



Standards Watch

Enhancing Government Accountability Through Financial Reporting

By: Robert H. Attmore, CGFM, CPA

SEA Performance Reporting

Many readers of this publication may be aware of the Governmental Accounting Standards Board (GASB's) long history of research on, and encouragement of, reporting on service performance results by state and local governments. You may not know, though, why GASB got involved in service efforts and accomplishments (SEA) reporting in the first place.

In the early 1970s, long before GASB's creation in 1984, accounting practitioners and academics realized that an essential component of financial reporting is non-financial information about the efficiency and effectiveness of an entity's operations. The American Accounting Association's (AAA) Committee on Concepts of Accounting Applicable to the Public Sector stated in 1971 that governments are accountable not only for financial results, but also for the efficiency and economy of their operations and the results of their programs and activities. The American Institute of Certified Public Accountants' (AICPA) Trueblood Committee concluded in 1972 that, "An objective of financial statements for governmental and not-for-profit organizations is to provide information useful for evaluating the effectiveness of the management of resources in achieving the organization's goals."

The Trueblood Committee's conclusions were particularly influential on the development of the conceptual framework for standards setting by both the Financial Accounting Standards Board (FASB) and GASB. By the time GASB began work on its Concepts Statement No. 1, *Objectives of Financial Reporting*, it had the benefit of building on a foundation already partially formed by the AAA and AICPA and the FASB's research and concepts statements on nonbusiness organizations.

The conceptual framework of GASB's immediate predecessor, the National Council on Governmental Accounting (NCGA), also was influential. In fact, the structural agreement that led to GASB's creation required GASB to adopt all NCGA Statements at inception, including its concepts statement. One of the six objectives identified in NCGA Concepts Statement 1, *Objectives of Accounting and Financial Reporting for Governmental Units*, was "To provide information useful for evaluating managerial and organizational performance." That objective included "evaluating the efficiency and economy of operations" and "evaluating the results of programs, activities, and functions and their effectiveness in achieving their goals and objectives."

Shortly after its creation in 1984, GASB picked up the SEA mantle. GASB has been a staunch supporter of experimentation with SEA reporting, beginning with a resolution it passed in 1985 encouraging state and local governments to give it a try. For over two decades GASB has fostered the growth and improvement of SEA reporting among state and local governments with extensive research on and dissemination of information about best practices. GASB's series of reports titled *Service Efforts and Accomplishments Reporting: Its Time Has Come* helped to advance the state of the art. The first publication in this series was issued in 1989. More recently, GASB published *Reporting Performance Information: Suggested Criteria for Effective Communication* and called on governments to experiment with them. AGA awards a Certificate of Excellence in SEA Reporting for high-quality SEA reports issued by governments that follow criteria incorporating GASB's suggestions.

The last phase of GASB's research, which included monitoring the AGA certificate program and other experience using the suggested criteria, ended in 2006. Based on what it has learned over more than 20 years of research, in April 2007 the GASB staff recommended that the board add a project to its technical agenda that would propose principles-based guidelines for voluntary reporting of SEA information. The staff also recommended a limited-scope update of GASB Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*, to reflect the knowledge GASB has accumulated in the 12 years since it was published in 1994.

Let me emphasize several points about the GASB staff's proposal:

- Governments would not be required to report SEA information as a result of this project; SEA reporting would remain voluntary.
- If a government wanted to report SEA information, it would not be required to follow the guidelines that may be promulgated by this project.
- The guidelines would not require the reporting of specific nonfinancial performance measures, establish the goals and objectives of a state or local government's programs or activities, nor establish target or benchmark levels of performance that should be met by government services—those clearly are the prerogatives of a government's elected and appointed officials, and should be based upon their expressed plans and priorities.

Since a primary role of governments is to provide services for the common good, rather than the business focus of generating wealth for owners, different performance accountability measures are needed to assess government accomplishments. Therefore, despite strong opposition from some government constituent groups, the board agreed with the GASB staff's recommendation to add an SEA project to its current technical agenda. Like all of GASB's agenda projects, the project on SEA reporting that was recently added will undergo rigorous and open due process. GASB decided to begin with a preliminary document, rather than an exposure draft of proposed guidelines. GASB will also provide ample opportunities for public input along the way and will endeavor to keep all constituents fully apprised of progress on the project.

Other Forthcoming Publications

GASB also has been working on a less publicized but equally important slate of projects. The board has been reviewing public comments on drafts of three proposed standards and a proposed concepts statement with an eye toward issuing final pronouncements in the second and third quarters of 2007. One standard would establish guidelines for when and how certain intangible assets, such as easements, water rights and internally developed software, should be reported as capital assets. A second standard would extend disclosure improvements made in GASB's standards for retiree health insurance and other postemployment benefits (OPEB) to pension benefits as well. The third standard

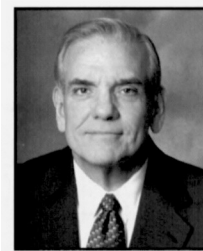
would establish more consistency in the reporting of land and other real property held as investments by requiring that endowment funds report such investments at fair value. Finally, GASB's fourth concepts statement will establish definitions for the elements of financial statements—such as assets and liabilities—that will guide the board's future standards-setting activities.

By the time this column is published, the board should have approved an exposure draft on derivatives. GASB is proposing standards that incorporate changes based on the comments we received in response to the preliminary views document we issued in April 2006. The board also expects to propose new standards for governmental fund type definitions and fund balance reporting later this year. The board has recently begun to deliberate over the constituent input provided regarding an invitation to comment we published on this project in October 2006.

Change of Board Members

Cynthia B. Green, Ph.D., and Edward J. Mazur, CPA, are completing their 10-year terms of service on GASB at the end of June. We are very grateful for their outstanding service and contributions to GASB, and we wish them only the best in their future endeavors. The Trustees of the Financial Accounting Foundation have appointed Girard Miller, CFA, and Jan Sylvis, CGFM, CPA, to five-year terms as members of GASB beginning July 1, 2007. Miller previously served as president of Janus Funds and chief operating officer of Janus Capital Group,

a leading global asset manager. Sylvis is the chief of accounts, Department of Finance & Administration, State of Tennessee, where she functions as state controller. Check the GASB website at www.gasb.org for additional information about the new board members. We welcome Jan and Girard to the GASB and look forward to working with them.



Robert H. Attmore, CGFM, CPA, a member of AGA's New York Capital Chapter, is chairman of the Governmental Accounting Standards Board.