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Confronting the



Service Efforts and Accomplishments (SEA) Reporting is a concept with a long history. It was pioneered in the early 20th century by the founders of the New York Bureau of Municipal Research, who pushed for information about service accomplishments to be connected to cost information and reported to government officials and taxpayers.¹ A century later, though, efforts to link SEA reporting to the more traditional dimensions of financial reporting are giving rise to some perplexing issues. Our purpose here is to help clarify these issues, to offer thoughts on addressing them and to encourage research.

Perplexing Issues of SEA Reporting

We also believe that AGA's Certificate of Excellence in Service Efforts and Accomplishments Reporting Program may help resolve some of the most challenging issues of SEA reporting.

In the 1970s, several organizations, such as the American Institute of Certified Public Accountants (AICPA), the National Council on Governmental Accounting (NCGA), the U.S. General Accounting Office (GAO) and the Financial Accounting Standards Board (FASB), began to recognize that financial reporting for government and nonprofit organizations was not adequate if it did not include performance information. When the Governmental Accounting Standards Board (GASB) was established in 1984, it soon explored ways to encourage and accomplish the reporting of service efforts and accomplishments.

In its first concepts statement, *Objectives of Financial Reporting* (1987), GASB indicated that one of the objectives is to "... provide information to assist users in assessing the service efforts, costs and accomplishments of the governmental entity."² In GASB's Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting* (1994), the board stated that including SEA measures within the context of general purpose external financial reporting (GPEFR) "would represent a significant improvement in financial reporting practices for state and local governmental entities."³ GASB has since implemented a research agenda to explore ways to accomplish SEA measurement and reporting. Several state and local governments have partnered with GASB in this effort.

Building upon its experience with federal agencies in its Certificate of Excellence in Accountability Reporting (CEAR) Program, AGA has taken a leading role in advancing SEA reporting in state and local governments through research and its Certificate of Excellence in Service Efforts and Accomplishments Reporting (COE in SEA Reporting) Program. Nevertheless, GASB's activities relative to SEA reporting are triggering much consternation.

The Government Finance Officers Association (GFOA) has voiced several objections to GASB's involvement in matters related to SEA reporting.⁴ The objections relate to the scope of financial reporting and of GASB's span of authority, to the implications of SEA reporting for auditing processes and costs, and to the possibility that an authoritative pronouncement by GASB on SEA reporting might infringe upon the policy-making prerogatives of state and local government officials. GFOA

prefers that performance measurement be conducted and communicated in the context of budgetary processes.

In 1998, an advisory board, the National Advisory Council on State and Local Budgeting (NACSLB), issued a set of recommended practices for budgeting. The NACSLB recommended that performance measures should be reported in the budget document, be used to guide resource allocation decisions and may be reported in separate management reports or reports to citizens.⁵

NACSLB and GASB, however, are very different organizations. NACSLB permanently adjourned following the issuance of its recommended practices, with council members stressing that "... practices should not be regarded as standards or requirements."⁶ No authoritative standards-setting body exists to establish standards for budgeting in state and local governments.

Only GASB could authoritatively define the reporting obligations of state and local governments to include the reporting of SEA. A decision by GASB to do so, however, might be actively opposed, thereby undercutting its authority. GFOA's objections serve to focus attention on the perplexing issues related to SEA measurement and reporting. The only apparent way to make progress on SEA reporting, while averting a future challenge to the authority of the standards-setting body for state and local governments, is to effectively address these issues.

Perplexing Issue: The Scope of GASB and of Financial Reporting

There are essentially two points of view on the scope of GASB—a "constrained perspective" and an "expansive perspective." Proponents of the constrained perspective assert that GASB's standards-setting authority is limited to pronouncements related to the development and reporting of information that is rooted in financial transactions, the traditional subject matter of generally accepted accounting principles (GAAP). Reporting service performance requires the development and dissemination of information that is well beyond the traditionally defined scope of accounting and is therefore, according to this perspective, beyond the scope of GAAP and of GASB.

To date, the authoritative statements issued by GASB, and by its private sector counterpart FASB, have dealt primarily

We believe that the responsibility of government managers to meet the information needs of stakeholders warrants serious consideration of the expansive perspective. We also believe that the warnings of possible impairment of the integrity of financial reporting should be heeded. If governments are to report SEA information, ways must be found for them to do so that do not compromise transaction-based financial reporting. Finding these ways should be a priority for research and experimentation.

with transaction-based information. When accountants use such information to report the financial performance of for-profit firms, they reveal their profitability. Profitability is the key measure of a firm's performance—its revenue-generating accomplishments relative to the costs of its efforts.

On the other hand, the transaction-based information that can reveal the financial performance of not-for-profit and government organizations is inherently insufficient to reveal their accomplishments relative to efforts. This dilemma has been recognized by both FASB and GASB. Efforts to resolve the dilemma have led to an "expansive perspective" regarding the scope of GASB with governments, and of FASB with not-for-profit organizations. Proponents of the expansive perspective assert that the standards-setting authority of GASB and FASB should encompass the development and reporting of transaction-based information and of other forms of information that are necessary to reveal performance. The expansive perspective maintains that the financial reporting standards for government and not-for-profit organizations should obligate their officials to report accomplishments relative to efforts, just as the standards for-profit organizations obligate their officials to report accomplishments relative to efforts.

Advocates of the expansive perspective assert that financial reporting standards should encompass SEA information to better serve stakeholders, especially taxpayers. Advocates of the constrained perspective assert that expanding the standards could undermine the reputation and legitimacy of financial reporting. Both assertions are of great importance.

Perplexing Issue: Options for Reporting SEA Information

Advocates of the constrained perspective are concerned that requiring SEA measures in government financial reports would necessarily involve a government's independent auditor. This, they believe, could swell audit costs and engender unfavorable audit opinions. One way to avert these consequences is to establish a readily understood demarcation between the reporting of the transaction-based information about which the independent auditor is to issue an opinion and the reporting of performance information that is derived largely from other sources.

Under currently accepted accounting principles, two types of information are reported: "primary" and "secondary."

Primary information is central and requisite to the issuance of the auditors' opinion. Secondary information is reported to help the reader better understand the financial statements, but it is not essential to the auditors in issuing their opinion. Secondary information is reviewed by the auditor for consistency with information presented in the basic financial statements. Requiring SEA information to be reported in the financial statements themselves (or in the notes to the financial statements) would not accomplish the requisite separation. Inclusion in financial statements would require auditors to review all material steps in the collection of SEA data just as they do with information generated from financial transactions.

Several alternatives exist for reporting SEA information. Existing parts of governments' Comprehensive Annual Financial Reports (CAFRs) could be redesigned to include SEA information, an additional SEA-oriented element could be added to the CAFR, or one or more reporting formats that would be entirely separate from the CAFR could be authorized. The Management Discussion and Analysis (MD&A) section, for example, could be redesigned to include performance information. Currently, auditors have a responsibility to look at MD&A information and to make appropriate inquiries about it. Auditors, however, do not audit the information nor express an opinion on it. In practice, though, auditors have discouraged management's inclusion of MD&A information that they believe is too far from the scope of the auditors' audits. This fact suggests that efforts to alter the MD&A section to include SEA information would be highly controversial.

The Required Supplementary Information (RSI) and notes to the financial statements support and explain the data in the financial statements. The external auditor has the same responsibility for RSI as for the MD&A section, however, so inclusion of SEA information as RSI would likely be as controversial as its inclusion in the MD&A section. For SEA information to be included as RSI (or in the MD&A section) within CAFRs, independent auditors of financial statements would have to be specifically exempted from responsibility for reviewing the SEA information.

The statistical section of the CAFR currently provides social and economic data and financial trends. The auditor has no responsibility for reviewing any of this information or the systems used to collect or report it. The auditor expresses no opinion on the information. This makes the statistical section of the CAFR a promising alternative for reporting SEA

information. If GASB decides that CAFRs should include SEA information within their statistical sections, governments would be expected to provide performance data, but the auditors of the financial statements would be relieved of responsibility for reviewing or issuing opinions about it. Finally, GASB could require a SEA report as a new element in the CAFR.

It might be wiser, however, to separate SEA reports from the context of the CAFR. Advocates of the constrained perspective perceive the CAFR, not incorrectly, as the purview of accountants. Any requirement to report SEA information within CAFRs seems likely to spur opposition. GASB, instead, could decide that the financial reporting responsibilities of governments obligate them to report SEA information, but allow (even recommend) that they do it in a report that is separate from the CAFR. The separate SEA reports would be considered to be required financial reports, essential to inform citizens and others about performance relative to efforts, but not subject to audit by the independent auditors of the CAFRs.

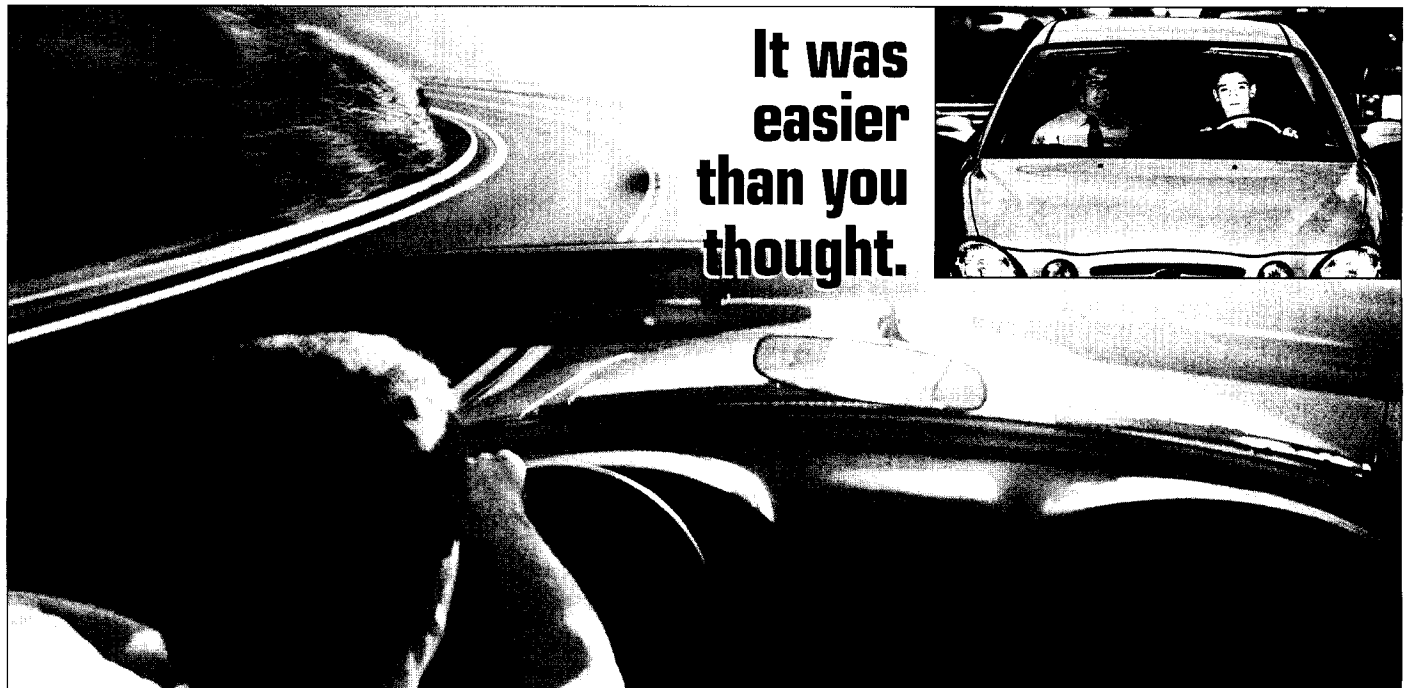
The practices of the charter volunteers for the AGA's COE in SEA Reporting indicate that the separate report format has merit. Six of the seven participating counties and 10 of the 11 cities use a separate SEA report. The other two report SEA information within their budgets. The variation in the reporting methods used by these governments suggests that leeway should be provided to enable governments to tailor SEA reports to their specific situations. Clearly, much research is needed to better understand the pros and cons of the different ways in which SEA information might be reported. Studying the experiences of those governments that are deemed worthy of the AGA's Certificate of Excellence might be especially productive.

Perplexing Issue: Containing Costs While Assuring Credibility of SEA Information

Separating SEA reports from CAFRs, and from the independent auditing processes directed toward the CAFRs, would not relieve governments of their obligation to assure the credibility of SEA information. GASB conducted a series of focus groups with citizens in several locales. The citizens indicated that they want performance information to be independently verified. One of GASB's suggested criteria for SEA reporting addresses the importance of assessing the reliability of reported performance information. The GFOA has stressed the need to verify performance information and indicated that internal auditing procedures should be sufficient.

Standards for the auditing of service accomplishments have been enumerated by the U.S. Government Accountability Office (formerly General Accounting Office) in its *Yellow Book*, formally titled *Government Auditing Standards*.⁸ The internal audit staffs of state governments and larger local governments should be well versed in *Yellow Book* standards and procedures. Conforming to *Yellow Book* standards, though, can be costly. If GASB decides to require SEA reporting, the *Yellow Book* procedures will need to be addressed by researchers and practitioners from several standpoints, most notably from the perspective of containing costs while still assuring the credibility of performance claims.

Small governments are especially challenged by SEA reporting because they often lack significant internal audit capacity. Small governments need to find cost-effective ways to measure, report and assure citizens of the quality of SEA data. Separating SEA reports from CAFRs should help to contain costs.



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The separation option could allow governments to devise alternate review mechanisms, such as independent citizen review boards, to review the credibility of SEA data. Seen in this context, the AGA's COE in SEA Program might well play a vital role—informing citizens, in a cost-effective manner, that their government's accountability reporting program has been subjected to professional peer review. In short, top research priorities center on cost-containment, on SEA reporting in small governments, and on alternative ways to ascertain the credibility of SEA information when it is reported.

Perplexing Issue: Policy-Making Autonomy

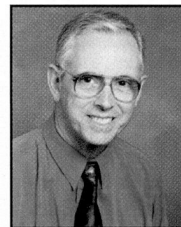
Critics argue that mandatory SEA reporting will infringe on the autonomy of state and local governments. They fear that GASB-approved performance measures would pressure governments to alter their policies. For example, if prescribed performance measures placed more emphasis on road condition than traffic-handling capacity, governments might do more repaving while neglecting system expansion. Existing GAAP are designed to influence some policies of governments. GAAP encourage governments to become more transparent and to become less prone to engage in such illusory practices as underfunding post-employment benefits or postponing the recording of expenses to help "balance" an annual budget. SEA measures, however, have greater potential to alter governments' substantive policy decisions. Accordingly, GASB must take care to assure that the processes of informing citizens about their governments' performance do not infringe upon the prerogative of governments to decide substantive policy. The purpose of SEA reporting is to enhance accountability for the accomplishment of policies freely decided by elected officials.

So far, GASB has moved toward defining characteristics of good performance criteria rather than toward prescribing specific criteria. That approach seems wise. If diligently and carefully pursued, the result might be a framework that would encourage rigor in performance reporting while retaining the requisite autonomy of government officials to decide substantive policy. An authoritative declaration that governments are obligated to report SEA need not be accompanied by prescribed performance criteria. This means, therefore, that research is needed to enhance the creation of a performance measurement and reporting framework that enhances rigor while retaining substantive policy autonomy for governments.

In conclusion, the ongoing efforts to expand the responsibility of governments to report their accomplishments relative to their efforts are of great importance. Success could foster greater accountability for performance. Critics of these efforts, though, have voiced some important reservations that deserve careful consideration. Only carefully framed research and experimentation in practice can resolve the perplexing issues of SEA reporting. █

End Notes

1. Schacter, Hindy Lauer. "Democracy, Scientific Management and Urban Reform: The Case of the Bureau of Municipal Research and the 1912 New York City School Inquiry," *Journal of Management History*, v.1, no. 2, 1995, pp. 52-64.
2. GASB, *Objectives of Financial Reporting*, Concept Statement No. 1, May 1987.
3. GASB, *Service Efforts and Accomplishments Reporting*, Concept Statement No. 2, April 1994.
4. Government Finance Officers Association, *Performance Measurement and the Governmental Accounting Standards Board*, policy statement adopted June 18, 2002, accessed at www.gfoa.org/services/policy/gfoapp1.shtml#plact12; see also *Service Efforts and Accomplishments Reporting*, policy statement adopted June 23, 1993, accessed at www.gfoa.org/services/policy/gfoapp1.shtml#plact6.
5. National Advisory Council on State and Local Budgeting, *Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting*, Copyright 1998 by the Government Finance Officers Association, p. 33.
6. *Ibid.*, p. 8.
7. Information about the charter volunteers for the AGA's Certificate of Excellence can be accessed at: www.agacgfm.org/performance/sea/.
8. Available online at www.gao.gov/



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