participating local governments:

**Table 4.11: Issuing Authorities**

	Governing Body	City / County Manager	Mayor	Finance/Budget	Auditor	Other	Total
City	5	7	6	3	5		26
County	5	5	1	2	3	4	20
Total	10	12	7	5	8	4	46

The above Table shows the governing body, such as a city council or county commission, a city or county manager (which would include the finance/budget office), or a mayor, issued 29 reports. The government’s auditor issued eight reports. From the reports it was often difficult to determine with specificity which part of the government issued the report as some were issued jointly and determining the entity was not always clear. However, it was clear from all 36 reports not issued directly and clearly from the governing body they consistently addressed their report to the governing body and to the citizens. It was clear the governing body was well aware of the reports being issued and the intended citizen audience. In several governments, even when the report was prepared by other parts of the

government, the report contained a photo and/or listing of members of the governing body. In Bellevue, WA the City Council went a step further and reported performance measures for themselves to include planned steps to improve performance. Each of the governments chose to measure and report its performance and all reports, irrespective of which part of the government issued the report, were clearly designed for public scrutiny.

The finding that many governments in this study chose to issue their report in the name of the top policy making officials suggest those elected and appointed officials do not perceive their reporting of performance measures to citizens as an infringement on their policy making discretion. In fact, many of the governments expressed the belief in their report that not only were they willingly providing this information but they further believed they had a responsibility to provide performance measurement information to their citizens.

The following comments are representative of comments found in participating government's reports that performance measurement information should be reported externally to the citizenry.

**Table 4.12: Selected government comments on reporting to the citizenry**

Local Government	Report Year	Comment
Ankeny, IA	2007	Good governance requires accurate and timely information and analysis so that the public and decision makers can make informed decisions about how to best allocate City resources. This report is intended to improve the public accountability of City government. The report attempts to answer the question: Am I getting my money's worth? (Report includes a photo of the City Council)
Bellevue, WA	2007	Reports issued attempt to look at what an organization is accomplishing, not just what it s doing. Citizens and other stakeholders invest substantial resources in their government and rightfully expect that the government will provide in return, quality services at a reasonable cost that meets their needs. This report is intended for multiple audiences. To include department managers, Council members, and the public. It helps build an understanding of program operations, serves as a tool for setting priorities, charts progress, and helps build and maintain community trust. Reliable reports and feedback from citizens helps to build community trust.
Saco, Maine	2007	The purpose of the report is to provide citizens, council members, and city staff with annual information on performance in order to improve public accountability, assist citizens, council members, and city staff in decision-making, and help the delivery of public services.
Prince William County, VA	2006	This report is a key part of the accountability component of the government. Through the report the community is provided a level of government accountability that is rare because it provide information on not only how much is spent on government services but also how well those services are performed. The report contains a listing of the Board of Supervisors.

The above comments are from just a few governments but are representative of comments found in other issued reports. As shown above, in some jurisdictions the governing body issues the report while in other jurisdictions the report may be issued by the Mayor, City or County Manager, or the governments elected or appointed auditor. That governments have issued a SEA report for several years and continue to issue the report provides support that the governing body does not see such reports as usurping their policy making responsibility.

From the above, one must ask why some of the Big Seven organizations such as the National League of Cities, the National Association of Counties, the U.S. Conference of Mayors, the National Governors Association, and the National Conference of State Legislatures would oppose the GASB actions and support a position that performance measurement information should be in the budget and not also externally reported in another type document to the citizens that elected those officials. In terms of the need for elected and appointed officials to support the external reporting of performance measures in a democracy, Waldo observed democracy is possible only if power is concentrated so that it can both act and be held accountable. In other words, democracy works best when elected and appointed officials have the authority and take needed action, and when they also accept the responsibility to be held accountable for what they do (Fry, 1998, 237). Governing bodies that measure what they do and also issue external accountability reports fit well into the above definition of democracy.

For objection two, this research has shown the GASB by issuance of Concept Statement No 5 in November 2008 and by its earlier actions, has made it clear it is beyond the scope of the GASB to establish (a) goals and objectives for state and local government services, (b) specific nonfinancial measures or indicators of performance, or (c) standards of, or benchmarks for, service performance (GASB, November 2008). No evidence was found in reports reviewed to indicate that either the GASB had mandated performance measure to use or elected or appointed officials used certain measures because they believed the measures were mandated by the GASB. In addition for the reports reviewed, there was full recognition that appointed and elected officials were fully aware of their governments reporting of performance to citizens and other users. Those governments did not express the view the reporting of performance measures usurped their public policy responsibilities. On the contrary, several governments expressed the view the government had the responsibility to report performance to citizens and to listen to citizen concerns in setting public policy. The presence of performance measures in issued reports is consistent with efficient citizenship and democracy theory in public administration.

**Objection 3 - There is no such thing as a "neutral" performance measure. The selection of what to measure will inevitably drive performance. Therefore, it is unrealistic to believe performance measures mandated by the GASB would remain purely informational and somehow**

**not have an effect on how governments manage their programs. Even were the GASB to establish completely "voluntary" measures of performance for those governments that wish to use them, the very existence of benchmarks established by a national standard-setting body would put pressure on governments to conform their own performance measures to the GASB's model measures.** With the issuance of GAAB Concept Statement No. 5 and especially consistent with the GASB's due process activities in recent months, this issue should be viewed as resolved. The GASB has stated it is not within its agenda to establish nonfinancial measures of performance. To date, measures of performance that have been shown as performance measurement "examples" in the GASB staff and task force documents have been just that. In many instances, the measures in GASB documents are the same as those routinely reported to ICMA by local governments. Also, many of the measures shown fire and police are measures those departments have tracked for years for accreditation.

To further test the above concern that by the GASB showing examples in issued documents would unduly influence governments to conform their measures to GASB examples, a review was made of reports submitted by Portland, OR, Palo Alto, CA, and Bellevue, WA. These governments have a long history of issuing performance reports. There was no indication in those reports that measures presented were influenced by the GASB.

Portland, OR issued its first SEA report in 1992. The report was for the 1990-91 year and included longitudinal data for three years. The current practice of Portland is to include longitudinal data for 10 years in its SEA reports. A review of data showed consistency in reporting in that once a measure was chosen; it has been consistently tracked from year to year. Also, when a new measure was added, an explanation was often provided for selecting the measure.

Palo Alto, CA issued its first SEA report in fiscal year 2001-2002 and showed longitudinal data for five years beginning in 1997-98. Palo Alto commented on the selection of its measures. The measures were the one they thought would be the most useful indicators of City government performance and of general interest to the public. They decided to use measures from existing data sources to include the adopted budget, community indicators in the Comprehensive Plan, indicators from the City's Sustainability Task Force, and performance measures from other jurisdictions and benchmarking efforts from ICMA and other professional organizations. They also utilized information from the CAFR.

Bellevue, WA has been tracking 16 key performance measures since 2001. In 2004 Bellevue issued its first Annual Performance Report and shows longitudinally data for up to nine years. The measures were selected through collaboration with program managers, department directors, budget staff, the City Manager, and reference to the ICMA Comparative Cities Report. In addition, measures chosen were significantly influenced through citizen involvement. The 2006 Annual Report includes a table that shows



measures changed for the year and the reason for change. For example, new departments were created requiring new measures or measures were deleted as a result of departments being deleted or functions transferred elsewhere in the government.

The above review of reports issued by Portland, Palo Alto, and Bellevue showed the governments freely chose the measures used, did not change measures to adhere to the GASB examples, and were not influenced by AGA's SEA Certificate program.

Governments that desire to identify performance measures for their government can also look to other sources for assistance. Such sources included:

- Other governments currently issuing performance measurement reports.
- Performance measures collected by the International City/County Management Association in their Comparative Cities Project
- Performance measures identified by organizations that have formed to help each other in measuring their governments performance (benchmarking projects)
- Feedback from citizens through surveys and focus group discussions
- Government watchdog organizations that have developed performance measures for their community, and
- Government departments such as fire and police that collect performance measurement information for national accreditation purposes.

That a government starting to report on performance would look to other sources for information on measures should be encouraged. As said by Woodrow Wilson, "We borrowed rice, but we do not eat it with chopsticks" (Wilson, 1887, 24). Wilson also observed that so long as we know only ourselves, we know nothing. Therefore, governments should look to other sources for information on performance measures, filter that information through the organization and community culture, and then select and take ownership of measures chosen.

There is no difference of opinion with the above objection pointing out there is no such thing as a "neutral" performance measure. However, the same comment can be made about other data to include financial data, especially in government. While there is a long history of viewing government administration as a science, there have also been alternative views that government is also about administration (facts and what is questions) and politics (values and what ought to be questions). Waldo stated public administration is an art and a science and therefore to decide is to introduce values.

Recognizing the relationship of facts and values in performance measures, the GASB has deferred the identification of organization goals and objectives and related performance measures to those governments that voluntarily choose to report on performance.

In October 2001, the then President of GFOA was asked if GFOA could support the GASB's efforts if the Board were to limit its performance project to research and recommendations rather than standard setting? The GFOA President responded "the most basic principles of performance measurement tell us the answer must still be "no" in as much as effectiveness requires that scarce resources be devoted to achieve an entity's proper objectives, which for the GASB must be improving standards of accounting and financial reporting"(GFOA, 2001, 5).

The GFOA position on the GASB's involvement in performance measurement continues to be an issue. However, the GASB moved away from a staff (and task force) recommendation in 1992. At the time staff recommended a move toward standards for performance measures. Staff went on to recommend including such measurement information in the CAFR. Now, the GASB is deliberating on the establishment of "guidelines for governments that voluntarily choose" to externally report performance information. At this time, the GASB is not recommending standards for performance measures. The GFOA has and continues to weigh in on this issue.

In the above 2001 article, the GFOA President further expressed the belief the GASB's efforts with SEA reporting would ultimately not succeed in helping the cause of performance measurement. He believed that progress in reporting on performance must come from the governments themselves and the organizations that serve them. To that end in 2008, the GFOA was joined by 11 public interest associations to develop a comprehensive framework for public sector performance measurement that will form an integrated set of principles to guide state and local government in their performance management efforts. The Commission leading this effort is referred to as the National Performance Management Advisory Commission.

It is clear GFOA is and has been a strong supporter of performance measurement programs. In this instance, the difference is that they do not view the GASB as the proper body to lead this initiative and they view the budget as the preferred location for such information. If there were agreement that performance measures are specifically and only part of the budget, the GASB would have no need to address the issue, as it does not issue standards for budgeting. Also, at the current time there are no standards for budgeting, only recommended practices that build on the work of the National Advisory Council on State and Local Budgeting. To some, it is a jurisdiction issue. While there is substantial expertise among the 11 identified organizations to lead this performance measurement effort, an obvious issue that should be addressed is whether these organizations representing elected and appointed

officials, and finance and budget offices, can be viewed as sufficiently independent by third parties to also represent the public (citizens). The GASB already has that recognition. The GASB is “an independent body free from inappropriate political pressure or commercial influence, the GASB brings objectivity and integrity to the process of issuing neutral, unbiased accounting and financial reporting standards that are relevant in the government” (GASB, 2009). The GASB clearly has the citizen in mind in carrying out its mission. Its stated mission is to establish and improve standards of state and local governmental accounting and financial reporting that will: result in useful information for users of financial reports, and guide and educate the public, including issuers, auditors, and users of those financial reports.

**Objection 4 - GASB standards or recommendations would inevitably involve generic measures, which would break the crucial link between performance measurement and a government's specific goals and objectives.** Again, the GASB has not issued standards on SEA reporting. It has recently issued Concept Statement No. 5 to help guide the GASB as governments continue to experiment with performance measures and to voluntarily choose to report on performance. The GASB continues to defer to local governments to decide the specific measures to be established and reported upon. In this study and in a related study of 41 state and local governments the conclusion was that neither the GASB suggested criteria and documents nor participation in the AGA study appeared to influence officials in their choice of measures (Klay and McCall, 2008.)

**Objection 5 - The inclusion of performance measures as part of financial reporting inevitably would require at least some degree of involvement on the part of the government's independent auditor, resulting in additional audit costs. While we freely admit that data verification is essential if performance measurement is to be credible, we do not believe it should be necessary to involve independent auditors for this purpose. Internal auditing procedures should suffice.** Up to and including the current time, the GASB has not required the inclusion of performance measurement information in externally issued government financial statements nor has the GASB required governments to externally issue performance reports as part of the larger framework of general purpose external financial reporting. In response to concerns expressed that the GASB may require performance measures to be included in the Comprehensive Annual Financial Report (the CAFR), the GASB issued a revised Concept Statement No. 5 in December 2008 that recognizes SEA information as an important method of demonstrating accountability for resources raised by the government. However, the GASB has been clear in Concept Statement No 5 (that amends Concept Statement No. 2) it is beyond the scope of the GASB to establish goals and objectives of state and local governments, to develop specific nonfinancial measures or indicators of service performance, or to set benchmarks for service performance (GASB, December 2008). The objective of Concept Statement No. 5 is to provide a framework the GASB can use as it considers proposed suggested guidelines for voluntary reporting of SEA information.

GFOA's recognition that it is desirable for performance information to undergo some level of verification external to the preparing entity is supported by the GASB. In 1990, the GASB issued its Research Report on *Service Efforts and Accomplishment Reporting: Its Time has Come*. In that Overview publication, the researchers recommended verification of the data (where needed) should be the responsibility of an agency independent of the operating agency being reported on (GASB, 1990). While the Overview report and separately issued reports on specific service areas provided recommended performance measures, the recommendations were those of the GASB staff and the research contributors and not of the GASB itself.

Subsequently, in 2002, the GASB issued a *Report on the GASB Citizen Discussion Groups on Performance Reporting* (GASB, 2002). The report recognized that discussion group participants want to know performance information has been independently verified, which they consider critical for citizens to accept the information as credible. In 18 of the 19 discussion groups, concerns about the reliability, validity, accuracy, and consistency of data led to discussion of independent verification or auditing of performance information. The discussion group participants, as with GFOA above, expressed concern about the cost of independent verification or audit. The participants agreed the verification should be by someone they trust – such as a state or local auditor. The GFOA notes internal auditors can do this work.

William Rivenbark has observed while there has been considerable attention to the development and reporting on performance measures, auditing the accuracy of performance data used to create performance measures seems to have gone unnoticed. He notes that auditing performance data involves much more than just verifying their accuracy and involves an assessment of whether the performance measures are providing meaningful and usable information. Such audits help in understanding processes and programs and additionally test for reliability and comparability. His concern is that performance data, like financial data are less reliable over time if a periodic review process is not established (Rivenbark, 2002).

Rivenbark in his article in 2002 and the GFOA in the above policy statement also in 2002, expressed concern about audit cost. The GASB is also in agreement that auditing performance measures would increase audit cost. As recent as November 2008, a GASB exposure draft on establishing voluntary guidelines for performance measurement reporting provided, "The reliability of reported performance information remains a challenge for SEA reporting due to limited financial resources."

This research has shown that for the 46 local government SEA reports, only one report was audited to include the auditor's opinion expressed thereon. What the governments have done is to describe the processes followed to increase the reliability, and citizen confidence, in the reports. For example the

government have noted the information presented has come from the budget, from the audited financial reports, from strategic plans, and from information submitted to the ICMA as a participant in their Comparative Cities Program. The governments have noted data are tested internally by the budget or accounting office as supplemental assurance as to their accuracy. In those governments where the elected or appointed (internal) auditor have prepared and issued the report, statements have been made that their work complied with those government auditing standards relating to independence, competence, and due care taken to issue the report. However, none of those auditors have expressed an opinion on the fairness of presentation of the data.

While there is agreement the data would be viewed as more reliable if audited by an audit organization independent of the organization maintaining the data, at this time there is no professional requirement for the data to be audited. That is not altogether negative as governments have been able to experiment with SEA reporting without fear of being audited. It is possible that a highly critical audit of a government's first efforts in SEA reporting could have prematurely curtailed the government's efforts. In terms of Audit Standards, it is perfectly permissible for an audit organization to issue a performance measurement report in its name and to express a conclusion thereon.

There is a recent initiative to involve the auditor in a positive way in assisting the government in the performance measurement effort. The effort is funded by the Sloan Foundation and the Institute of Internal Auditors and described more fully at [www.AuditorsRoles.com](http://www.AuditorsRoles.com). In addition to providing training on how to audit the measures, the principles and its advocacy committee have identified several ways auditors can assist an organization in their performance measurement efforts as follows

1. Helping to Promote an Environment and Culture for Performance Measurement
2. Consulting in the Development of Performance Measurement Without Jeopardizing Independence
3. Providing Constructive Feedback During the Development of Performance Measures
4. Consulting on the Prioritization of Key Performance Measures and How to Layer Data for Reporting and Analysis
5. Providing Audit Services as a Performance Audit under GAGAS or as Assurance Services under the IIA Standards for Performance Measures Reported
6. Providing Added Value Recommendations
7. Consulting on how to Benchmark Performance Measures With Other Organizations
8. Promoting Management Use of Performance Measures in:
  - A. Strategic Planning
  - B. Budget Request and Resource Allocation
  - C. Decision Making

#### D. Organization operations

If a government chooses to have its performance measures audited the following standards can be followed:

- The performance audit standards issued by the Government Accountability Office that could result in an opinion or a conclusion.
- The attestation standards issued by the Government Accountability Office that could be at the examination level, review level, or agreed upon procedures level.
- The assurance standards issued by the Institute of Internal Auditors
- The consulting standards issued by the Institute of Internal Auditors

Absent an independent audit, organizations could also consider a lower level of assurance as follows:

1. Submit their report to an organization such as AGA or the ICMA for review in accordance with their report content criteria.
2. Require the governing body, the Mayor, or an appointed official such as a City Manager or County Manager along with the Chief Fiscal Officer to provide a statement (an assertion) in the issued report as to their belief that the data are fairly presented and that known weaknesses in data presented have been appropriately and faithfully disclosed.
3. Request the performance measurement unit of another local government to review the issuing governments report for recommendations for improvement
4. Identify and request knowledgeable community volunteers to review the report and provide their findings and recommendations.

In terms of the work being done by internal auditors, that is an acceptable approach. There are at least two issues that need to be addressed by whomever does the audit – whether an internal or external auditor. The government must be clear on the type report they are expecting and the level of assurance provided by the auditor. Also, the government should consider how 3<sup>rd</sup> parties will view the auditor. If the auditor is under the control and reports to management, then the issued report is for management use only and parties external to the government should not rely on that work. If the intent is to provide a high level of assurance to citizens that may use the report, the personal, organizational, and external impairments to the auditor's independence must be considered along with the level of assurance to be provided (GAO, 2007).

**Objection 6 The GASB's expertise is limited to accounting and financial reporting. Expertise in accounting and financial reporting, while invaluable in many aspects of public finance, does not**

**provide a sufficient basis for making decisions regarding how to measure the quality of services. Even if subject-matter experts were consulted, as the GASB promises, the fact remains that the ultimate decision would still be the GASB's.** The following comments respond to GFOA's first observation the GASB members, past and current; do not have demonstrated knowledge and experience beyond accounting and financial reporting. Specifically, two or more GASB members for the last several years either had extensive experience in performance measurement reporting and/or citizen issues. Some of the members also possess advanced academic degrees in fields other than accounting to include public administration and public management. In addition, while relatively small, the GASB staff has extensive and unquestionable knowledge and experience in performance measurement. The same can be said about performance measurement task force members appointed to assist and advise the GASB on performance measurement initiatives. In addition, the GASB has a broad based Governmental Accounting Standards Advisory Committee that has access to the Board and can provide advice on topics being deliberated by the Board.

One of the strengths of a Board such as the GASB is the goal of having members that bring an open mind to each issue and demonstrate a desire to receive and consider input from all organizations and individuals in the deliberative process. The issue is not one of requiring each member to be an accounting expert on every topic addressed, but to have a Board that collectively possesses adequate technical knowledge and competence to address the issues coming before the Board (for comparison see GAO standard on "competence" for audit organizations, 2007).

To the objection made in the above second sentence, the GASB does not appear to have made decisions on how to measure the quality of services. Most recently, it has been clear that establishing nonfinancial measures of performance is not within the scope of the GASB. The GASB has and continues to develop a framework for those governments that voluntary choose to externally report on performance. The governments, not the GASB, will identify the measure to be used.

To the GFOA point made in the above last sentence of GFOA objection 6, the GASB has consistently appointed subject matter experts to task forces to receive advice on topics of importance. The advice is often received through written or verbal testimony and recordings or transcripts of proceedings are available. Based on minutes and agendas provided on GASB meetings, Board members have available and review written comments from individuals and organizations on issues. However, as GFOA notes above, the fact remains the ultimate decision on SEA (matters for which the Board is responsible) still rest with the Board. One must ask – would anyone want the final decision on such an important decision to be any other way? Whether guidelines or Standards, the GASB must keep in mind the term "generally accepted" must be at the forefront of any decision. If an action by the Board does not have general acceptance, then the issue may need further study or education before an action is taken. As Board

members may serve two five year terms, the opportunity to not reappoint a member at the end of their first term rests with the Financial Accounting Foundation.

**Additional Objection – The GASB Has Confused Accounting with Accountability.** In addition to the above objections, one issue continues and will likely continue for some time. The GFOA and the GASB have a different view on the term “accountability.” The GFOA believes the GASB has confused accounting with accountability. They argue that commonly accepted understanding of the scope of government accounting excludes accountability.

In a 2001 letter, GFOA noted the GASB has employed the irredeemably nebulous “concept” of accountability, a concept created by none other than the GASB itself, to theoretically justify its potential jurisdiction over virtually any aspect of public administration. In 2007, the President of GFOA stated at the GFOA Annual Conference the GASB’s investment in SEA has expanded the scope of its mission from accounting to accountability, which is part of the budgeting and management process.

At the same 2007 Annual Conference, the GFOA standing Committee on Accounting, Auditing, and Financial Reporting concluded that it would be beneficial to develop informal principles into a set of formal guidelines the GFOA could both use itself and share with state associations that might desire help in crafting their own responses to the GASB proposals. The product was a draft set of guidelines that were sent to the GFOA's Executive Board for its consideration. At its fall meeting in Chicago, the GFOA's Executive Board formally approved the proposed guidelines, which have been separately communicated to each state association (Gauthier, 2007). One of the 12 principles the GFOA's Executive Board has promulgated for responding to proposed accounting and financial reporting standards is:

Not every financial problem has an accounting solution. "Accounting" and "accountability" are not synonyms. Accounting is only one part of accountability. Accountability also incorporates budgeting and public-policy-making processes, which are beyond the scope of accounting standards.

From the above, the GFOA seems to be saying accountability is made up of three parts. Accounting as the first part is a separate and distinct discipline under the responsibility of the GASB. However, the budgeting part, where the GFOA believes performance measurement belongs, and the policy-making part and the responsibility of elected officials, is not under the GASB. Therefore, the GASB should address accounting standards only and not expand its jurisdiction into accountability.

In a November 2008 public hearing on the establishment of voluntary guidelines for SEA reporting, a representative for NACO testified it is obvious the GASB is particularly unsuitable for promoting



performance measurement. The testifier concluded by stating the GASB must not devote its time and resources to a project that is so disconnected to its core mission. Rather, the GASB should step aside and permit an appropriate body better suited to realize the objective of enhanced performance measurement.

In contrast to comments above from GFOA and NACO, GASB Concepts Statement 1 (paragraph 56) states:

Governmental accountability is based on the belief the citizenry has a “right to know,” a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Financial reporting plays a major role in fulfilling government’s duty to be publicly accountable in a democratic society.

The GASB takes a broader view. Governments have a responsibility to citizens to provide an accounting to citizens and a responsibility to be held accountable by explaining its actions.

In a 2006 “white paper” on financial reporting objectives, the GASB stated

Public accountability is the cornerstone on which all other financial reporting objectives should be built. Accountability, in a general sense, is a responsibility of stewards or agents to provide relevant and reliable information relating to resources under their control. For governments, accountability is the government’s responsibility to justify to its citizenry the raising of public revenues and to account for the use of those public resources. Accountability information can be used to support decision making, but it also fulfills the citizenry’s “right to know” how public resources have been spent.

A review of SEA reports submitted to AGA for review contains comments on “accountability” and demonstrates these governments’ understanding of the term.

**Table 4.13: Use of the word accountability in issued reports**

	<b>Organization</b>	<b>Comments On Their View of “Accountability”</b>
1.	Ankeny, IO	This report is intended to improve the public <b>accountability</b> of City government, help the city council; managers and citizens make better decisions, and help improve the delivery of major public services. The performance measures were developed through the efforts of a citizens focus committee. It is critical to informed decision-making that the information communicated in this report be communicated to stakeholders. <b>Good governance</b> requires good information presented in an informative and compelling way to our citizens. This report attempts to answer the question “am I getting me money’s worth?”
2.	City of Bellevue, WA.	While financial reports and budgets focus on how did we spend, they rarely provide insight into what government programs do, what they accomplish, their challenges and how they are meeting customer needs. This report focuses on what is being accomplished, not just what is being done. <b>The report helps decision-makers look at outcomes, accomplishments, and challenges rather than how a department spent against a budget.</b> This report builds understanding of program operations, helps to set priorities, charts progress, and helps build community trust.
3.	City of Chattanooga, TN	Our Report to Citizens is our way of sharing our successes and our challenges with the citizens we serve. Chattanooga is <b>accountable</b> for how well we achieve our service goals, measures allow us to track our success, and we are committed to reporting our performance to our citizens.
4.	City of Charlotte, NC	This report is an account of key challenges, the successes achieved, and the state of the city. Includes photo of Mayor and 11 City council members.
5.	City of Des Moines, Iowa	In our mission we require innovative governance that is accessible, <b>accountable</b> , and efficient with a system of funding that is fair, affordable, and stable. This report provides information to all Des Moines residents about our activities over the past year. This is part of our efforts to remain accessible and <b>accountable</b> to the public we serve. Through efforts to create an inclusive community, the City hopes to foster more participation in local affairs and remain accessible and <b>accountable</b> to all residents
6.	City of Durham, NC	A Community-Wide Results Based <b>Accountability</b> Initiative. This report allows us to measure where we are and determine where we want to go. More importantly, the report is a toll to keep our residents informed or our efforts and to make positive and <b>accountable</b> change.
7.	City of Henderson, NV	A major organization value – <b>Accountability</b> – We enjoy working for the community and take responsibility to ensure public trust very seriously. We hold ourselves <b>accountable</b> for our actions, and are fiscally responsible, and provide competent and efficient services to meet our community needs.
8.	City of Palo Alto, CA issued by City Auditor	It includes a variety of comparisons to other cities, and the results of a citizen survey. Our goal is to provide the City Council, staff, and the public with an independent, impartial assessment of past performance to strengthen <b>public accountability</b> , improve government efficiency and effectiveness, and support future decision making. This is the sixth annual report on the City of Palo Alto’s Service Efforts and Accomplishments (SEA). The purpose of the report is to provide consistent, reliable information on the performance of City services, broadly assess trends in government efficiency and effectiveness, and improve City <b>accountability to the public.</b>

Table 4.13 - Continued

	<b>Organization</b>	<b>Comments On Their View of “Accountability”</b>
9.	City of Portland, OR	Our intent is to increase public <b>accountability</b> of City government, to help City Council and managers make more informed decisions, and to foster improved delivery of City services. This report addresses the fourth action – reporting performance results to the Council and the public. The information in this report should enable report users to assess the degree to which the City and bureaus have achieved their major goals and provide public <b>accountability</b> for the use of tax and other resources
10.	City of Saco ME	The purpose of this report is to provide citizens, council members, and city staff with annual information on performance in order to improve <b>public accountability</b> , assist citizens, council members and city staff in decision making, and help improve the delivery of public services. The intention of producing this report is to communicate <b>accountability</b> with city stakeholders in a way they can easily access and understand, to show what was accomplished with public funds <b>in a user-friendlier format than through traditional budget or financial reports</b> , and to incorporate citizen satisfaction information into performance assessment.
11.	City of Stockton, CA	This is the first annual report on the City of Stockton’s Service Efforts and Accomplishments (SEA). The purpose of the report is to provide consistent, reliable information on the performance of City services, broadly assess trends in government efficiency and effectiveness, and improve City <b>accountability</b> to the public. The report contains summary information on spending
12.	King County Washington Department of Natural Resources	I am proud of all that we have accomplished to date, as we continue to advance the transparency and <b>accountability</b> of King County government. Thank you for your careful consideration of this report (the County Executive).
13.	Metro Nashville and Davidson County, TN	This report is being published to provide the citizens of Nashville and Davidson County with valuable information on the performance of their local government. This information is designed to help increase the <b>accountability</b> of the Metro Government to its citizens. For several years there has been an increasingly strong movement toward greater <b>accountability</b> and transparency at all levels of government across the nation. With increased competition, increased demand for government resources, and limited additional funding, governments everywhere are looking for ways to better manage and communicate performance. At the same time, <b>independent organizations that set policy on key financial matters for governments, such as the Governmental Accounting Standards Board (GASB)</b> , have increasingly called for better use of planning and performance information. “I believe it is essential that we have performance data to ensure public <b>accountability</b> (the Sheriff).”
14.	Prince William County, VA	I am pleased to present to you the Prince William County 2006 Service Efforts and Accomplishments (SEA) Report. This report is a key part of the <b>accountability</b> component of the Prince William County System. Through the SEA Report the community is provided a level of <b>government accountability</b> that is rare because the Report provides information not only on how much is spent on government services but also how well those services are performed. In addition the report provides benchmarks for gauging performance by making comparisons to prior year trend data, to other jurisdictions, and to targets.

The above governments link the term accountability to: citizens, performance measures, decisions, governance, government, accomplishments, outcomes, challenges, progress, and community trust. These governments believe accountability should be part of reports issued to citizens. As earlier shown, the reports should be communicated to be understood by an ordinary citizen.

In commercial accounting there has always been an acceptance of a ROI (Return on Investment) obligation, thereby accepting an accountability role/obligation. Business is held accountable through the issuance of external financial statements that report profit and earnings information to stockholders, lenders, and potential investors. In government, profit provides little information as to the quality or quantity of services provided. Therefore, for government to account and to be held accountable, other types and sources of information need to be identified and reported. When combined, financial data and service efforts and accomplishments data address RIO for government, thereby fulfilling the accountability obligation as part of general purpose external financial reporting. The GFOA position removes the ROI accountability obligation from government accounting even though it is fundamental to commercial accounting.

This research is not intended to nor is this researcher sufficiently knowledgeable at this time to propose a definition of “accounting” or “accountability” that might be acceptable to either the GASB or GFOA. The FAF has commented on actions of the GFOA to call for the responsibility for GAAP for government to be transferred from the GASB to FASB. They viewed such actions as a serious threat to the very reason for establishing the GASB – to have an independent body to establish GAAP for state and local government. The GFOA is concerned the GASB may have expanded its jurisdiction from one of accounting to one of accountability. GFOA views performance measures are outside traditional transaction based accounting. Any concerns that the GASB actions might lessen the value the public perceives in the CAFR should be addressed. Further dialog and discussion is needed.

On this issue, the discourse at times seems to have increased. At times it also seems the two organizations seem to agree to disagree on this topic without further direct dialog (Klay and McCall, 2004). Modern philosopher Jurgen Habermas has observed absent open discourse in which all parties are critically engaged, the legitimacy of government itself can be in danger. As it relates to professional bodies, he cautioned them against limiting (truncating) discourse and excluding the “knowledge and conscience of citizens” (Habermas, 1975). Critical theory influenced by Jurgen Habermas (1970-71) seeks to emancipate those in collective settings from asymmetric power relationships primarily through authentic discourse. It is through authentic discourse that truth claims can be tested and refined in the search for truth (Habermas, 1970). Habermas also observes public opinion is highly susceptible to elite manipulation. Any inference the GASB has not followed due process on the issue of performance measurement could also influence public thinking about due process followed by the GASB on other critical issues for which the GASB and GFOA are in full agreement.

## CHAPTER 5

### CONCLUSION

This research has identified several areas of importance on the topic of performance measures. The first objective was to compile a history on performance measurement, the second objective was to see what performance measurement reports voluntarily submitted to the Association of Government Accountants reveal about the attainability of reporting criteria developed by the Governmental Accounting Standards Board, and the third objective was investigate whether those reports sustain, or cast doubt on some organizations objections to the GASB's jurisdiction in performance measurement. The GASB refers to this as SEA (Service Efforts and Accomplishments) reporting.

**The first research objective is addressed in Chapter 2.** The history of performance measurement was described as going back over 100 years with its origins in the New York Bureau of Municipal Research. The GASB materials relating to performance measurement as an accounting issue recognizes the National Committee on Municipal Accounting by issuing *Municipal Accounting Statements* in 1936 as the baseline for performance measurement. By the GASB's chronology of performance measurement through pronouncements of governmental accounting organizations, auditing standards bodies, and financial accounting standards bodies prior to the GASB's establishment in 1984, the GASB has clearly shown the topic of performance measurement predated the GASB.

One important part of history has been given less recognition in this movement. Public administration has had a strong influence on performance measurement and recognized early the responsibility of governments to externally report to citizens its service efforts and accomplishments. The New York Bureau of Municipal Research strongly believed government organizations had a responsibility to report performance to citizens in both financial and nonfinancial terms. One of the founders of the NYB had direct ties to the first academic program in accounting in the nation at New York University where its dean wrote a textbook on governmental accounting.

From the efforts of the New York Bureau came "efficient citizenship" theory putting forth the view that citizens have a right as owners of the government to expect and to demand reports from their government that address government efficiency and effectiveness. Using this information, citizens can become more involved in the affairs of their government and make more informed choices through the voting process. In addition, the ICMA in the late 1920's and into the 1950's tirelessly worked to encourage governments to externally report on their service efforts and accomplishments. The ICMA believed municipal reporting enhances democracy by helping to maintain an informed citizenry. Both the NYB and the ICMA called for governments to externally report to citizens on performance. Their work ties in and supports the actions

of the GASB such that performance measurement is now part of General Purpose External Financial Reporting.

Accounting and to a large extent early public administration has focused on efficiency, facts over values, and science as its moral compass. There had been less attention to other public administration theories about government. Dwight Waldo recognized government is about facts and values, to choose is to introduce values, and government is about equality and that is often very inefficient. Also, the bureaucracy often plays a significant role in the making of policy.

The GASB seems to have embraced much of this additional public administration theory with its involvement in SEA whether stated or not. In an interview with the Chairman of the GASB he observed external reporting takes into consideration “of the people, for the people, and by the people.” Former Florida Governor Askew has said in classes he teaches at the Askew School of Public Administration and Public Policy the three most important words in the U.S. constitution are “we the people.” However, this philosophy does not easily transfer itself to accounting standards, practices, and guidelines built on neutrality and facts.

Objective 1 of this research has also shown the GASB has conducted over 25 years of research on performance measures and its research efforts were significantly helped by grants from the Alfred P. Sloan Foundation. Additional research was conducted when the Sloan Foundation provided monies to the Fund for the City of New York so they could provide monies through the National Center for Civic Innovation to state and local governments to prepare and issue external performance reports using the GASB suggested criteria. Lastly, the GASB was also helped in its research efforts when the Sloan Foundation provided monies to the Association of Government Accountants so they could establish a Certificate of Excellence in SEA reporting. To date, 46 local governments have voluntarily submitted their SEA reports for review in the program. At the time, AGA already had a credible program to review performance measurement reports for federal agencies.

Research into the history of performance measurement would not be complete without recognizing objections by GFOA to the GASB including performance measurement within the framework of general purpose external financial reporting. The objections go back more than 15 years through GFOA public policy statements. The GFOA believes the GASB has no jurisdiction over performance measurement reporting. GFOA views SEA as a budget issue and not an accounting issue. Further, the GFOA called for the responsibilities of the GASB to be transferred to the FASB.

GFOA has not changed its mind even though the Financial Accounting Foundation that oversees the GASB and appoints the GASB members has concluded and reaffirmed the GASB as the jurisdiction to

establish GAAP for state and local government. The FAF has also agreed that the GASB can include SEA within its agenda. The GASB has moved ahead to issue a revised Concept Statement on SEA to establish a framework for voluntary reporting. The GASB has made it clear that it will not identify goals and objectives for governments or specify performance measures. The GASB is now receiving public comment on what should be included in voluntary guidelines for SEA reporting. At the same time, the GFOA and the 11 other organizations have formed a National Performance Commission to identify a principles-based framework for public sector performance measurement and management.

**In second research objective is addressed in Chapter 4.** Of the 46 local governments submitting performance measurement reports to AGA, 14 have received an SEA Certificate. Submitted reports were analyzed to see the extent the GASB sixteen suggested were present and the attainability of the suggested level of reporting quality. This study showed for all three years of scoring for all reports, participating governments as a whole consistently met criteria eight criteria (see Table 4.1 and Table 4.7). Report strengths were identifying the purpose and scope of the report, obtaining citizen and customer perceptions primarily through citizen surveys, and producing a report that was easy to access and easy to understand. Also, the areas most difficult to address included involving stakeholders in establishing goals and objectives, identifying resources used and efficiency, and aggregating and disaggregating data. The analysis indicates additional research needs to be done on how and the timing of when citizens should be involved in the performance measurement process. A literature review showed citizen involvement in identifying measures important to them as critical to improving report quality and citizen trust.

Two additional Tables of significance were prepared. Table 4.8 was prepared to show where those governments that received an SEA certificate excelled. The finding of strengths and areas of difficulty were fairly consistent with Table 4.1 and 4.7. However, Table 4.8 would be extremely useful to governments preparing a report or wanting to improve their report. By reviewing exemplary reports, governments can benefit from how other exemplary governments have produced a report. This researcher's review of exemplary reports show each had different approaches. Table 4.9 looks at reports submitted for two or more years in a row to see if reports significantly changed either positively or negatively. For the most part, those governments have submitted a report for more than one year, are SEA certificate recipients, and continue to produce quality reports. They have not changed their reports to respond to "the test."

Consistency in scoring from year to year, the continued participation in the program by a core group of governments, and a review of the AGA SEA training program, support a conclusion that the AGA has a credible program. An AGA surveyed program participants subsequent to the pilot year in 2004 and learned overall, the participants agreed their participation was beneficial and review criteria were valuable. There was some concern that the criteria and reviewers needed to be more flexible. In those

governments where the audit organization issued the report, concern was expressed about any inference this presented an issue relating to auditor independence.

This research concluded the sixteen suggested criteria are attainable as evidenced by 14 local governments receiving the certificate. At the same time, in that the program has not attracted more governments is an indication of the commitment of time and resources needed to prepare a report that meets 13 of the 17 criteria. Subsequent to this research, AGA established a bronze, silver, and gold level of recognition to encourage more governments to submit an SEA report for review and recognition. AGA also believes government can produce shorter reports that are also acceptable and worthy of recognition. At least one government has shown a report can be issued in less than 40 pages. The length of a report is for the issuing governments to decide. It is probable that governments outside the AGA program are aware that successful SEA reports can take many forms.

**Research objective 3 is addressed below.** Several of GFOA's objections to the GASB's involvement in performance measurement should be somewhat resolved by the issuance of Concept Statement No. 5 and by revisions to Concepts Statement No. 2 in November 2008. The GASB has made it clear it is not within their scope to establish: the goals and objectives of state and local government services; specific nonfinancial measures of service performance; or standards of service performance.

Research of several GFOA objections revealed important findings. Of the 46 reports submitted, only four were the government's budget. Clearly, the remaining 42 governments had a different communication report in mind. Of those, 22 used the terms SEA, Performance Measurement, or Progress report in the report title. Nine governments use the term "citizen" or "community" in the report title. The reports, as supported in research objective 2, were intended for citizens and users external to the government, and great care was taken to make the reports easy to access and understand.

The content of the submitted reports was clearly different than what one would expect to see in an annual budget document. The reports were prepared for ordinary citizens. The reports included financial and nonfinancial measures, charts, graphs, results of citizen surveys, and discussion on challenges. Unlike many governments annual budget, these reports did not contain listings and schedules of revenues and expenditures for multiple funds. The preparers understood that citizens are not professionally trained accountants, do not know, and are not expected to know technical fund terminology.

Another major difference between the submitted reports and the related budget for tested governments was the SEA report averaged 104 pages in length whereas, these governments annual budgets averaged 591 pages or an additional 487 pages. Such lengthy documents discourage citizen



use. That 42 of 46 governments chose to report performance outside the budget document suggest officials in those governments believe performance reports should not be limited to budget documents.

This research showed that measures reported by participating governments were chosen freely and reported as reflecting the priorities, interest, and culture of the community. Longitudinal data reported also supported that measures did not change thereby supporting the view that actions of the GASB had not usurped the policy-making responsibilities of elected officials. In many instances, the elected body issued the reports themselves and requested citizen feedback. Governments looked to sources outside their own community to see how other governments have measured services provided and have filtered and integrated those measures as applicable to the culture and interest of their own community.

This research did not support GFOA's view that performance measures clearly fall outside the purview of accounting and financial reporting, as those disciplines have been traditionally and commonly understood. The FAF has addressed that objection by recognizing SEA is within the jurisdiction of the GASB. Also, measuring the unique characteristics of government, where the focus is on services and not on profit, has been a topic receiving considerable focus, attention, and dialog in accounting for almost 40 years.

This research did not support the view that if the GASB were to require the issuance of SEA reports that would infringe on the unique prerogative of elected officials and appointed officials to set public policy. The research showed that elected and appointed officials in the governments issuing SEA reports were supportive of the reports being issued. In many governments, there were photos of the governing body, the governing body issued the report in its name, and the governing body was associated with the report when someone else in the government issued the report. In one instance the governing body presented performance measures for itself. In many instances they requested feedback from citizens on policies that should be addressed. In the literature reviewed, the expansive view was that government works best in a democracy when it is "we the people."

This research supports the GFOA assertion that to verify or obtain some type of independent verification of data would result in additional cost. The GFOA recommended internal auditors for the task. As many governments do not have internal audit departments, additional research and experimentation needs to occur to identify acceptable ways to increase citizen assurance that the data can be relied upon.

The last issue identified was GFOA's view that the GASB has confused the terms accounting and accountability. It is clear the two organizations are using different definitions for the same term. The GFOA sees accounting, traditional transaction based accounting, as only part of accountability. The other two parts are budgeting and the public-policy-making process. On the last two parts, the GFOA

believes the GASB has no authority or responsibility to set standards. Therefore, to GFOA the GASB has defined accountability too broadly. The GASB views accountability broadly as the cornerstone on which all financial reporting objectives should be built. The GASB views its stakeholders of report preparers and report users of equal importance. In the GASB framework the end result should always be the citizen's right to know and the government's duty and responsibility to explain.

In summary, this research has shown that theory related to the need for government to report on its performance with both financial and nonfinancial information goes back over 100 years. This history significantly predates the establishment of the GASB and its efforts to address performance measurement. In addressing this issue, the GASB has nurtured SEA reporting by calling for experimentation and conducting research for almost 25 years. The GASB has sought to manage the ambiguities inherent in SEA.

The research has shown SEA reporting criteria are attainable as demonstrated by several governments participating in the AGA SEA certificate program. At the same time, SEA reporting has not received widespread acceptance and consistency in reporting in local government. Additional research is needed to identify whether the lack of reporting is related to resource availability, the lack of a model reporting format, reluctance to report by management and/or elected officials, or a lack of demand on the part of citizens. It could be that citizens are not aware such information exists or could be provided with some additional effort.

If governments continue to believe SEA should be reported in the budget, ways have to be identified to allow "an ordinary citizen" to be able to access and easily understand the information. This research supports the need for "accountability reports" whether defined by GFOA or the GASB and within the framework of General Purpose External Financial Reporting. These research issues have significant implications for public administration, governmental accounting, budgeting, policymaking, accountability, and citizenship.

There is a need for additional dialog and trust.

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# **BIOGRAPHICAL SKETCH**

## **SAM MICHAEL MCCALL**

### **Professional Experience**

City of Tallahassee, City Auditor, 1999 to present

As one of the four officials appointed by the City Commission, the City Auditor is responsible for directing audits of City programs, activities, and functions. The City has over 2800 employees and an operating budget of over \$800 million.

Florida Office of the Auditor General, 1969-1999

Began a professional career as a junior public accounts auditor and was progressively promoted to the level of Audit Manager in 1985. In 1986 promote to the position of Deputy Auditor General and assisted in managing the fourth largest state audit organization in the nation.

### **Education**

University of West Florida, Bachelors in Accounting, 1969

Florida State University, Master of Public Administration, Emphasis in Program Evaluation, Quantitative Methods, and Government Financial Management, 1987

Florida State University, Certificate in Public Financial Management, 1987

Florida State University, Doctor of Philosophy, Emphasis in Government Financial Management, 2009

### **Professional Certifications**

Certified Public Accountant (CPA), Certificate No. 5187 issued by the Florida State Board of Accountancy

Certified Internal Auditor (CIA), Certificate No. 15719 issued by The Institute of Internal Auditors

Certified Government Auditing Professional (CGAP), Certificate No. 463 issued by The Institute of Internal Auditors

Certified Government Financial Manager (CGFM), Certificate No. 596 issued by the Association of Government Accountants

### **Professional Recognition and Awards**

Florida State University, H. Odell Waldby Award for Outstanding Master of Public Administration Student, 1987-88

Florida State University, Distinguished Public Administration Alumnus Award, 1990-91

American Institute of Certified Public Accountants, Outstanding CPA in Government Award, 1997

Association of Government Accountants, National Presidents Award as a Member of the Certified Government Financial Management (CGFM) Board, 1997

State of Florida, Senate Resolution for Accounting and Auditing Contributions to the State of Florida, 1998,

Certificate of Appreciation from Acting U.S. Comptroller General of the United States for Service on the Advisory Council on Government Auditing Standards, September 1998

Association of Government Accountants, State and Local Government Excellence in Government Leadership Award, October 1999

City of Tallahassee, Proclamation for Contributions to Government Financial Management and Auditing, 2000

North Florida Chapter of the American Society of Public Administration, Public Administrator of the Year, 2000  
Association of Government Accountants, National Presidents Award for Contributions to AGA and for Establishing an AGA Chapter in Tallahassee, 2001  
Certificate of Appreciation from Comptroller General of the United States for Service on the Advisory Council on Government Auditing Standards, November 2002  
Association of Government Accountants, National Presidents Award as a Member of the Certified Government Financial Management (CGFM) Board, 2003  
Association of Government Accountants National President 2005-2006  
Association of Government Accountants, Robert W. King Memorial Award (AGA's Highest Award), 2008  
The Tallahassee Chapter of the Institute of Internal Auditors, Lifetime Achievement Award, 2008

**Memberships (Served as Member, and also as an Officer, and/or Board Member for many. Positions held available upon request.)**

Appointed by Comptroller General of the United States to the Advisory Council on Government Auditing Standards, 1991-1998 and 2000 - 2002  
Governmental Accounting Standards Advisory Council (GASAC), Represented the National Conference of State Legislatures to Advise the Governmental Accounting Standards Board (GASB), 1997 - 1999  
National Conference of State Legislatures (NCSL), 1993 - 1999  
NCSL - National Legislative Program Evaluation Society (NLPRS), 1985 - 1995  
NCSL - National Association of Legislative Fiscal Officers (NALFO), 1993-1999  
National State Auditors Association (NSAA), 1986 - 1999  
American Accounting Association, Government and Non-Profit Sections, 1998 - 2000  
American Institute of Certified Public Accountants (AICPA), 1976 to present  
Florida Institute of Certified Public Accountants (FICPA) 1986 to present  
The Institute of Internal Auditors (IIA) 1988 to present  
Association of Government Accountants (AGA) 1984 to present,  
Association of Local Government Auditors 1999 to Present  
American Society of Public Administration, 2000 to present  
National Association of Local Government Auditors, 2000 to present  
Government Finance Officers Association, 2000 to present  
AGA, The Academy for Government Accountability, 2006 to present

**Presentations, Consultations, and Speaking Opportunities**

Presentations have been made to professional organizations at the federal, state, local government level, and internationally. Has been a guest lecturer for university classes. Have spoken at many meetings and conferences. Have addressed a wide range of topics to more than 100 professional organizations. Topics include: Government Auditing Standards, Government Accounting Standards, Internal Auditing, and Federal, State and Local Government Performance and Accountability, and ethics in government.

Made international presentation in Moscow to Russian Chamber of Accounts and Russian Treasury on State and Local Government Auditing. Also made two additional presentations to these bodies in Washington DC, and one presentation in Tallahassee. Traveled throughout Germany in National Conference of State Legislatures "Partners in Parliament Program." Met in London with Institute of Internal Auditors Guidance Task Force to obtain European comments on the future of internal auditing. Consulted with the Office of the State Comptroller of New York on Office independence under Government Auditing Standards.

## Articles and Papers

- State Legislative Performance Audit Organizations: A Comparison to the U.S. General Accounting Office* (Master of Public Administration Final Report Issued March 1988 and distributed to over 40 states)
- Florida CPA Today: *Internal Auditing in Florida State Government*, December 1989
- Florida CPA Today: *GASAC Update: Council Meets to Discuss Yellow Book, Suggest Revisions*, August 1992
- Florida CPA Today: *State Grant and Aid Appropriations, Auditor General Issues New Rules*, September 1992
- Florida CPA Today: *Revised Government Auditing Standards*, December 1994
- Florida CPA Today: *Auditing and Reporting on Compliance Under Government Auditing Standards*, July 1997
- Florida CPA Today: *Internal Auditor Independence and Ethics*, October 1997
- Florida CPA Today: *The Course for the Future of Internal Auditing*, August 2001
- Florida Government Finance Officers Association Quarterly Newsletter
- Institute of Internal Auditors, IIA Today, *State Internal Auditing*, March 1990
- Institute of Internal Auditors. *Model Internal Audit Legislation for State Governments*, Issued March 1993 to 50 States (updated 2003 to include local governments)
- Internal Auditor, *The Auditor as Consultant*, December 2002
- Internal Auditor, *Professional Guidance – IIA and GAO Independence Issues*, August 2003
- National Association of State Auditors, Comptrollers and Treasurers Quarterly Newsletter
- National Conference of State Legislatures: *State Legislatures Magazine - Y2K Snarls Could Show Up on State and Local Audits*, March 1999
- National Legislative Program Evaluation Society Quarterly Newsletter
- National Association of Legislative Fiscal Officers Newsletter
- Association of Government Accountants. *The Government Accountants Journal. AGA's Task Force Report on Performance Auditing*. AGA Blue Ribbon Task Force Members. Summer 1993
- Association of Government Accountants - *Journal of Government Financial Management. Reconciling "Consulting" Under GAO and IIA Audit Standards. Fall, 2003.*
- Association of Government Accountants - *Journal of Government Financial Management. Confronting the Perplexing Issues of SEA Reporting. Fall, 2005.*
- Association of Government Accountants - *Journal of Government Financial Management. Strengthening the Foundations of the Accountability Profession. Winter, 2006.*
- Association of Local Government Auditors – *Local Government Auditing Quarterly.*
- Financial Management Theory in the Public Sector, 2004, *Should Financial Reporting by Government Encompass Performance Reporting?* William Earle Klay, Sam M. McCall, and Curtis Baynes book chapter contributors, Praeger Publishers, Westport, Connecticut, London.
- Encyclopedia of Public Administration and Public Policy, 2005, *Performance Reporting*. William Earle Klay and Sam M. McCall, Dekker Encyclopedias.
- McCall, S.M., *Reaching the next level in SEA reporting. Leadership & Performance Management in Government*. The Association of Government Accountants. 2008, 67-80.
- Klay, W.E., and S. M. McCall (planned 2010). *The Uncertain Future of Performance Reporting. Journal of Public Budgeting, Accounting and Financial Management*. Accepted for publication in 2010.

## Review of Books and Journals

Reviewed the Manuscript for *Handbook of Practical Program Evaluation* by Harry Hatry, Kathryn Newcomer, and Joe Wholey. Jossey-Bass Publishers, Inc., 1994

Reviewed Two Articles for the *International Journal of Public Administration* for a Special Issue on Service Efforts and Accomplishments Reporting, 1993