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THE EXAMINATION OF SEVERAL FACTORS THAT HINDER THE IMPLEMENTATION OF STATE GOVERNMENT ACCOUNTING PRINCIPLES

by

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The Examination of Several Factors that Hinder the Implementation

of State Government Accounting Principles

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CHAPTER I

DEVELOPING ACCOUNTING PRINCIPLES FOR STATE GOVERNMENT

Introduction

Accounting principles for state government have been designed, but many have not been implemented. The objective of this dissertation is to identify and validate some of the reasons that state governments fail to implement accounting principles.

Accounting Principles

Accounting Principles Board Statement No. 4 identified generally accepted accounting principles when it was observed:

> Generally accepted accounting principles incorporate the consensus at a particular time as to which economic resources and obligations should be recorded as assets and liabilities by financial accounting, which changes in assets and liabilities should be recorded, when these changes should be recorded, how the assets and liabilities and changes in them should be measured, what information should be disclosed and how it should be disclosed, and what financial statements should be prepared.[1]

Even though generally accepted accounting principles (GAAP) is a term that is widely used in accounting literature, no definition is universally accepted. For the purposes of this paper the wording from *APB Statement No. 4* is acceptable since it illustrates the type of

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[1]"Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises," *APB Statement No. 4* (New York: AICPA, 1970), Par. 137.

items included in that term. The term "principle" is used in this paper, although others are available, because of its acceptance in the government accounting literature.[2]

Principles Development

Background

The accounting principles used by government entities differ from those used by commercial enterprises. Davidson et al.[3] attribute those differences to a publication of the Institute for Government Research prepared by Francis Oakey.[4] Since Davidson et al. believe that Oakey's principles form the basis for much of government accounting, they are included in Appendix A.

Oakey developed his principles for the controlling executive. The controlling executive establishes government policies from information provided to him by the chief accounting officer of the government.

Oakey also recognized two other types of users of government financial information. The first was the legislature.

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[2]National Council on Governmental Accounting, Exposure Draft GAAFR Restatement Principles (Chicago: Municipal Finance Officers Association, 1978), p. 1.

[3]Sidney Davidson, David O. Green, Walter Hellerstein, Albert Mandansky, and Roman L. Weil, Financial Reporting by State and Local Government Units (Chicago: The University of Chicago, 1977), pp. 16-25.

[4]Francis Oakey, Principles of Government Accounting and Reporting (New York: D. Appleton and Company, 1921).

> Since the legislative branch of a government is vested with the power of raising revenues, providing for bond issues and authorizing expenditures, it must have complete information as to the cost of carrying on the activities of the government and the resources that are available, or that may be made available, for meeting such cost.[5]

Oakey seems to assume that the major emphasis of the legislature is on the receipt and expenditure of monies.

Although writing over 50 years before it became popular to consider the public as an important user of government financial statements, Oakey recognized that need. he contended that the public uses government financial information to evaluate ". . . economy or extravagance with which operations have been conducted by the executive branch."[6] Oakey suggested that the public should receive a financial statement as free from technicalities as possible.

His report explores in detail the needs of the internal user of government financial information. The public financial statement is not described. This focus on the internal government user is different from that held by most current accounting organizations. Their primary focus seems to be on the external user.

If we accept Davidson's argument that Oakey's principles provide much of the basis for current government accounting practice, then it follows that the foundation of present government accounting is predicated upon the failure to recognize the different classes of users

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[5]Ibid., p. 11.

[6]Ibid., p. 15.

suggested by Oakey.

Present-Day Organizations

There are several organizations currently engaged in efforts to improve government accounting practices.

Financial Accounting Standards Board

The Financial Accounting Standards Board (FASB) is the organization responsible for setting commercial accounting standards. Government accounting, however, is affected in two areas by the FASB. First, the accounting standards for commercial enterprises are in some cases applicable to government. The second area of action involves the conceptual framework studies initiated by the FASB.[7] The remainder of this section on the FASB describes the significance of the FASB's standards and conceptual framework for government accounting.

Professional accounting has for several years attempted to develop the "grand design of accounting theory upon which all else would rest."[8]

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[7] Robert N. Anthony, Financial Accounting in Non-Business Organizations: An Exploratory Study of Conceptual Issues (Stamford, Connecticut: FASB, 1978). The conceptual framework study for commercial accounting, since it is expected to serve as the theoretical basis for commercial accounting standards of the FASB, may also affect government accounting. See also: Financial Accounting Standards Board, Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement: Discussion Memorandum (Stamford, Connecticut: FASB, 1976).

[8] American Institute of Certified Public Accountants, Report of the Study on Establishment of Accounting Principles (New York: AICPA, 1972), p. 15.

The efforts toward that end have taken several forms.

The standards or principles development started with the Accounting Research Bulletins (ARB). The ARBs were followed in 1959 by the Accounting Principles Board (APB) Opinions. The Accounting Research Bulletins and the APB Opinions were issued by professional accountants operating as a component of the AICPA. The releases were criticized on several grounds by the Wheat Commission report issued in 1972.[9]

First, the use of part-time volunteers to set the principles presented problems. The volunteers, since they were practicing CPAs, were not always independent from clients and could not devote the necessary time essential for developing a comprehensive foundation for accounting. Second, the use of CPAs to set accounting principles, the Wheat Commission suggested, precluded the consideration of a broader decision base and the use of a greater variety of skills in the development process.

The FASB was established to provide a full-time organization representing a broader base of financial interests than that found in the AICPA. The FASB Standards are a continuation of the process begun with the ARB and the APB Opinions.

The conceptual framework studies are a continuation of the search for a theoretical foundation initiated by the early research studies

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[9]AICPA, Establishment of Accounting Principles, pp. 15-16.

by Moonitz, and Sprouse and Moonitz.[10] The studies, then and now, were designed to develop a basis for accounting which could then be used to support the bulletins, opinions, or standards.

The activity described in the preceding discussion became formally applicable to government accounting in the AICPA Audit Guide for State and Local Governments. The audit guide provides that the APB Opinions, although developed for commercial enterprises, are also applicable to government organizations.[11] The standards of the FASB also are applicable.

The FASB and its predecessor organizations were primarily concerned with accounting for commercial enterprises when the Bulletins, Opinions, or Standards were released. This has changed. In 1977, the FASB engaged Professor Robert N. Anthony, the author of several texts on government financial management, to examine the conceptual issues of financial accounting for non-business organizations. That report was released in May of 1978.[12]

The Accounting Research Bulletins, APB Opinions, and FASB Standards are not included in the appendix due to their volume and widespread

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[10] Maurice Moonitz, The Basic Postulates of Accounting (New York: AICPA, 1961); Robert T. Sprouse and Maurice Moonitz, A Tentative Set of Broad Accounting Principles for Business Enterprises (New York: AICPA, 1962).

[11] American Institute of Certified Public Accountants' Committee on Governmental Accounting and Auditing, Audits of State and Local Governmental Units (New York: AICPA, 1974), pp. 140-57.

[12] Anthony, Nonbusiness Conceptual Issues.

availability.

National Committee on Accounting Principles of the Council of State Governments

The National Committee on Accounting Principles of the Council of State Governments is representative of several organizations that are involved with the needs of financial management officials of state government.[13] The activity of these organizations is oriented toward providing a forum for discussion and for analysis of various solutions to problems for the state officials. These officials can then apply the knowledge gained to the administration of their respective state governments.

The Council of State Governments has the widest representation of the organizations in this category. It provides a forum for governors, legislators, and other state officials to discuss state government needs.

The National Governors Association has a Committee on Executive Management and Fiscal Affairs that establishes policy for that organization regarding financial and managerial issues.

The legislative side of government is represented by the National Conference of State Legislatures. It explores concerns of a financial and managerial nature.

There are also organizations comprised of state officials which

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[13] Jonathan S. Gaciole, "Financial and Management Related Programs of State Government Professional and Public Interest Organizations," The Government Accountants Journal, 26 (Winter 1977-78): 58-60.

examine topics relating directly to a specific aspect of financial concern. Examples of this type of organization are the National Association of State Budget Officers and the National Association of State Information Systems.

National Committee on Governmental Accounting

The National Committee on Municipal Accounting was founded in 1934 by the Municipal Finance Officers Association.

> The aims of the National Committee were:
> --To set up principles and standards of municipal accounting;
> --To develop standard classifications and uniform terminology for accounts and reports;
> --To carry on an educational campaign to sell these principles and standards to governmental fiscal and accounting officers to the end that they would adopt them.[14]

The original committee consisted of the chairman of each of ten advisory committees set up by ten organizations to support the National Committee on Municipal Accounting. The name was changed in 1949 from the National Committee on Municipal Accounting to the National Committee on Governmental Accounting.[15] The advisory committees were designed so that the many organizations concerned with government accounting could provide input into the project. Among the organizations represented are the American Accounting Association, the American Institute of

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[14] Joseph M. Lowery, "The Role of Governmental Accounting in the 1970's," Municipal Finance, 42 (February 1970): 112.

[15] National Council on Governmental Accounting, Working Draft GAAFR Restatement: Introduction and Principles (Chicago: Municipal Finance Officers Association, 1977), Chapter 2, p. 53.

Certified Public Accountants, the International City Managers Association, and the National Municipal League.

The Committee has undertaken several projects that have resulted in statements of accounting principles for government. The first was released in 1934. It was the _Tentative Outline--Principles of Municipal Accounting_. This was followed in 1951 by _Municipal Accounting and Auditing_ and in 1968 by _Governmental Accounting, Auditing and Financial Reporting_. Each time an update of the principles occurred (1934, 1951, and 1968), the advisory committee format was adopted. The number of advisory committees contributing to the revised principles was expanded each time to involve additional organizations in the development process (1934, 10 committees; 1951, 11 committees; and 1968, 15 committees).

On March 31, 1977, a working draft was released as the National Council on Governmental Accounting again updated the accounting principles for government.[16] Appendix A contains the 1968 principles and the proposed principles from the working draft.

Committee on Concepts of Accounting Applicable to the Public Sector 1970-71

This committee was formed effective August 1970, by the American Accounting Association. A report of its findings was released in the _Accounting Review Supplement_ for 1972.[17]

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[16]Ibid., Chapter 2.

[17]American Accounting Association, "Report of the Committee on Concepts of Accounting Applicable to the Public Sector, 1970-71," _The Accounting Review_ (Supplement to Vol. 47): 76-108.

The committee was charged with the task of examining the concepts of government accounting. The task was determined to be an identification and explanation of the existing concepts of government accounting rather than the formulation of new concepts.

A significant assumption was made as a starting point for the committee's work. "The committee accepted the basic standards set forth in _A Statement of Basic Accounting Theory_[18] as being authoritative for both the public and private sectors."[19]

Several unique aspects of the public sector were recognized by the committee. The first of these is the authority over the governed that public officials are granted. The authority was described as the following:

> 1) The authority to enact legislation by which the constituency must abide.
>
> 2) The authority to levy taxes to support the activities of government.
>
> 3) The authority to conduct monopoly enterprises in certain operations where charges are made to the users of certain services or products based upon the amount of service or product received. (e.g., public utilities).[20]

The committee also pointed out that public-sector organizations have a series of other characteristics that distinguish them from profit-

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[18] American Accounting Association, _A Statement of Basic Accounting Theory_ (Chicago: American Accounting Association, 1966).

[19] American Accounting Association, "70-71 Public Sector Committee," p. 78.

[20] Ibid., p. 79.

making enterprises.

> 1) Contributors of resources receive no proportionate equity interest nor financial benefit from operations.
>
> 2) Performance of services is made on the basis of social need rather than the profit motive.
>
> 3) A framework of formal budgetary authorization and control is utilized.
>
> 4) Accountability to the public is essential because of public support through contributions and the privileges granted by society (e.g., tax-exempt status for non-profit organizations).[21]

The concepts the committee describes were designed to serve three types of financial statement users. The first two users are internal. They are the two divisions of government (legislative and executive) that share authority over financial and program development and review. The third type of user is the general public. The legislative and executive users receive their authority from and are accountable to the general public.

The concepts (see Appendix A for a detailing of the concepts) were oriented toward all three types of users. This differs from Oakey's concepts mentioned earlier that emphasized the needs of the internal (administrative) user.

A second major deviation from Oakey's report was the expansion of the entity concept.

> It should be noted, however, that the concept of a fund entity is explicitly oriented toward fiscal control and

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[21]Ibid.

the safeguarding of expendable resources, not toward management information nor operational accountability.[22]

Government accounting is to provide more than fiscal control, according to the committee. It should provide information for management decisions and permit a review of the operations of government. The entity is to be reflected in the responsibility center. There would be four types of public-sector entities predicated upon levels of responsibility. The reporting for each type of entity (government, organizational unit, program, and fund)[23] should be designed so that the responsibility of officials at that level can be determined.

The interest of the American Accounting Association in public sector accounting has manifested itself in projects other than that mentioned above. Other committees have issued reports contributing to the development of public sector accounting. The 1957 Committee on Governmental Accounting issued a "Tentative Statement on Government Accounting."[24] Two reports have been issued by the Committee on Not-for-Profit Organizations. The first by the 1972-73 membership was issued in 1974, and discussed the issues and needs of not-for-profit accounting.[25] This report examined the research and educational needs

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[22]Ibid., p. 86.

[23]A definition of each type of entity is contained in the American Accounting Association section of Appendix A.

[24]Harold Wright, "Tentative Statement on Government Accounting," <u>The Accounting Review</u>, 33 (April 1958): 209-13.

[25]American Accounting Association, "Report of the Committee on Not-for-Profit Organizations, 1972-73," <u>The Accounting Review</u> (Supplement to Vol. 49): 227-49.

of that sector of accounting. In the report issued in 1975 by the 1973-74 membership, the Committee on Not-for-Profit Organizations reviewed several issues dealing with the users and uses of accounting data.[26] Finally, the Committee on Accounting in the Public Sector 1974-76 issued a report in 1977 examining aspects of auditing.[27]

Financial Management Standards Board--Government Accountants Association

The Federal Government Accountants Association (FGAA) was incorporated April 27, 1951. Four objectives were contained in the initial charter:

--to unite professional accountants for constructive endeavors;
--to encourage and provide a means for free interchange of ideas;
--to aid in the improvement of accounting and auditing; and
--to contribute to the improvement of education.[28]

The purpose of the organization was to provide a forum for federal accountants to improve national government accounting. Early membership was restricted to accountants who were employed by the federal government. The by-laws were amended in 1972 to include accounting, auditing, and other financial personnel from state and

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[26]American Accounting Association, "Report of the Committee on Nonprofit Organizations, 1973-74," The Accounting Review (Supplement to Vol. 49): 3-39.

[27]American Accounting Association, "Report of the Committee on Accounting in the Public Sector," The Accounting Review (Supplement to Vol. 52): 33-52.

[28]The History Task Force, "The First Twenty-Five Years," The Federal Accountant, 24 (June 1975): 30.

local governments.[29]

The Federal Financial Management Standards Board has undertaken several projects relating to government accounting.[30] The projects listed below are examples of the organization's activity directed toward improving government accounting:

1. A code of ethics for federal financial personnel;
2. Accounting research in cooperation with the AICPA; and
3. Research relative to regulations proposed by the Cost Accounting Standards Board.

The FGAA is represented on the Board of the Financial Accounting Foundation and the FASB Advisory Council.

The History Task Force of the FGAA stated that in 1974 the FGAA was instrumental in the formation of a consortium to explore areas of mutual interest to the several organizations involved in government accounting.[31]

> In attendance were representatives of AICPA; American Society of Military Comptrollers; Council of State Governments; Municipal Finance Officers Association; National Association of State Auditors; Controllers and Treasurers; National Association of State Budget Officers; and the Post Audit Section of the National Legislative Conference.[32]

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[29] Ibid., p. 32.

[30] Ibid., p. 39.

[31] Ibid., p. 42.

[32] Ibid.

The list contains the names of many of the organizations that are discussed in this section as significant participants in current efforts to improve government accounting.

The FGAA, in recognition of the mutual interests of government accountants at all levels, has recently changed its name to Association of Government Accountants.

General Accounting Office

The Budget and Accounting Act of 1921 established the Bureau of the Budget within the Executive Office of the President and established the General Accounting Office as an arm of the legislative branch.[33] The Bureau of the Budget has been changed to the Office of Management and Budget (OMB).

Two events occurred in 1948 that were significant to accounting for the federal government. First was the issuance of a report by the Hoover Commission describing the "deplorable condition of the Federal Government's accounting methods and systems."[34] The second was the passage of a law by the eighty-first Congress when they acted upon the recommendations of the Hoover Commission.

Congress passed Public Law 784 containing a statement of its policies toward federal government accounting.[35]

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[33]Edward S. Lynn and Robert J. Freeman, Fund Accounting: Theory and Practice (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1974), p. 798.

[34]The History Task Force, "Twenty-Five Years," p. 29.

[35]Leon E. Hay and R. M. Mikesell, Governmental Accounting 5th Edition (Homewood, Illinois: Richard D. Irwin, Inc., 1974), pp. 471-72.

Sec. 111. It is the policy of the Congress in enacting this part that--

a) The accounting of the Government provide full disclosure of the results of financial operations, adequate information needed in the management of operations and the formulation and execution of the Budget, and effective control over income, expenditures, funds, property, and other assets.

b) Full consideration be given to the needs and responsibilities of both the legislative and executive branches in the establishment of accounting and reporting systems and requirements.

c) The maintenance of accounting systems and the producing of financial reports with respect to the operations of executive agencies, including central facilities for bringing together and disclosing information on the results of the financial operations of the Government as a whole, be the responsibility of the executive branch.

d) The auditing for the Government, conducted by the Comptroller General of the United States as an agent of the Congress, be directed at determining the extent to which accounting and related financial reporting fulfill the purposes specified, financial transactions have been consummated in accordance with laws, regulations or other legal requirements and adequate internal financial control over operations is exercised, and afford an effective basis for the settlement of accounts of accountable officers.

e) Emphasis be placed on effecting orderly improvements resulting in simplified and more effective accounting, financial reporting, budgeting, and auditing requirements and procedures and on the elimination of those which involve duplication or which do not serve a purpose commensurate with the cost involved.

f) The Comptroller General of the United States, the Secretary of the Treasury, and the Director of the Bureau of the Budget conduct a continuous program for the improvement of accounting and financial reporting in the Government.[36]

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[36]Ibid., p. 472.

Revenue sharing and specific grants to state and local governments have resulted in concern on the part of both O.M.B. and the Comptroller General, head of G.A.O., about the accounting principles used. As a result, both agencies have issued guidelines for accounting for federal government funds used by state and local governments. O.M.B. issued a series of Federal Management Circulars (FMC) that are to be used in accounting for federal funds. The Comptroller General issued _Standards for Audit of Governmental Organizations, Programs, Activities and Functions_ in 1972.[37] The G.A.O. also has a direct impact upon the accounting principles that are used by various federal agencies and, through them, an indirect impact upon state and local governments.

> The agency accounting system . . . is to be approved by the Comptroller General when deemed by him to be adequate and in conformity with the principles, standards, and related requirements prescribed by him.[38]

The practice of federal agencies setting accounting rules for the funds they are administering has resulted in the need for state and local governments to adopt their practices. Appendix A contains a listing of the accounting principles prescribed by the G.A.O.

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[37] Comptroller General of the United States, _Standards for Audits of Governmental Organizations, Programs, Activities and Functions_ (Washington, D.C.: United States General Accounting Office, 1972).

[38] Hay and Mikesell, _Governmental Accounting_, p. 472.

American Institute of Certified Public Accountants Committee on Governmental Accounting and Auditing

The AICPA has released a series of industry audit guides. The Committee on Governmental Accounting and Auditing in 1974 issued an industry audit guide for state and local government.[39] The AICPA audit guide is to be used by CPAs when they are conducting audits of state and local governments.

The audit guide adopts many of the accounting principles developed by the Municipal Finance Officers Association. The preface to the audit guide states that "proper use of this guide requires thorough knowledge of *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR). . . ."[40]

The use of the principles in GAAFR does not eliminate the application of the Accounting Principles Board (APB) or the successor FASB rulings to the government sector.

> GAAFR's principles do not represent a complete and separate body of accounting principles, but rather are a part of the whole body of generally accepted accounting principles which deal specifically with governmental units. Except as modified in this guide, they constitute generally accepted accounting principles.[41]

The rulings of the APB or the FASB are not reproduced in this document. The applicability of those rulings to the government sector

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[39] Committee on Governmental Accounting and Auditing, *Audits of State and Local Governmental Units* (New York: AICPA, 1974).

[40] Ibid., p. xi.

[41] Ibid., p. 9.

depends upon the type of government operation under consideration. The guide states that there are two broad categories of government operations.[42]

The first category is that of recurring operations that are not designed to produce a profit. Those operations are normally controlled through the budget. The second category is similar to commercial enterprises. This does not mean that it produces a profit but rather that it is essentially self-supporting. That is, the users of the service it provides are charged for the service so that the cost is not borne by the government tax base. The accounting principles for this type of government activity are the same as those for commercial enterprises.

The accounting principles for government operations that are not designed to be supported by users may still be governed by APB opinions or FASB standards. They may be used unless some aspect of government operations indicates that they are not appropriate.

The AICPA audit guide contains modifications to the GAAFR principles. For example, GAAFR provides that if there is a conflict between legal provisions and generally accepted accounting principles, the law takes precedence.[43] The AICPA guide states that "in financial reporting, in the event of a conflict between legal provisions and

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[42]Ibid., p. 7.

[43]National Committee on Governmental Accounting, Governmental Accounting, Auditing, and Financial Reporting (Chicago: Municipal Finance Officers Association, 1968), p. 4.

generally accepted accounting principles, the latter should take precedence."[44]

The proposed revision of GAAFR provides that in the case of conflict, it would be necessary to comply with both law and principles.[45] The audit guide does suggest that the accounting system incorporate information so that law and principle can be recognized in state financial reports.

Summary

A number of organizations have developed accounting principles for government. The Municipal Finance Officers Association, the General Accounting Office, and the Committee on Governmental Accounting and Auditing of the American Institute of Certified Public Accountants directly or indirectly are seeking implementation of their respective sets of principles by government entities. The mechanisms for implementation vary according to the organization.

The Municipal Finance Officers Association membership consists of the representatives of government who are the individuals responsible for accounting system management. This means that it can seek implementation through its membership. The recognition of their accounting principles by the AICPA also provides a means of seeking implementation.

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[44]Committee on Governmental Accounting and Auditing, Audit Guide, p. 12.

[45]National Committee on Governmental Accounting, Working Draft GAAFR Restatement: Introduction and Principles, Chapter 2, pp. 6-10.

The General Accounting Office depends upon the federal agencies that are managing funds distributed to state and local governments for implementation of its accounting principles. This might limit the application of its principles to federal funds since state or local governments could ignore them for self-generated funds.

The Committee on Governmental Accounting and Auditing of the AICPA depends on use of its principles by governments faced with opinion audits by CPAs. This is essentially the same mechanism used in the private sector. There is a difference in the strength of this mechanism since many government units are not audited by independent CPAs.

The Committee on Concepts of Accounting Applicable to the Public Sector of the American Accounting Association developed a listing of existing government accounting principles. Other committees of the AAA discussed the issues surrounding government accounting. The AAA is not pursuing the implementation of a specific set of accounting principles.

The FASB and its predecessor organization, the Accounting Principles Board, have largely focused upon the commercial sector. It does not, as a result, have principles specifically applicable to government. The applicability of the FASB's standards depends upon the similarities between the not-for-profit and the profit sectors.

The other organizations discussed (Council of State Governments and the Government Accountants Association) are not developing specific sets of proposals for improving government accounting. They are, instead, serving as educational and coordinating bodies attempting to obtain the improvement of government accounting through those efforts.

The differences in the goals, objectives, and methods of enforcing compliance of the various organizations may affect the ability of accountants to develop and implement a unified set of principles that would be used by government entities.

CHAPTER II

STUDIES OF THE APPLICATION OF ACCOUNTING PRINCIPLES

Introduction

The first chapter examined the work of several organizations engaged in efforts to improve government accounting. Several of those organizations prescribe accounting principles for government entities. Specific deviations from the government accounting principles mentioned in Chapter I are detailed in this chapter. Those deviations continue to exist in spite of the long time that some of the organizations have devoted to system improvement. The establishment that a problem exists in reporting, according to accounting principles, is a significant part of the foundation of this paper. It must first be established, if the factors that may contribute to that problem are to be examined.

This section also contains evidence from the literature regarding the significance of the need for improved accounting for government. In other words, it shows that, in addition to the existence of a problem in government reporting, the problem is one worthy of exploration. This consists of a presentation of evidence regarding the size and the consequences of government financial activity.

Overview

The failure to apply improved accounting and reporting principles to government units is mentioned at various times in the popular press. The reference in those cases is often related to all of the financial information that is made available by government units rather than an examination of the implementation of specific accounting principles. An example of such a reference is the following statement:

> Every 50 years or so, city and state financing fall apart, with awful consequences to business, investors, and today, taxpayers. Yet in most places, there are laws on the books requiring municipalities to adopt coherent accounting principles, or disclose their true financial status to the people and institutions who buy their bonds.[1]

Quinn, the writer who made that observation, proceeded to state that the analysts who are responsible for evaluating the financial information published by cities do not trust some of the data they receive.

A specific example of that problem was mentioned in a discussion in late 1975. Senator Percy, talking about the quality of financial information available when bonds are released, stated:

> Elmer Staats, the comptroller general of the United States, told the U.S. Senate just this week that there would be no use in auditing the District of Columbia's books because the books are in such horrible shape that an auditor could not even make sense of them.[2]

Significant consequences may result from problems in government reporting. Two examples are discussed briefly in the following

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[1]Jane Bryant Quinn, "Municipal Bonds: A Pig in a Poke," The Lincoln Star, 4 April 1978, p. 12.

[2]American Enterprise Institute for Public Policy Research, The Financial Crises of Our Cities (Washington: AEI, 1976), p. 7.

paragraphs.

> State and local governmental units may be paying a substantial price in higher interest costs for their failure to provide financial statements that are meaningful to a broader group of investors and analysts.[3]

The concern of analysts regarding the financial strength of government is not unfounded. Table 1 illustrates the defaults of government units between 1940 and 1969.

Table 1

Defaults by Type of Local Government Unit

Type of Unit	1940-49	1950-59	1960-69	Number of Local Governments in 1967
Counties, parishes	6	12	24	3,049
Incorp. municip.	31	31	114	18,048
Unincorp. municip.	7	4	26	17,105
School districts	5	23	60	21,782
Other districts	30	42	70	21,264
Totals	79	112	294	81,248

Source: Adapted from Roger E. Alcaly, The Fiscal Crisis of American Cities, eds. Roger E. Alcaly and David Mermelstein (New York: Vintage Books, 1976), p. 216.

[3]Sidney Davidson, David O. Green, Walter Hellerstein, Albert Mandansky and Roman L. Weil, Financial Reporting by State and Local Government Units (Chicago: The University of Chicago, 1977), p. 13.

Government units will continue to fail even if improved accounting methods are implemented. However, the improvement of accounting principles might allow management to identify and remedy financial problems before the survival of the government unit is threatened. Improved accounting may also lower the interest costs that government incurs, if the statement by Davidson, et al. is correct.

The discussion to this point has involved problems of a general nature. The remainder of this chapter examines specific illustrations of reporting problems.

Although the focus of this study is on state government accounting, the studies involving municipalities are included because the literature does not separate cities and states when it comes to identifying accounting principles that are to be used. In addition, the literature, in reviewing factors that might hinder the improvement of accounting, suggests that the problems are similar for the two levels of government. As a result, a separation is not made in this discussion.

Coopers and Lybrand--The University of Michigan[4]

A survey of the accounting practices of fifty cities was undertaken by Coopers and Lybrand and the University of Michigan. Forty-six cities responded to the survey.

The study compared the accounting practices of the responding

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[4]Coopers and Lybrand and the University of Michigan, Financial Disclosure Practices of the American Cities: A Public Report (New York: Coopers and Lybrand, 1976).

cities with generally accepted accounting principles (GAAP) to determine if any differences existed. The GAAP used for the comparison was obtained from two sources.[5] The use of GAAP as defined by the two sources does not mean that the study's authors endorse the principles involved. The authors were not satisfied that those principles provide an adequate foundation for government reporting.

> Our findings and analysis lead us to believe that present recommended municipal reporting practices do not meet the information needs of city taxpayers and security investors.
>
> We therefore recommend that generally accepted accounting principles applied to municipalities be modified to the accounting and disclosure requirements of the private sector.[6]

The principle from GAAFR accompanied by any modifications from the AICPA audit guide is presented. This is followed by a description of the deviations from the principle found by the Coopers and Lybrand-University of Michigan study.

Accounting Basis

Principle 10 of the GAAFR states:

> The accrual basis of accounting is recommended for Enterprise, Trust, Capital Projects, Special Assessment, and Intragovernmental Service Funds. For the General, Special

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[5]National Council on Governmental Accounting, Governmental Accounting, Auditing, and Financial Reporting (Chicago: Municipal Finance Officers Association, 1968); Committee on Governmental Accounting and Auditing, Audits of State and Local Governmental Units (New York: AICPA, 1974).

[6]Coopers and Lybrand, American Cities Report, p. 12.

> Revenue, and Debt Service Funds, the modified accrual basis of accounting is recommended. The modified accrual basis of accounting is defined as that method of accounting in which expenditures other than accrued interest on general long-term debt are recorded at the time liabilities are incurred and revenues are recorded when received in cash, except for material or available revenues should be accrued to reflect properly the taxes levied and the revenues earned.[7]

The AICPA audit guide suggests that the revenue susceptible to accrual should be recorded on that basis.[8] The guide states that revenue is susceptible to accrual if it is measurable and available to finance government operations in the year under consideration.

The findings shown in Table 2 indicate that a substantial proportion of the cities is not complying with the applicable principles. The proportion of noncompliance ranged between 22 and 78 percent for revenue and 16 and 36 percent for expenditures.

Liabilities

The AICPA's audit guide provides that several of the opinions issued for profit-making organizations should be applied to government units.[9] APB Opinion No. 8, relating to pension plans as applied in

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[7]National Council on Governmental Accounting, GAAFR, p. 11.

[8]AICPA, Audit Guide, p. 14.

[9]Ibid., pp. 141-42.

Table 2

Method to be Used for Recognizing Sources (Revenues) and Uses (Expenditures) of Resources

Current Requirements	Percent of Cities Not Complying	
	Revenues	Expenditures
Modified Accrual Basis		
General fund	78%	17%
Special revenue funds	57%	26%
Debt service funds	75%	36%
Accrual Basis (with exceptions)		
Capital projects funds	37%	28%
Trust and agency funds (pension only)	38%	35%
Special assessment funds	22%	25%
Accrual Basis		
Intragovernmental service funds	41%	22%
Enterprise funds	23%	16%

Source: Coopers and Lybrand and the University of Michigan, Financial Disclosure Practices of the American Cities: A Public Report (New York: Coopers and Lybrand, 1976), p. 36.

the audit guide, states that, "the excess, if any, of the actuarially computed value of vested benefits over the total of the pension fund and any balance-sheet pension accruals, less any pension payments or deferred charges . . ." should be disclosed in the financial statements.[10] The Coopers and Lybrand study found that 76 percent of the cities examined had failed to make that disclosure.[11] The size of the

[10] Ibid., p. 153.

[11] Coopers and Lybrand, American Cities Report, p. 30.

impact on the financial statements is indicated in the authors' estimate that for some of the cities the "undisclosed obligations exceed one billion dollars."[12]

Findings similar to that for pension funds were revealed in the survey for some of the other categories of liabilities. Eighty-four percent of the cities were not in compliance with disclosure requirements for accrued vacation and sick leave.[13] Ninety-three percent of the cities did not disclose required information on lease obligations.[14]

Fixed Assets

Principle 7 of the GAAFR states that

> . . . with the exception of Intragovernmental Service Funds, Enterprise Funds, and certain Trust Funds, fixed assets should not be accounted for in the same fund with the current assets, but should be set up in a separate, self-balancing group of accounts called the General Fixed Asset Group of Accounts.[15]

GAAFR Principle 8 states that fixed asset accounts should be maintained on the basis of original cost or an approximation of that value if the item is obtained by a method other than through purchase.[16] The AICPA audit guide refines the definition of assets to exclude those which

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[12]Ibid.

[13]Ibid., p. 31.

[14]Ibid., p. 32.

[15]National Council on Governmental Accounting, GAAFR, p. 8.

[16]Ibid., p. 10.

are immovable and over which stewardship is less significant.[17] Assets that would be excluded are roads, bridges, and others of that generic characteristic.

The Coopers and Lybrand-University of Michigan study found that 26 percent of the cities did not disclose the long-lived assets owned by the entity. Forty-four percent of the cities did not disclose the source of monies used to acquire the assets. Finally, 78 percent of the cities did not report the methods used to account for properties owned by the government and leased to others.[18]

These findings and others included in the Coopers and Lybrand-University of Michigan survey indicate significant deviations occur in the largest cities regarding the implementation of government sector accounting principles.

Other Studies

The Coopers and Lybrand study was the most specific one examined that compared existing principles with those in practice. There are other studies, however, that have reviewed aspects of the implementation differences that exist. These studies are briefly reviewed in this section.

Jerold Zimmerman compared the reporting practices of cities

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[17] AICPA, _Audit Guide_, p. 17.

[18] Coopers and Lybrand, _American Cities Report_, p. 33.

headed by mayors versus those headed by city managers.[19] He found that of the replies that were usable, "the usable mayoral cities are more likely not to be audited (43 percent) than the usable manager cities (18 percent)." Furthermore, manager cities are more likely to engage large, national auditors (35 percent) than mayoral cities (13 percent).[20] He also found that the annual reports of the manager cities were longer and contained more exhibits than did the reports of mayoral cities.[21] He suggests that the differences are due to the degree of risk being taken by city council members. The manager works as an agent of the council. As a result, the risk of failure or fraud falls on the council. The Zimmerman study shows that an institutional factor (form of government) has an impact upon the use of outside auditors and the length of the financial report.

The final empirical study to be discussed in this section was prepared by the Council of State Governments.[22] The study surveyed the budgeting practices of the states. It was based on a questionnaire mailed to budget officers during the winter of 1961-62 and was updated in 1965. It also examined several exhibits submitted by the same

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[19]Jerold L. Zimmerman, "The Municipal Accounting Maze: An Analysis of Political Incentives," Journal of Accounting Research, 15, supplement (1977): 107-44.

[20]Ibid., p. 133.

[21]Ibid.

[22]Council of State Governments, Budgeting by the States (Chicago: The Council of State Governments, 1967).

state officials. Due to the age of the study--thirteen years--several changes may have resulted in the budgeting practices of the states. The results, consequently, are not an indication of current budgeting practices but rather an example of problems in principle implementation.

The accounting principles used for the comparison with practice are those that were suggested for implementation at the time of the study. The Municipal Finance Officers Association's National Committee on Governmental Accounting published in September of 1951 a series of accounting principles.[23] Principle number 10 stated that "the accounting system should provide for budgetary control for both revenues and expenditures, and the financial statements should reflect, among other things, budgetary information."[24]

The principle is strengthened by a statement in the Standards Procedures section that provides, "budgets should be prepared by every municipality even if not required by law because such budgets are essential to the proper management of its financial affairs."[25] Tenner and Lynn, in their edition published in 1960, placed more emphasis upon legal requirements than the MFOA and suggested that budgets are not required for funds which are outside the appropriation process of

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[23]National Committee on Governmental Accounting, Municipal Accounting and Auditing (Chicago: Municipal Finance Officers Association, 1951).

[24]Ibid., p. 2.

[25]Ibid., p. 3.

state government.[26]

The Council of State Governments' study contained several references to conditions that indicate that the budgetary principle may not have been implemented in some of the states. "Accounting records are not always maintained in a form most suitable for budget office review."[27] The study suggested that the segregation of the accounting and budgeting functions may be a factor in the development of forms that meet the needs of the budget agency.

A second example of problems in implementing the budgeting principle was suggested by the following comment:

> Staff analyses in slightly over half the states are prepared primarily for the budget director. In approximately one quarter of the states the reports are also submitted to the Governor. Reports may also be sent to the operating agencies. In some states analyses of accounting reports are sent to the legislative interim committee or the committee responsible for advising the Governor on budgetary matters.[28]

The control aspect of the principle is limited by the budgeting practices described in the study. It would be difficult for the governors to exercise policy control if only twenty-five percent of them receive the reports prepared by the budget agency. It also stated that reports were not always sent to the heads of agencies involved in the

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[26]Irving Tenner and Edward S. Lynn, Municipal and Governmental Accounting, 4th ed. (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1960), p. 8.

[27]Council of State Governments, Budgeting by the States, p. 116.

[28]Ibid., p. 117.

administration of the budgets. The agency heads would be handicapped in revising procedures or improving agency financial practices if they are not receiving budget agency analysis of their operations.

Finally, the suggestion that accounting and budgeting do not interface to meet the needs of the budget agency means that the control aspects of the two are severely limited. Viewing the budget as a planning document and accounting reports as a measure of the operating results means that the two could not be compared without substantial difficulty if accounting is reporting using a format not consistent with the needs of the budget agency.[29]

Conclusion

The most specific evidence of failure to implement accounting principles exists for local units of government. The literature that is discussed in Chapter III refers to local, state, and federal units of government. The principles developed by the organizations mentioned in Chapter I were for either local and state governments together or also included the federal government. In other words, the accounting practices employed by governments are not peculiar to a particular level. The same principles are employed at all levels and the problems of implementation discussed in the literature suggest a common set of

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[29]The planning aspects of budgets are suggested in several texts on accounting such as James M. Fremgen, Accounting for Managerial Analysis (Homewood, Illinois: Richard D. Irwin, Inc., 1972), pp. 146-48.

practices.

It should be recognized at this point that additional research needs to be conducted regarding each level of government's failure to implement accounting principles. The Council of State Governments, mentioned in Chapter I, is conducting a study of accounting principles being used by the various states at the present time.[30]

The fiscal impact of the failures is manifested by several items. First, as mentioned earlier in this chapter, the unreported pension obligations may exceed a billion dollars for some of the cities in the Coopers and Lybrand-University of Michigan study. A second item that does not include a fiscal estimate of the impact is control. The size of state budgets means that problems in control may lead to significant fiscal consequences. The significance of the control needs for state government can be illustrated by two examples.

First of all, the state of Delaware has compiled a list of programs receiving money from federal grants that must be accounted for using the principles of the GAO. The list consisted of 1,050 separate programs by over 20 departments and agencies through some 150 major bureaus and offices.[31] Second, total expenditures by state governments

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[30]Relmond P. VanDaniker, Letter directed to users of government financial information dated September 8, 1978, State Government Accounting Project for the Council of State Governments.

[31]Elmer B. Staats, "The Financial Management Scene, 1969," The Federal Accountant, 38 (September 1969): 5-21.

in 1975 were $156 billion.[32] These two examples provide some indication of the fiscal impact of state government activity.

The next chapter explores several of the reasons offered in the literature why the principles developed by organizations mentioned in Chapter I were not implemented.

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[32]Tax Foundation, Inc., Facts and Figures on Government Finance, 19th ed. (New York: Tax Foundation, Inc., 1977), p. 133.

CHAPTER III

FACTORS THAT MAY PREVENT THE APPLICATION OF GOVERNMENT ACCOUNTING PRINCIPLES

The first chapter examined the government accounting activity of several groups. Those groups have attempted to develop and implement improved reporting principles for the public sector. The second chapter examined several studies that indicated there have been significant omissions in the implementation of public sector accounting principles.

This chapter takes a look at what has been said in accounting literature as individuals have attempted to explain the reasons for the shortcomings in public sector accounting. An effort is made to draw together the many arguments offered to explain the omissions. This compilation provides a foundation for the validation of several of the explanations in the next chapter.

The second purpose of this section is to provide a strengthened foundation for the future development of practices for the public sector. This is done through the compilation and examination of explanations for the failure to implement government accounting principles. The purpose of the review is to incorporate into the development of accounting principles the means of obtaining increased implementation. It is not, therefore, designed to be a case against the development of principles but rather an effort to help make government principle development more successful.

The government accounting literature contains many explanations for the failure to establish improved government accounting systems. Some of the explanations cited in the literature could be applicable to commercial accounting, but all of the authors mentioned were discussing government accounting in their articles.

This dissertation focuses on state accounting. A few of the articles discuss local or national governments but they were used only if they also demonstrated that their explanations apply to state accounting systems. The applicability must be demonstrated in two ways. First, the literature on state accounting should have explored the same accounting principle as that mentioned for local or national governments. Second, the situation that supports an explanation must be capable of existing at the state level, i.e., it is not specific to local or national governments.

An example of this is accrual accounting. Accrual accounting was the subject of an article by Anthony who discussed its applicability for the federal government.[1] The subject was also the topic of an article by Croxall[2] who related it to federal requirements faced by state and local governments.

It is necessary to use both articles. Anthony's is needed since it discusses reasons that accrual accounting is not implemented.

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[1]Robert N. Anthony, "Accrual Accounting May be Coming," The Federal Accountant, 24 (June 1975): 3-8.

[2]John R. Croxall, "An Inquiry into Acceptable Methods of Accruing Costs of Grant Programs of Federal Agencies," The Federal Accountant, 17 (September 1968): 46-56.

Since his discussion is limited to the federal government, it is necessary to use the Croxall article. Croxall's discussion demonstrates the applicability of accrual accounting to state government.

The explanations in many cases are overlapping in regard to their impact upon efforts to implement government accounting principles. This overlapping must be recognized since many of the factors, although explored separately in this chapter, may act together to form an atmosphere that blocks implementation efforts. That is, a specific factor may not be strong enough by itself to block implementation, but several factors acting together and having an interactive effect may hamper implementation of accounting principles.

The most effective means of illustrating the preceding point is to proceed with a discussion of the explanations to be presented in this chapter. The existence of interactions will be mentioned at several points as the factors are discussed in this chapter.

It should be emphasized that the inclusion in this chapter of a factor said to have an impact upon government accounting principles development and/or implementation does not necessarily mean that the factor is valid. The literature is examined to obtain directly and through implication or suggestion those factors that may have an impact upon government accounting principles. The focus of the rest of the dissertation is to take some of those factors and determine if evidence can be found to support their role of being significant in state government accounting.

"Politicians Do Not Favor Disclosure"[3]

Professor Kenneth S. Most argues that:

> Politicians do not favor disclosure. When in power they resist it, and the opposition does not fight too hard for fear it will inherit the obligation. It is no accident that in most countries government accounting is a byword for backwardness and obscurity.[4]

His indictment of government accounting continues with a tongue-in-cheek statement. "Anyone familiar with fund accounting will agree that if accountants had been commissioned to create a system of accounting to induce the maximum of obscurity into the affairs of men, they would have invented fund accounting."[5]

This statement by Most was made as a reaction to Vatter's suggestion that business entities should apply fund accounting to their profit-making activities.[6] Government units and other not-for-profit organizations are the main users of fund accounting. The second statement, as a result, provides a specific example of Most's declaration that politicians do not favor disclosure.

His explanation for the problems in government accounting rests on the historical existence of other accounting systems that

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[3]Kenneth S. Most, Accounting Theory (Columbus, Ohio: Grid, Inc., 1977), pp. 7-8.

[4]Ibid.

[5]Ibid.

[6]W. J. Vatter, The Fund Theory of Accounting (Chicago: The School of Business, The University of Chicago, 1947).

he views as more acceptable. First, Sweden in the seventeenth and Austria in the eighteenth century developed government accounting systems similar to business. The development of those systems indicated that the cash basis is ". . . no more essential to government accounting than to any other kind."[7]

The second piece of evidence offered by Most as support for his argument was the fact that it took from 1912 until 1949 to complete the task of legislating the recommendations of the Taft Commission. Additional evidence to support the idea that it takes a long time to implement changes in government accounting was provided by the House Committee on Governmental Operations.[8] Their report issued in March, 1968, stated that only 63 of the 157 agencies whose accounting and budgeting systems were subject to the review and approval of the Comptroller General had approved systems. The legislation providing for the approval process was passed in 1950, slightly more than 17 years before the date of the report.

The evidence offered by Most to support his statement that "politicians do not favor disclosure" is hardly conclusive. It would probably be safest to regard it as a suspicion about politicians. This suspicion might be based upon the assumption that if financial information were disclosed, voters would be able to make decisions

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[7]Most, Accounting Theory, p. 8.

[8]House Committee on Governmental Operations as quoted in "News Report," Journal of Accountancy, 125 (May 1968): 9-12.

based upon it. Those decisions might remove a politician from office.

It is then assumed that politicians, attempting to protect themselves, might try to limit the disclosure of information that would indicate whether they are performing their functions properly. It should be evident at this point that a strong case has not been made for that statement.

A second factor that might also generate the delay in implementation is explored next.

"Frequent Changes in Agency Top Management"[9]

The preceding section in this chapter contained a reference to the failure of federal agencies to have accounting systems that had been approved by the G.A.O. The small number of agencies (33 percent in 1967) had changed somewhat when Staats made a speech in 1977. About 40 percent of the applicable systems were still unapproved at that time.

One of the reasons offered by Staats as a possible cause for the large number of agencies remaining with unapproved systems was frequent changes in agency top management.

> . . . . It is true that in many agencies there have been rather frequent changes in top management not only at the secretarial level but at the assistant secretary level where accounting responsibilities lie.

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[9]Elmer B. Staats, "A Good Accounting System: A Key to Good Management," _Journal of Accountancy_, 145 (February 1978): p. 67.

> This makes it tough for accountants because accounting systems design projects are usually long-term undertakings and are greatly helped by continuity in management. Furthermore, accountants--particularly systems accountants--have been judged on occasion as expendable overhead when budget cuts are necessary.[10]

Staats suggests that this management turnover in the agencies may be unavoidable in our political system since periodic elections may result in management turnover. This is not to imply that he views the existence of inadequate, as signified by unapproved, accounting systems as a necessary consequence. The turnover needs to be recognized and considered when government accounting systems are designed.

The frequent changes in management may interact with the failure of accountants to convince management of the need for worthwhile accounting. This interaction will be explored in the following paragraphs.

"The Failure of Accountants to Convince Agency Management That Better Accounting Is Worthwhile"[11]

The high turnover mentioned above increases the need for accountants to convince agency top management of the benefits to be received from approved accounting systems. The first reason turnover enters into accounting system development comes from the need to educate new managers on the benefits of accounting. A change in management would force this education process to be a continuing function

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[10] Ibid.

[11] Ibid.

of a government's top accountants.

The failure to educate agency management may also result from the turnover of the top accountants. The designer of an improved or modified system may not be around to see it implemented. The division of political functions within government may also contribute to this factor's existence. A new government accountant may not be able to relate to both the executive and the legislative branches.

The implementation of an improved system may require additional monies. The accountants must be able to convince the legislative branch to financially support the designed system. An example of this element was mentioned by George Shute, a former Nebraska State Accountant. The Nebraska statutes say that state accounting records are to be kept on the accrual basis.[12] Shute mentioned that no monies were appropriated for the transition from the cash to the accrual basis.[13] He stated that this failure to appropriate funds may be due to a lack of interest on the part of legislators in a change in the accounting basis.

The failure, therefore, to appropriate the needed monies may have resulted from the failure of accountants to educate legislators as to the merits of the new system. It is also possible that this may relate to the desire of politicians to appear to support an improved system but at the same time stymie its implementation. This,

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[12]Revised Statutes of Nebraska 1943, 81-1102.

[13]Personal interview, Lincoln, Nebraska, July 24, 1978.

of course, is connected to the earlier discussion on the possibility that politicians do not want to disclose financial information.

The inclusion of accounting principles in state statutes relates to the next factor to be discussed.

Congressional Mandates

Eric Kohler, in discussing the external environmental influences to which accounting is exposed, states:

> Chief among the external causes in the Federal-Governmental complex that create the initial organizational framework are congressional mandates establishing the agency, defining its purposes and powers, and appropriating funds for its operations.[14]

A second situation that may result in poor accounting methods is mentioned by Seidemann.

> One of the chief reasons for the defective accounting methods of government services is to be found in the fact that the legislature in prescribing, or the services in formulating, their systems of accounting procedure have done so without first clearly determining their information needs.[15]

These authors seem to suggest that accounting practices, as developed by legislative mandates, may not be founded upon a sound theoretical base. Two reasons for this condition are suggested. First, the reporting requirements are developed along with the agency or

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[14]Eric L. Kohler, "Purview of the Government Accountant," The Federal Accountant, 15 (Spring 1966): 8

[15]Henry P. Seidemann, Manual of Accounting and Reporting for the Operating Services of the National Government (Baltimore: The Johns Hopkins Press, 1926), p. 5.

program under consideration. This means that many separate reporting requirements may result. The theoretical foundation would then be fragmented.

The second reason for this lack of a theoretical base is suggested by Anthony.[16] In discussing accrual accounting, Anthony states that the greatest roadblock to its general acceptance is the indifference of Congress. The reason for that attitude is expressed in the following statement:

> . . . accrual accounting is not as exciting a subject as, for example, foreign policy, and not as close to the interests of constituents as, for example, health insurance. It is, moreover, a complicated subject. One of the real problems is that the information that Congress receives would not look much different under accrual accounting than it looks under conventional obligation accounting.

Accounting theory is relegated to an item of secondary consideration. It does not develop to serve the congressional users' information needs.

This suggests that, in addition to a continuing need to educate government managers about the benefits of improved accounting methods, accountants also need to be cognizant of the implications of proposed and existing legislation.

A factor that may also have an impact on the quality of accounting practices developed by legislative mandate is to be discussed next. It is shown as a separate category since it may have an impact upon other factors such as educational efforts and could also

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[16] Anthony, "Accrual Accounting," p. 7.

have an impact of its own.

Members of the Legislature Lack Business Experience[17]

Another reason offered by Anthony for the failure to implement accrual accounting is a lack of business experience on the part of legislators. He suggests that this means that many legislators do not appreciate the importance of accrual accounting and, extending his argument, the other principles of business reporting.

A second part of Anthony's argument relates to the failure to educate government officials to the benefits of accounting improvements mentioned earlier.

> . . . . Congressmen who have had business experience don't really believe that the government does not operate on an accrual basis now. They know that no business of any size could operate without an accrual system, and they assume that the government must, in fact, have such a system, and that what is being advocated is some minor technical improvement, rather than a basic change.

Anthony also suggests a reason that those with business experience may fail to identify that different accounting principles (different from business) have been used in the preparation of government financial reports.[18] He states that reports based upon accrual accounting will not look much different than the current ones. In addition, since people are familiar with the existing documents, they continue to use them rather than change.

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[17]Ibid., p. 8.

[18]Ibid., p. 5.

It should be emphasized at this point that the focus of this dissertation is not on any specific set of principles. Rather, the focus is on an examination of the failures in implementation of the proposed government accounting principles. Hence, the applicability of Anthony's accrual basis is not the question under consideration.

The arguments suggest that legislators need to become more aware of the shortcomings of the present systems of government accounting. Secondly, the education process becomes more complicated and increasingly important due to a lack of business experience on their part. Finally, the legislators, since many lack business experience, are neither aware of their shortcomings in the use of the information nor of any shortcoming that might be contained in the measurement, accumulating, and reporting processes found in government accounting. This lack of business experience could result in continued use of government accounting principles even when more suitable alternatives exist.

Lack of Involvement by Accountants[19]

Linowes suggests that a lack of involvement by accountants is a factor that affects the implementation of improved government accounting methods. The discussion contained in his article is concerned with national income accounting, so there is danger of taking his

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[19] David F. Linowes, "Socio-Economic Accounting," Journal of Accountancy, 126 (November 1968): 37-42.

arguments out of context. The reasons for including his statement are explored later in this section. A discussion of the reasons for including his statement is facilitated if the consequences of accountants' lack of involvement are presented first.

Linowes observes that "the lack of participation by CPAs has resulted in some unnecessary weaknesses in government accounting."[20] These weaknesses are:

> 1. Use of terms not commonly used by businessmen and accountants;
>
> 2. Data gathered by others (for example, economists) are weak because of their lack of qualifications to collect, classify and validate quantitative information;
>
> 3. Full cost of programs cannot be determined (example: tax credits given to a segment are not recognized);
>
> 4. People who are not skilled in accounting, such as scientists, are handling reporting.

Linowes makes the link between national income accounting and internal government accounting in the following statements:

> Like corporations formed for profit, nonbusiness institutions involve people working in organizational patterns, tangible assets (such as roads and bridges, or buildings and equipment) and products (perhaps intangible, such as education and health).
>
> The institutions need budgets, systems of managerial control, records. These things are presently provided to them, most often not by CPAs but by sociologists, economists and political scientists, some--probably most--of whom are not trained in accounting.[21]

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[20] Ibid., p. 38.

[21] Ibid., p. 40.

This lack of involvement by accountants in national income accounting, he suggests, leads to the development of costly social programs based upon data that are not of a desired quality.

There are, therefore, two significant reasons for being concerned about the lack of involvement of accountants. First, the development of government programs with an inadequate data base may lead to higher cost programs than might otherwise be needed. This would mean that the allocation of government resources would not receive as great a return (relating government benefits to private-sector profit-making) as might be available.

The second reason for being concerned with the accountants' lack of involvement is suggested in Linowes' statement regarding the need for management information for internal government use. It would be difficult, if not impossible, to determine if a government's program is operating efficiently and effectively if the needs that are being met have been inadequately measured.

The focus of this dissertation is on those factors that may hinder the implementation of improved government accounting procedures and does not include national income accounting. The consequences listed by Linowes may be examined for their government financial reporting impact. The impact of national income accounting on the ability to report government information, as suggested in the reason pertaining to efficiency and effectiveness, makes this a valid topic for inclusion in this paper.

The next factor to be discussed concerns the involvement of accountants in the government accounting process. It suggests that unless the accountants are involved at particular points in the development of an accounting system, serious problems may result. In other words, not only do accountants need to be involved, but the involvement has to be aimed at specific points in the information reporting process.

Need to Collect Additional Information

Melburn, in discussing the accounting needs of defense contractors for the federal government, states that in their efforts to improve reporting they were faced with the following situation:

> It generally involved superimposing another system on top of existing control systems used by a contractor doing business with the Government. This approach to accumulating necessary information proved unsatisfactory; not because the systems were bad but because they were normally a separate and secondary system installed by contractors exclusively to meet Government requirements. Contractors continued day-to-day internal management of the programs through their established accounting and production control systems, while the Government's overview was provided through input to the separate systems. Needless to say, the operation of two systems was costly. Further, input to the separate system was not made under the internal controls associated with routine input to established management control systems, and resulting reports were difficult to verify without excessive audit effort.[22]

Melburn suggests that government organizations other than the Defense Department may impose their own systems, meaning that the

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[22]Michael Melburn, "Toward Full Disclosure of Program Status," The Federal Accountant, 23 (March 1974): 5.

contractor is faced with a variety of accounting and reporting requirements. Fred Oliver illustrates the impact of several agencies developing accounting procedures in the following comments:

> The genesis of today's accounting problems with federal grants-in-aid at the local government level lies largely in the evolutionary process by which overall policies and procedures have developed within the federal structure. The Office of Management and Budget (formerly Bureau of Budget) has historically set federal policies and established requirements for the federal agencies to follow in disbursing grants to state and local governments. The individual agencies, departments, or bureaus have in turn issued accounting manuals or administrative handbooks, which have spelled out applicable accounting requirements. . . . Such manuals would normally provide also for audits to be performed, either by an examiner on the related agency staff or by an independent firm of certified public accountants.[23]

Oliver provides an example of the number of differing programs that illustrate the extent of this problem. "As federal assistance plans proliferated into more than a thousand different programs, with almost as many different regulations, the administrative patchwork grew beyond the bounds of reason."[24]

These comments by Melburn and Oliver provide a description of some of the problems that result from duplicate accounting systems. McKinney suggests that this problem of duplicate systems may exist at the state level.

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[23]Fred M. Oliver, "Accounting and Reporting for Federal Grants by Municipal Governments," Selected Papers 1972 Haskins & Sells (New York: Haskins & Sells, 1973), p. 70.

[24]Ibid.

> . . . the U.S. federal system fosters a bargaining relationship between the States and the Federal Government. The vertical exercise of authority has only minimal application in the intergovernmental context because of the separate sovereignty of the two levels. Similarly, constitutional arrangements between the States and their units require interest adjustments through negotiations and bargaining.[25]

Viewing both levels of government, state and federal, as monolithic organizations would result in a particular state government having two accounting systems. First, the one that operates for its internal and external reporting purposes would exist. The second system would then provide the information needed to meet federal requirements when applicable. The existence of several state agencies negotiating with their federal counterparts means that many more than the two systems could exist.

The problem of obtaining cooperation between state and federal governments can be illustrated by a study conducted by Keller.[26] He found that one state of the 27 who replied to his inquiry had cooperative audits with the federal government. The findings apply to audit standards and procedures but the argument by Melburn suggests that a similar condition exists for accounting and reporting principles.

Keller lists among the several reasons for the failure to develop cooperative audits two items that may be significant to the

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[25] Jerome McKinney, "Process Accountability: Challenge for Change in Dealing with the Public Sector," The Federal Accountant, 23 (March 1974): 47.

[26] Leon P. Keller, "The Intricacies of Cooperative Post Audits by State and Federal Governments," The Federal Accountant, 19 (March 1970): 51-59.

state and federal accounting relationship described above.[27] The first is a lack of agreement on audit standards and procedures. If a lack of agreement exists for audit standards, is it also possible that a similar situation exists for financial reporting? The second item he mentions is a lack of mutual trust between the two levels of government. This may make it difficult to obtain agreement on a common set of accounting principles.

This section suggests that there are several elements of the need to collect additional information that may have an impact upon the development of accounting principles. First, the very act of collecting additional information may result in a breakdown of the controls that are necessary to protect the integrity of the data obtained. This is accompanied by a bargaining relationship in an atmosphere of distrust or, at the very least, an atmosphere involving a lack of cooperation. The existence of several differing sets of government accounting principles, as illustrated in Chapter I, may also serve to complicate the efforts of state and federal governments to obtain agreement on accounting principles.

The next factor to be considered was mentioned briefly in a different light in this section. It will now be explored further.

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[27]Ibid., pp. 57-58.

Activities Are Carried Out by Autonomous Departments[28]

The statement by Oliver referred to in the preceding section mentions the existence of a large number of agencies prescribing differing accounting procedures for other levels of government. McKinney referred to the inapplicability of vertical lines of control between units of government due to the nature of the federal system.

Stanley Goodsill, writing of municipal governments, comments on the horizontal lines of authority. "Town activities typically are carried out by autonomous departments that operate independently of and without control being exercised by any other department or individual."[29]

A more complete example of what he meant is provided by the following situation in Connecticut towns.

> To what extent this autonomy of operations results from the fact that the duties or functions of town officials and boards are spelled out in the state statutes is not known. Aside from requirements that various officials be bonded, however, the statutes are generally silent with respect to the responsibilities of selectmen or other officials to supervise and control the activities of other departments. Selectmen have the responsibility to "superintend the concerns of the town," and treasurers are responsible for receiving all money belonging to the town and paying it out on order of the proper authority. Boards of finance are to prescribe the method by which and the place where all records and books of the town or any department thereof shall be kept. However such generalized statements of duties or functions might

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[28]Stanley C. Goodsill, "Internal Control in Municipalities," Selected Papers 1971 Haskins & Sells (New York: Haskins & Sells, 1972), p. 154.

[29]Ibid.

> be interpreted, they do not appear to provide for exercise of the kind of supervision and control necessary to achieve effective internal control.[30]

An article by Croxall that uses the Federal Department of Health, Education and Welfare as an example mentions that it handles 97,000 grants with 10,000 grantee institutions. "In addition, under certain state grant programs (e.g., education) there are some 20,000 secondary grantees, i.e., the original grantee is only a switching channel as far as performance is concerned."[31]

Croxall suggests that with a large number of institutions involved it is impossible to have reporting each month by all of them.

> There are too many institutions and grants
> - To arrange for monthly reporting.
> - To process paper each month.
> - To monitor each month.
> - To validate amounts.
>
> Reports would be received too late for current use.
> - Agencies must receive all reports the first day or so of the month in order to schedule and include in the month-end closing.
> - Institutions would have to cut off early--secondary grantees would have to cut off even earlier.[32]

The arguments presented refer to vertical and horizontal levels of management control. The horizontal control, which is of concern in this section, applies to local, state, and federal levels of government. Its applicability to state government was manifested by the

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[30] Ibid., p. 155.

[31] Croxall, "Acceptable Methods of Accruing Costs," p. 48.

[32] Ibid.

comment from Croxall which refers to the intermediary role played by state governments for some education programs.

The next two factors discussed involve some additional aspects of horizontal control problems. The first one involves side effects of control which may result from the various methods which can be utilized to select state government auditors.

Method of Selecting an Auditor

The Council of State Governments conducted a survey of the locus of control for the state auditors' office.[33] The survey, conducted in 1969, found thirty-one states indicating that the control over the audit function was with the legislature. The state auditor was elected by the voters in fourteen states, appointed by the governor in three states, and appointed by a board or commission in two states.

Witte argues that the method of selecting an auditor has an impact upon the ability of the individual to perform the required functions of the job. He defines the functions of the job as the following:

> . . . . "Measuring and evaluating the effectiveness" with which the other governmental officers:
> - Carry out the program of services for which the governmental unit was created.
> - Protect and conserve the government property placed in their care.

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[33]Fred M. Oliver, "Auditing of Public Programs as Viewed by the Public Accounting Profession," Selected Papers 1971 Haskins & Sells (New York: Haskins & Sells, 1972), pp. 120-32.

> -Account for the funds that come to the unit as revenue or loans. This accounting must include proper recording of the correct amount of receipts and the proper authorization and recording of disbursements.[34]

The significance of the functions of the auditor for the development of accounting principles would be that of an indirect relationship. For example, the greater the concern of the auditor toward protecting the government's assets, the greater the concern for the ability of the accounting system to track property transactions and to determine inventories.

Witte suggests that the election of the auditors may have an impact upon the performance of the functions in three ways. First, elected auditors are concerned about their own success and would be less interested in assisting management toward improved performance. Second, the auditor who has to campaign for office every few years would find a considerable amount of time being devoted to that end. The result may be a distraction from the technical needs of the audit function. Third, Witte suggests that the public may not possess the ability to evaluate the competence of an auditor candidate since it is a highly technical field. This problem may be mediated to a small extent by the requirement that the office-holder possess professional certification.

Witte suggests that an auditor who is appointed by a legislative

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[34]James D. Witte, "The Municipal Finance Officer as an Internal Auditor," Selected Papers 1966 Haskins & Sells (New York: Haskins & Sells, 1967), pp. 184-91.

body would be relieved of the problems of seeking election and the lack of evaluative criteria that were mentioned previously. The auditor is still outside the executive structure of government, and he suggests that, as a result of this, the auditor would not contribute needed expertise to management. The auditor, therefore, would be less likely to assist the executive branch in improving the accounting function.

The appointment of the auditor by the executive branch overcomes that problem but raises the question of independence. He suggests that if the chief executive can fire an auditor, the following could happen:

> The auditor will of necessity try to make his reports show the picture his boss desires to see. True, such an auditor may be of more help to the executive in the management function but, in my opinion, the loss of independence (in a governmental organization) more than outweighs the operating advantage.[35]

The main problems he seems to be describing are the effect of each method on independence and the ability of the auditor to work with management. He suggests that a board or commission should appoint the auditor if the members of that body do not have administrative responsibilities. Witte does not address the impact of the board or commission upon the two problems mentioned. No evidence is offered by him to indicate that when implemented, any one of the methods is better than the others.

All of the methods described are used to obtain state auditors, so the discussion applies to state as well as local government. The

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[35]Ibid., p. 187.

questions that result pertain to the topic of this paper. Do the various methods have the side effects on accounting that Witte mentions? If they do, how important are they to state government accounting principle implementation? Neither of the questions will be addressed directly in the research component of this paper since methods to measure independence or the degree of an auditor's managerial assistance were not elements of the questionnaire.

The second factor that affects horizontal control is the lack of follow-up by the legislative branches of government.

Lack of Follow-up

Elmer Staats, in referring to the lack of approved agency accounting systems at the federal government level, states that "a lack of consistent follow-up by the Congress on the degree to which policies that they adopted 27 years ago had been put into practice by sound accounting is not practiced."[36] He was referring to the congressional mandate that the General Accounting Office should approve agency accounting systems. Forty percent of the applicable systems had not been approved after 27 years of the law's existence.

It should be emphasized at this point that Staats was the Comptroller General, i.e., the head of the G.A.O., at the time of his speech. He does recognize the need for the G.A.O. to apply enough pressure and the appropriate follow-up procedures to ascertain that

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[36]Staats, "A Good Accounting System," p. 67.

agencies are pursuing compliance.

The lack of follow-up under discussion is for the legislative and administrative branches of government. The reasons for the lack of follow-up, if it is a factor, can be numerous. The bargaining relationship between the levels of government mentioned earlier may alter the intent of legislation and make follow-up difficult. One level of government may find its enforcement mechanisms weak when it comes to exercising its powers over another level of government, be it federal, state, or local.

The locus of control over the state auditor's office may be a factor in the ability of the legislative branch to develop follow-up procedures. The legislature in thirty-one of the states, as explained earlier, controlled the auditor's office. This means that for the nineteen remaining states the control was located elsewhere. The legislative branch may or may not have alternate mechanisms to follow-up on the intent of legislation. This is not to imply that the auditor's office is the only means of performing the follow-up. Legislative staffs may also have that capability.

Another reason that the follow-up from a financial standpoint may not occur was suggested by Croxall. "There would be too much political repercussion for the Federal Government to require such a mountain of paper from all of the governmental and institutional bodies affected."[37] Croxall referred to the large number of institutions and grants that

[37] Croxall, "Acceptable Methods of Accruing Costs," p. 49.

exist as being the cause of this large amount of paperwork. The political nature of both the legislative and executive branches of government may make the concern about political repercussions a factor in the development of control procedures. State agency heads, who are often appointed by a governor with or without legislative concurrence, may remind the chief executive that he needs them if his policies are to be carried out or if his political power base is to be maintained. These same agency heads may use political party loyalty or the conflict between the executive and legislative branches of government to thwart review of their agencies.

The preceding reasons refer to follow-up of all legislative or administrative policies which also include financial reporting principles. Coppie provides a description of a factor that has an impact directly upon financial reporting. He states that city officials are aware

> that long-term budgetary requirements often far exceed initial start-up costs of new or expanded programs. In general, the government learned from this experience that a one-year estimate of program resource requirements historically used in the budget process was increasingly inadequate for appraising the full impact of proposed budget decisions.[38]

State constitutions often incorporate statements that restrict the appropriations process to a short time period. An example of this is present in the Nebraska Constitution.

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[38] Comer S. Coppie, "Fiscal Planning for the Nation's Capital," Management Accounting, 56 (February 1975); 16.

> Each Legislature shall make appropriations for the expenses of the Government until the expiration of the first fiscal quarter after the adjournment of the next regular session, and all appropriations shall end with such fiscal quarter.[39]

This limit on the length of time that appropriations can be authorized may have an impact upon the entire financial planning and reporting process, thereby affecting the accounting principles that are used. For example, if the focus of financial planning is oriented toward short time periods, is it possible that follow-up by government officials on the intent of past legislation may not occur? If it is possible, this could be due to the review process itself taking longer than the time period allowed for planning and budgeting.

Decisions may have been made either altering, terminating, or continuing various programs in the absence of needed review information. The decisions could have been made because the one year time period for appropriations required it. A review that is received after decisions have been made about a program would probably receive limited consideration. A review of a program that has been terminated or significantly altered would be out of date. The review of a program that has been continued may be ignored since the momentum of later events makes it difficult to generate efforts to correct shortcomings that have become history.

The appropriations process discussed in the preceding paragraphs

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[39]Constitution of State of Nebraska of 1875, and Subsequent Amendments, Article III Sec. 22.

has been implicated in the existence of another factor that may cause problems in government accounting systems.

Lack of Qualified Personnel

Goodsill, in referring to problems of internal control found in government systems, states:

> Another condition contributing to the lack of internal control frequently found in municipalities is a lack of qualified personnel. In addition to the requirement that sound internal control procedures be established and maintained, an essential element of good internal control is that procedures be performed by competent, properly trained personnel. Frequently, budget limitations preclude the hiring of personnel trained to prescribe proper procedures or the hiring of internal auditors to test transactions and determine that procedures are being properly carried out.[40]

There are several items that may cause the problem to exist, if it is in fact a problem for government. The earlier discussion about the lack of involvement of accountants contains the suggestion that government officials may not appreciate the importance of an adequate emphasis on accounting systems development. If they are not aware of that need, they may also not be willing to commit adequate funds to hire qualified personnel.

Goodsill mentioned another consequence of the failure to have properly qualified accounting personnel for the central administration of a government.

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[40]Goodsill, "Internal Control in Municipalities," p. 156.

> As a result, procedures for establishing proper accountability are left to individual departments, which probably do not have the expertise or knowledge to prescribe proper procedures and to assure that controls are provided and maintained to assure compliance with such procedures.[41]

The problems of horizontal control, if autonomous departments exist, were discussed earlier. The implication is that the lack of qualified personnel creates an additional stumbling block for accounting principle implementation.

Departments that set their own procedures could mean that different principles are being used by each, leading to accounting reports that are not comparable within a system that does not fit together. Departments with qualified people may have good systems of accounting, while others may have systems that are poorly designed. Even if all of the departments had qualified personnel the systems may not interface.

The last factor to be considered suggests that the problems of accounting principles for government are a basic element of the measurement process.

Accounting Does Not Measure Government Operations Properly

> Governments are formed in order to conduct operations which are beyond the ability of any individuals or groups of individuals operating independently. From this viewpoint, government is an agent of our society. Therefore, taxes are not properly seen as revenues. They are a cost to society. The revenues of governments are the benefits they provide for societies. A

[41] Ibid.

> government which cannot produce clean profit in terms of an excess of social benefits over tax costs has no rationale for existence. It is the task of governmental accounting to measure these costs and these benefits and to help show the effectiveness of governmental stewardship.
>
> The difference between governmental and commercial accounting is that commercial accounting can measure its revenue by a dollar inflow from customers. The revenues of government in terms of benefits bestowed on society are much more difficult to evaluate without the money yardstick of commercial revenue. This situation merely reflects the inadequacy of our measurement technology.[42]

The preceding paragraphs from an article by Enke raise questions about the revenue being measured by present government accounting systems. The argument suggests that principles of business accounting need to be adjusted to reflect differences between profit and not-for-profit entities. Enke argues in a later part of his article that accrual accounting is appropriate for government. The difference is that the items being accrued would be changed from the present ones. The revenue would be the benefits received from a program, not the tax receipts, as is currently the case.

The measurement question may become a factor for implementing government accounting principles. Government units are not as likely to seek accounting methods recommended by the various boards or commissions if they believe that their purposes will not be served by the proposed principles.

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[42]Ernest Enke, "The Accrual Concept in Federal Accounting," The Federal Accountant, 22 (March 1973): 4-9.

This factor and the preceding ones provide a basis for the next chapter. That chapter describes the methods used to obtain evidence supporting the existence or lack of existence of some of the factors discussed in this chapter.

CHAPTER IV

RESPONSES OBTAINED FROM SURVEY OF STATE ADMINISTRATORS AND STATE LEGISLATORS

Introduction

The first three chapters provide the background for the remaining chapters. The first two establish that problems do exist in implementing government accounting principles. The literature of accounting is surveyed in Chapter III to obtain a description of the factors that may make it difficult to implement government accounting principles.

The literature identifying the reasons for this failure cited very little empirical evidence to support the existence of the problems. An examination of the literature, particularly the dissertations previously prepared, found no studies directly and empirically examining any factors that might impede the implementation of government accounting principles.

The studies involving government accounting principles were looking for the application of specific principles but not examining reasons for their absence. The study mentioned earlier by Coopers and Lybrand--University of Michigan[1] and the study in process by the

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[1]Coopers and Lybrand and the University of Michigan, Financial Disclosure Practices of the American Cities: A Public Report (New York: Coopers and Lybrand, 1976).

Council of State Governments[2] are examples of that approach. Stephen[3] used a questionnaire format in a dissertation, attempting to determine if certain elements of cost accounting were present in government accounting. It was limited, like the rest of the studies mentioned, to the existence or lack thereof of cost accounting elements and did not attempt to identify factors that might impede the application of principles.

This study is designed to obtain evidence regarding the support, or the lack thereof, for several of the reasons offered as hindering the implementation of government accounting principles.

Methodology

A questionnaire format was adopted to obtain an indication of the existence of these factors. Two groups were designated to receive questionnaires. A separate questionnaire was designed for each group. The questionnaires were not designed to completely isolate the problems mentioned in Chapter III. Many of the problems listed are of such a nature that they could not be isolated to the extent necessary to make statements regarding the degree of their contribution to reporting failures.

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[2] Relmond P. VanDaniker, Letter directed to users of government financial information dated September 8, 1978, State Government Accounting Project for the Council of State Governments.

[3] Audley Hobson Fredrick Stephen, "Possibilities of the Use of Cost Accounting in Public Budget Making" (Ph.D. dissertation, University of Pennsylvania, 1939).

The goal of the questionnaires was to obtain an indication of the support for the problems, described in Chapter III, as factors in government accounting principle implementation from two groups who have to make decisions in the financial area. Some of the factors mentioned in Chapter III do not permit the use of the questionnaire format, so they are not included in this study.

The responses that were sought for both questionnaires were of three basic types. First, a factor would be taken and presented in a statement format. The respondent was asked to indicate the degree of support, from strongly agree to strongly disagree, that they felt represented their position for that statement.

The second part of the questionnaire took many of the same factors and asked the respondents to indicate the degree of impact they felt that particular element had on the development of accounting principles. This was done for two reasons. First, it provided a check on the answers given in the preceding part of the questionnaire. The primary reason for this approach, however, was to see if the respondents felt a particular factor had a significant impact upon accounting principles development. It was possible, therefore, for the respondent to indicate strong agreement with a statement and still show their belief that its impact on accounting is not significant.

The third part of the questionnaire consisted of some questions designed to obtain information about the respondents.

The survey questionnaire approach is viewed as appropriate for a study of the government sector, at least initially, since the political nature of government may make opinion an important variable in accounting principle implementation. It should be emphasized that the opinions sought were those of individuals who should possess knowledge about government accounting.

The study by itself does not provide an answer to many of the questions regarding factors that may hinder government principle implementation. It is just the first step in what should be a much more involved process. This study is designed to provide a means of reducing the number of factors so that later studies can be directed toward more specific problems.

The survey was national in scope; as a result, both of the groups contained representatives from each of the fifty states. Although two questionnaires were mailed, many of the same questions were present on both of them so that the responses of the groups could be compared.

The first group was composed of three different key financial executives on the administrative side of state government. The positions were the state auditor, the chief budget officer, and the state accountant for each of the fifty states. The three positions resulted in 160 people being surveyed since some states had more than one individual serving in those positions. Other states had one individual filling two of those positions. The information detailing the incumbents for the various positions was published by the Council of State Governments.[4]

The three state administrative officials were selected since they were the individuals having primary responsibility for the preparation of many of the financial reports issued by their respective government. Several of the questions directed to this group involved specific aspects of accounting principle development. A copy of their questionnaire is contained in Appendix B.

The second questionnaire was mailed to state legislators randomly selected from a list published by the Council of State Governments.[5] The legislators were selected since they, in concert with the chief executives of the states, review government financial operations and establish appropriation levels. A sample of 302 legislators was selected from a population of 7562. The sample size of about three hundred was selected to obtain a response adequate for a level of confidence of .90 and a precision of .10. The calculations for the estimated response rate needed were based on a "sampling for proportions" formula designed to estimate sample size.[6]

Tests were conducted from the returns of both questionnaires to determine that the response rate was adequate to meet the desired levels

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[4]The Council of State Governments, State Administrative Officials: Classified by Function 1977 (Lexington, Kentucky: The Council of State Governments, 1977).

[5]The Council of State Governments, State Elective Officials and the Legislatures (Lexington, Kentucky: The Council of State Governments, 1977).

[6]William G. Cochran, Sampling Techniques (New York: John Wiley and Sons, 1977), pp. 75-76.

of confidence and precision.[7] Ninety-five of the 160 executives surveyed responded to the study for a return rate of 59.4 percent. Eighty-two of the 302 legislators responded to the study for a return rate of 27.2 percent. The results of the tests indicated that the response rates are adequate to provide the desired confidence and precision.

The one-sample chi-square test was used to determine that the respondents were indicating support for a particular factor.[8] The factor as presented is the hypothesis (H). The questions were designed to obtain an indication that the hypotheses were rejected or not rejected by the respondents.

The null hypothesis used for each question is that the agrees and disagrees were expected to be equal. The actual responses were then compared with the expected responses to determine whether there was a significant difference between them. That is, the difference between actual and expected responses was not the result of chance. Several levels of significance were used in the analysis. They range from .001 to .25. The highest level of significance as

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[7]As set forth in John E. Freund and Frank J. Williams, Elementary Business Statistics: The Modern Approach (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1977), p. 316.

[8]Norman H. Nie and C. Hadlai Hull, SPSS Batch Release 7.0 Update Manual, March 1977; Norman H. Nie, C. Hadlai Hull, Jean G. Jenkins, Karin Steinbrenner, and Dale H. Bent, Statistical Package for the Social Sciences (New York: McGraw-Hill Book Company, 1965); Sidney Siegel, Nonparametric Statistics for the Behavioral Sciences (New York: McGraw-Hill Book Company, 1956).

calculated within that range is presented for each question.

The null hypothesis is rejected for each case when the level of significance is .25 or higher. Many factors have several questions that attempted to obtain a measure of the support for them. There may also be differences in the responses obtained from the two groups, legislative and executive, regarding a particular hypothesis. The next chapter, which contains the concluding comments on the study, holds inferences regarding any such conflicts. This chapter, then, presents the results but does not try to resolve the conflicts.

Each question is presented only once even though it may affect several factors through some of the overlap that was discussed in Chapter III.

The remainder of this chapter consists of a presentation of the study's results. In making this presentation, there is a brief statement of the factor under examination. This is followed by the question or questions that apply to that factor. The questions are accompanied by a summary of the responses received from the respective groups. (See Appendix B for the distribution of the responses by question for each questionnaire.)

The statistical significance for all of the results is presented in an accompanying table. The text discussing hypothesis 1a (H1a) also contains the significance levels applicable to it. The remaining text, however, does not contain references to the level of significance. The reader concerned with the applicable levels of significance need only refer to the appropriate table to obtain that information. Later reference to significance is deleted since the section should be easier to read if the numbers are omitted.

Survey Results

H_1 Politicians Do Not Favor Disclosure

The first factor mentioned in the preceding chapter is that accounting principles implementation is hindered because politicians do not want to disclose financial information. Both questionnaires ask for responses indicating support for that hypothesis. Due to the very broad nature of the hypothesis, several sub-hypotheses were tested to try and reach differing aspects of it.

First, the term "politician" was divided into three categories. The refinement was necessary since "politician" is a generic term that could refer to a wide series of activities. Two of the terms used are mutually exclusive. That is, a person does not generally belong to both the legislative and executive branches of a state's government. "Special interest groups" could, however, refer to legislators, executives, or some other individual or group.

H_{1a} Special Interest Groups Do Not Favor Disclosure

Statement 5 on the legislative study and number 8 on the executive study are identical. They ask the groups to express their opinions regarding the desire of special interest groups to disclose financial information. The statement is, "Most special interest groups want the financial benefits they receive revealed to the public."

Table 3

Politicians Do Not Favor Disclosure

Hypothesis 1 Statement		Group	Question Number	Results	Chi-square	Significance*
H_{1a}	Most special interest groups want the financial benefits they receive revealed to the public.	Legislative Executive	5 8	Disagree Disagree	44.26 63.20	.001 .001
	Special interest groups do not want the benefits they receive revealed to the public.	Legislative Executive	25 36	Major Minor	2.77 13.63	.10 .001
H_{1b}	Most state legislators want voters to hold them accountable at election time for decisions they have made on the spending of tax dollars.	Legislative Executive	13 11	Disagree Disagree	2.85 10.00	.10 .01
H_{1c}	Most state executive branch administrators, appointed and elected, attempt to prevent legislative review of their agencies' financial performance.	Legislative Executive	14 12	-- Disagree	.05 40.89	Insignificant .001
H_{1d}	Voters put enough pressure for financial accountability upon elected state officials.	Legislative	7	Disagree	40.11	.001

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

Table 3 (continued)

Hypothesis 1 Statement		Group	Question Number	Results	Chi-square	Significance*
H_{1d}	It is difficult for a voter to hold a legislator accountable for the financial impact of their (the legislator's) decisions.	Legislative	15	Agree	9.23	.01
	Citizens are more concerned with the taxes they pay than with the financial strength of state government.	Legislative	8	Agree	42.05	.001
H_{1e}	Politicians do not favor disclosure of state financial information.	Legislative	24	Minor	5.57	.05
		Executive	35	Minor	35.06	.001

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

It was expected from the hypothesis that, since the statement is in a positive form, the respondents would disagree with it. Both the legislative and executive respondents indicated, significant at the .001 level, their disagreement with that statement. The null hypothesis that the respondents who agreed with the statement would equal those who disagreed was rejected since that level of significance was obtained.

A second attempt was made to obtain information about special interest groups. Both samples were asked to indicate how important an impact the special interest group had on accounting improvement on a scale of 1 (minor impact) to 5 (major impact). The findings were significant at the .001 level for the executive sample and at the .10 level for the legislative sample. There was a difference in the direction of the impact between the two groups. The executives indicated that they thought the impact of that factor on accounting improvement is minor. The legislators, on the other hand, indicated that they thought the impact is major. The median on the scale of 1 to 5 was approximately 2.0 for the executives and 3.7 for the legislators.

H_{1b} Legislators Do Not Favor Disclosure

The second definition of "politician" used in the study involved legislators. The statement that appeared on both questionnaires approaches the question of political disclosure from a somewhat different angle than that used in H_{1a}. The statement reads, "Most state legislators want voters to hold them accountable at election time for decisions they have made on the spending of tax dollars."

The phrase does not refer to disclosure but rather approaches that question from an accountability angle. This assumes, as suggested in the discussion in Chapter III, that one of the reasons politicians do not favor disclosure is a fear of being held accountable.

The hypothesis predicts that the two groups would disagree with that statement. The two groups did indicate significant disagreement with it. The legislators were asked in the instructions to respond to the statements as they apply to the average legislator. The response they provided takes on added importance since they were acting as a collective body reporting on themselves.

H_{1c} State Executive Branch Administrators Do Not Favor Disclosure

This is the third definition of "politician" used. The disclosure in this statement can take two forms. The first is disclosure to the general public. The second, and the one implied in the statement used, is disclosure of financial information to legislators.

The statement reads, "Most state executive branch administrators, appointed and elected, attempt to prevent legislative review of their agencies' financial performance." The use of the words "attempt to prevent" goes beyond simply not favoring disclosure to include specific acts intended to prevent disclosure.

The replies received from the legislators did not achieve statistical significance. The null hypothesis as a result could not be rejected. The null hypothesis is that those who agreed with the statement would not be significantly different from those who disagreed. The executives, on the other hand, responded differently to the statement. They replied at a more than four to one rate that they disagreed with the statement. The null hypothesis then was rejected but the direction led away from the hypothesis.

Other statements are included in the questionnaire to try and further isolate the question of political disclosure. Three of them deal with political accountability and the voters.

H_{1d} Voters Cannot Hold Legislators Accountable for the Financial Impact of Their Decisions

This approach was used to attack the main hypothesis of disclosure from a different direction. Did the legislators feel that the voters are able to hold them accountable?

The first statement used is, "Voters put enough pressure for financial accountability upon elected state officials." The legislators disagreed with that statement. They were, as a result, suggesting that voters are not putting enough pressure upon state officials. The term "state officials" would include more than legislators, although they too would of course be included in that term.

A second statement is used to focus on the legislator. It reads, "It is difficult for a voter to hold a legislator accountable for the financial impact of their (legislator's) decisions." The legislators agreed with that statement.

These two statements introduce the inability of the voters to discriminate between legislators upon the basis of financial information. This could be caused by several reasons mentioned here, but since those reasons are outside the scope of the study, they are not explored further. The fact that voters may not be able to discriminate may be due to any or all of the following reasons. The list is intended to be suggestive but not inclusive.

1. The political process is not sensitive to financial factors since it includes many other considerations.

2. Current financial information does not permit a judgment on a legislator's financial decisions.

3. Voters react to certain financial information that is not broad enough to permit an evaluation of legislators.

An example of this third reason is contained in a statement included on the questionnaire. "Citizens are more concerned with the taxes they pay than with the financial strength of government." The legislators agreed with that statement.

As a result of the discussion in this section on the voters' ability to hold legislators accountable and the possibility that this may have an impact on financial disclosure, it may not be possible to conclude that the lack of disclosure results from an invidious effort on the part of politicians to avoid disclosure.

$\underline{H_{1e}}$ Impact of Politicians' Desire to Disclose on Accounting System Development Is Minor

One more statement that appears on both questionnaires is related directly to politicians' interest in disclosure. It reads, "Politicians do not favor disclosure of state financial information." The respondents were asked to indicate how important they thought that factor might be for accounting improvement. The legislators responded that they thought the impact is minor. In fact, about 23 percent of them indicated it had no impact.

The executives agreed with them. They responded much more strenuously that this is not a significant factor in efforts to improve accounting systems.

Conclusion: $\underline{H_1}$ Politicians Do Not Want to Disclose

There did seem to be substantial agreement from both groups with the major hypothesis. But one cannot stop at that point. The groups seemed to think that voters cannot or are not putting enough pressure on politicians for disclosure.

Both groups indicated that they thought this factor is not important in efforts to improve accounting. This seems to be counter to the arguments presented in the third chapter. The argument can be made that while politicians do not want to disclose, the impact upon efforts to improve accounting is not important. It must be emphasized that these are subjective judgments about the impact of the factor. Future research with this factor would be especially useful if it could improve the evaluation regarding the strength of this factor's impact on accounting.

H_2 Failure to Convince Management of the Need for Improved Accounting

The discussion in Chapter III suggests that accountants have not convinced management to spend the time and effort needed to improve accounting systems. The questionnaire examines several items that seem to indicate management's interest may be affected by them. The first item to be considered examines a point that would seem to be obvious.

H_{2a} Political Considerations Are More Important than Financial Considerations

The question of importance should be obvious since part of this statement implies that the financial factors are not the only basis on which decisions are made. The statement reads, "Political considerations are more important than financial considerations when decisions are made on legislation."

It should be recognized that a discussion on political elements of a decision can and probably would include financial concerns. The two items, as a result, are not mutually exclusive. It was expected, however, that the wording of the statement would help create the understanding of exclusive categories. Therefore, the attempt was made to obtain an indication that multiple versus single criteria are used for legislative decisions. The single criterion would be financial factors while the multiple criteria would be the whole range of items that could be covered by the generic term "political."

Table 4

Failure to Convince Management of the Need for Improved Accounting

Hypothesis 2 Statement	Group	Question Number	Results	Chi-square	Significance*
H_{2a} Political considerations are more important than financial considerations when decisions are made on legislation.	Legislative	4	Disagree	2.14	.25
H_{2b} Financial information improvements needed are too expensive for the benefits that are expected.	Legislative	16	Disagree	30.32	.001
	Executive	13	Disagree	48.40	.001
An improved accounting system is too costly.	Legislative	29	Minor	11.27	.001
	Executive	39	Minor	2.80	.10

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

The respondents were expected to agree with the statement. They did not. This cannot be interpreted as an indication that decisions are made upon the single factor. It should probably be used to indicate that legislators are, through their answer, providing a statement of the importance of financial elements in the decision framework.

H_{2b} Financial Improvements Needed Are too Expensive Relative to Benefits

A second statement pertaining to the failure to convince management of the need for improvements says, "Financial information improvements needed are too expensive for the benefits that are expected." This is question 16 on the legislative study and number 13 on the executive study.

The statement by itself begs the question regarding the need for any financial information improvements. That is, are any improvements actually needed? There are, however, several attempts contained in the questionnaires that seek to obtain an indication of the satisfaction or dissatisfaction with current reporting practices. The implied question, as a result, is unresolved until the study is drawn together in the concluding chapter.

Both groups of respondents indicated substantial disagreement with the statement. This was expected from the executive group since they are the people who have to educate others regarding the need for improvement. Because they are working with financial information, they should be aware of any shortcomings. They should also have an idea about the related costs involved in correcting accounting problems.

The legislators, however, were expected to agree with the statement. Agreement would result if they were asked to appropriate funds for accounting improvement and they saw no need for the changes. Disagreement, on the other hand, might mean that they thought any improvements needed are worth the cost.

One other statement was used to obtain an indication of the impact of cost versus benefit upon the improvement of accounting principles. Both groups were asked to indicate on a scale whether they thought cost-benefit had minor through serious impact on efforts to improve accounting systems. They both responded to the low end of the scale which means they believed the impact to be minor.

Conclusion: H_2 Failure to Convince Management of the Need for Improved Accounting

The specific statements discussed in this section do not permit conclusions to be drawn from their results alone. It is necessary to incorporate several other hypotheses and their related statements. This is done in the concluding chapter.

Both groups indicated that the cost versus benefit decision criterion favored making the improvements. The questions that remain revolve around the need for improvements and especially the legislative awareness of that need.

H_3 Legislative Mandates Set without Reference to Needs for Accounting Information Hinder the Implementation of Improved Principles

This hypothesis was approached in two questions. The first involved only the executive group. It asked them to rank a series of possible sources of accounting principles according to their estimate of its impact on their state's accounting and budgeting system. The question was restricted to the executives since it was assumed that the non-accounting legislators might not be familiar with many of the sources.

Their responses to questions 21 to 26 on the executive study are summarized in Table 5. The scale used ranged from 1 (minor impact) to 5 (major impact). The respondents were also able to indicate that a particular source did not apply to the development of principles used by their state.

Table 5

Impact of Selected Sources of State Accounting Principles

Rank	Source	Median	Number Indicating Source Did Not Apply to Their State
1	State Law	4.88	0
2	GAAFR	3.59	0
3	Common Usage	3.37	2
4	AICPA	2.85	4
5	GAO	2.33	13
6	FASB	1.94	13

Table 6

Impact of Legislative Mandates on Efforts to Improve Accounting

Hypothesis 3 Statement	Group	Question Number	Results	Chi-square	Significance*
H_3 Legislators set some accounting rules, but they lack the training needed to do that.	Legislative	21	Minor	3.93	.05
	Executive	33	--	.014	Insignificant

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

The sources of principles listed in Table 5 are from the groups that are discussed in the first chapter. State law is not discussed in that chapter but is included in Chapter III when the literature on the impact of legislative mandates is reviewed.

The medians were calculated independent of those who indicated that the particular source did not apply to their state. The executives have indicated that state law is the most significant source of accounting principles for their governments. This provides some support for the idea that legislative mandates have a significant impact on state accounting principles.

The next step was to ask the respondents about the significance of legislators' lack of training and its effect on efforts to improve accounting principles. Both groups were asked to indicate on a scale of 1 to 5 how serious that impact is (minor to serious, respectively). The statement (number 21 on the legislative study and number 33 on the executive study) reads, "Legislators set some accounting rules, but they lack the training needed to do that."

Two questions are contained in that statement. First, it should be asked whether legislators do in fact set accounting principles. The question is answered by the discussion on the sources of accounting principles used by the executives surveyed (see Table 5). The second question relating to lack of training is answered separately in the discussion regarding the hypothesis that legislators lack business experience (H_4).

The response to the statement was different for each group.

It is not too surprising that the legislators indicated that they thought the impact upon accounting improvement is minor. This was expected largely because of the suggestion contained within the statement that legislators are not qualified to set accounting rules.

The executive group was expected to respond that this factor has a serious impact on efforts to improve accounting. They were almost evenly split along the scale with no significant difference between the low and high responses.

Conclusion: H_3 Legislative Mandates Set without Reference to Needs for Accounting Information Hinder the Implementation of Improved Principles

State law is a significant source of accounting principles for government. The question that remains about the effect of legislative mandates on attempts to improve accounting cannot be answered from the results of the survey. It should be possible for studies examining the state laws of the fifty states to isolate that topic to a greater extent. One of the stated goals of this dissertation is to isolate for future research those factors that are supportable. This topic is one that could use future research efforts.

H_4 Legislators Lack the Business Experience Needed to Understand the Problems in State Government Accounting

Statement number 1 provided the legislators with an opportunity to suggest that the decisions of their colleagues who had business experience would differ from those who lacked such experience. The assumption is that the difference in the decisions would mean an

Table 7

Legislators Lack Business Experience

Hypothesis 4 Statement	Group	Question Number	Results	Chi-square	Significance*
H_4 Members of the legislature with business experience or training make different decisions regarding government finances than those without that background.	Legislative	1	Agree	40.11	.001
Most legislators are familiar with the meaning of terms in state accounting reports.	Legislative Executive	20 17	Disagree Disagree	2.20 31.84	.25 .001
Too many accounting reports exist.	Legislative	23	Major	12.52	.001
Legislators lack business training or experience.	Legislative	31	--	.33	Insignificant
Legislative staffs are too small to provide much assistance to legislators in analyzing state financial information.	Legislative	11	Agree	9.00	.01
Sources outside of state government provide legislators with little assistance in analyzing state financial information.	Legislative	12	Agree	3.57	.10

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

improvement in the financial foundation of government.

The purpose of this study, however, is not to examine the nature of government decisions but to pursue through the research instrument support for the factors that were suggested as inhibiting improvements in the government sector.

Statement number 1 reads, "Members of the legislature with business experience or training make different decisions regarding government finances than those without that background." The legislators agreed with that statement. Many of them (33 out of 81 or 40%) strongly agreed with it.

A second statement was used to see if the legislators felt they had difficulty with state accounting reports. The statement is contained on both surveys (number 20 on the legislative study and number 17 on the executive study). It says, "Most legislators are familiar with the meaning of terms in state accounting reports." Both groups indicated disagreement with the statement. Disagreement was expected since one of the benefits allegedly gained from business experience is the ability to use financial information. Difficulty in handling the definitions of accounting terms would, therefore, be an indication that the amount of experience is not adequate.

The two statements just discussed are also included in modified form so that the legislators could indicate the degree of the statements' impact on efforts to improve state accounting. Statement 23, "Accounting reports are hard to understand," was answered toward the high end of the scale. This means they thought the impact is serious.

The second statement, "Legislators lack business training or experience," was ranked all of the way along the continuum. The wording of that statement suggests that legislators are not fully prepared for their jobs. That poses special difficulties since the legislators may have been offended by the statement and then responded accordingly. The questions on difficulties that legislators might have in dealing with the information are designed to circumvent that problem.

The skills that legislators need in the area of financial analysis may be reduced if they receive assistance from others. The legislators were asked to provide a response indicating whether they thought they receive an adequate level of assistance. Statement 11 reads, "Legislative staffs are too small to provide much assistance to legislators in analyzing state financial information." A response indicating agreement with the statement would represent a conclusion on the legislator's part that he needs to make most of the financial analysis himself since he receives little staff support. The responses indicated that they agreed with the statement.

A second statement used on assistance reads, "Sources outside of state government provide legislators with little assistance in analyzing state financial information." This is legislative questionnaire statement number 12. They agreed with that statement.

The two sets of responses taken together suggest that the legislators receive little help in analyzing financial information. They were not asked to indicate whether they thought the level of assistance received met their needs. Instead, it was assumed that if they received little assistance, this meant that the legislators needed to possess a greater level of knowledge in financial matters than would otherwise be the case.

Conclusion: H_4 Legislators Lack the Business Experience Needed to Understand the Problems of State Government Accounting

The legislators seemed to be saying that their colleagues are not adequately prepared for analyzing state financial reports. They also indicated that this, in their judgment, has a serious impact on efforts to improve accounting systems for government.

H_5 Accounting as a Profession Is Not Adequately Involved in State Government Accounting

There are several statements that relate to this hypothesis. Many of them also relate to other hypotheses. As a result, only two of the questionnaire statements are discussed with this hypothesis. The other statements are considered with other hypotheses in this chapter. All of the statements relating to this hypothesis are considered when the results of the study are summarized in Chapter V.

The first statement, number 3 on the executive study, reads, "Accountants are adequately involved in the development of state government accounting procedures." The executives agreed with that statement. The hypothesis suggests that disagreement should have been expected.

It should be emphasized that the executive group contained many

Table 8

Accountants' Lack of Involvement

Hypothesis 5 Statement	Group	Question Number	Results	Chi-square	Significance*
H_5 Accountants are not adequately involved in the development of state government accounting procedures.	Executive	3	Agree	13.79	.001
Many people who are not skilled in accounting such as scientists are preparing state accounting reports.	Executive	4	Disagree	17.02	.001

*The levels of significance are listed in categories: .001, .01, 10, and .25. All levels outside of .25 are labeled as insignificant.

accountants. This makes the results somewhat suspect since they were asked to evaluate the adequacy of their own profession's involvement. The evaluation of other hypotheses in this chapter and an examination of the study's results should help overcome this difficulty.

A second part of this lack of involvement was the suggestion in the literature that individuals not skilled in accounting were preparing many of the reports. Statement 4 from the executive questionnaire says, "Many people who are not skilled in accounting, such as scientists, are preparing state accounting reports." The responses should relate to a state's final reports and not to those prepared at the unit level. This means that the responses would not relate to specific departments or grants. The approach to use to resolve the question of who prepares the reports for various grants would be to examine several projects and determine the identity of the individual responsible for financial information.

The questions are designed to see if the research methodology used in this study provides some support for the hypothesis. The executives responded in the negative to the statement. This means they were indicating that individuals outside accounting are not preparing a state's financial reports.

Conclusion: $\underline{H_5}$ Accounting as a Profession Is Not Adequately Involved in State Government Accounting

The methodology used in this study is not able to isolate this question to the point that is felt to be desirable. The statements are used to obtain an indication of support, but they are not sensitive enough to permit judgments to be made. The absence of support, therefore, does not lead to a determination that this is not a factor in state accounting.

H_6 Autonomous Departments Restrict Efforts to Improve State Government Accounting

The questionnaires contain several statements that are designed to isolate aspects of this factor. The first statement is, "There are too many state government institutions to permit the development of a single comprehensive accounting report." This is executive questionnaire statement number 2. This statement focuses on one aspect of the question of autonomy mentioned in the preceding chapter. That is, a large number of institutions and the resulting lead time for each level of aggregation make it difficult to prepare financial statements. The executives disagreed with that contention. A second statement involving the significance of the number of institutions (executive study statement number 41) resulted in the executives saying that the impact is minor.

A second component of the autonomy question is the source of financial information used by decision makers. Statement 20 on the executive study says, "In spite of central accounting, each agency prepares most of the accounting reports used by decision makers." They agreed with that statement. It is possible, if each agency prepares the statements, that efforts to improve accounting would be made more difficult. The problem results from the need to train and control a number of individuals regarding changes that have been made.

Table 9

Autonomous Departments

Hypothesis 6 Statement	Group	Question Number	Results	Chi-square	Significance*
H_6 There are too many state government institutions to permit the development of a single comprehensive accounting report.	Executive	2	Disagree	14.41	.001
There are too many state agencies.	Executive	41	Minor	18.75	.001
In spite of central accounting, each agency prepares most of the accounting reports used by decision makers.	Executive	20	Agree	3.97	.05
Too many accounting reports exist.	Legislative	22	Minor	1.59	.25
	Executive	34	Minor	34.80	.001
State government financial reports are received by legislators in time to be used in making decisions on legislation.	Legislative	2	--	1.03	Insignificant
	Executive	7	Agree	3.45	.10
Accounting reports are received too late.	Legislative	30	Major	2.20	.25
	Executive	40	Minor	5.55	.05

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

Table 9 (continued)

Hypothesis 6 Statement	Group	Question Number	Results	Chi-square	Significance*
H_6 Most state agencies are responsive to the needs of legislators for financial information.	Legislative	10	Agree	16.20	.001
	Executive	10	Agree	46.34	.001
State financial reports are prepared by people who are responsive to the needs of the legislative user.	Legislative	18	Disagree	3.56	.10
	Executive	15	--	.38	Insignificant

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

A related question is that if each department prepares statements, are there too many reports for a decision maker to handle? If so, this could be a problem in improving accounting principles since analysis would not be adequate. The information may not be used since the user may seek other criteria for making decisions.

Statements are contained on both studies to determine whether the respondents felt this has a serious impact on efforts to improve government accounting. Both groups indicated that the impact of too many accounting reports is minor (legislative statement 22, executive statement 34). The response could also be an indication that they felt there are not too many accounting reports. This does not affect the results since, regardless of the reason, they believed that its impact is minor.

A second aspect of autonomous departments was suggested in the literature. The existence of a large number of reporting units would result in a delay in the receipt of the information so that the decision makers would not find it timely. The question of having accounting information available for use at the time decisions are made was included in an attempt to help in the determination of this factor's existence.

This statement (number 2 on the legislative study and number 7 on the executive study) reads, "State government financial reports are received by legislators in time to be used in making decisions on legislation." Financial information should be unavailable if this is a factor. The legislators responded so that the null hypothesis could not be rejected. That is, the responses were about even in terms of agreement and disagreement. The executives, on the other hand, said that the information is available.

The rating of the significance of this factor's impact was also obtained. The legislators indicated that this has a serious impact on efforts to improve accounting (legislative statement number 30). The executives, however, thought the impact is minor (executive statement 40). The executive response seemed to be consistent with their replies to the statement on timeliness. The legislators, however, provided a stronger response to the different wording of the statement.

Two more questions were used to obtain some indication that the information provided is being prepared by individuals operating with autonomy. Legislative and executive statement number 10 reads, "Most state agencies are responsive to the needs of the legislators for financial information." Both of the groups of respondents indicated agreement with that statement.

The use of a slightly different wording obtained a somewhat different response. The statement (number 18 on the legislative study and number 15 on the executive study) reads, "State financial reports are prepared by people who are responsive to the needs of the legislative user." The legislative respondents disagreed with that statement. The executives' response did not provide significant results.

The two statements taken together seem to indicate that the legislators felt they are receiving the appropriate information. They seemed to feel, however, that the individuals involved could provide more assistance than is currently being offered.

Conclusion: H_6 Autonomous Departments Restrict Efforts to Improve State Government Accounting

There does seem to be an indication that the legislators are not completely satisfied with the number of reports received and the timing of the receipt. The literature suggested that those conditions were the result of autonomous operating units.

The executives seemed to hold the opposite viewpoint. This may, however, be due to lack of sensitivity on their part to the needs of legislators. This possibility exists as the legislators indicated some dissatisfaction with the responsiveness of statement preparers. The legislators indicated, however, that the agencies were cooperating with their requests for information.

The question of autonomous units is left at this point so that other factors that may be useful in drawing conclusions on the matter can be discussed. The subject is examined again in the next chapter.

H_7 Accounting Improvements Are Not Implemented Because Legislators Do Not Follow-up to See if the Intent of Their Legislation Is Being Met

Several statements are included in an effort to obtain an indication of the degree of follow-up undertaken by legislators. The amount of time needed tc determine if legislative intent has been

Table 10

Lack of Follow-up

Hypothesis 7 Statement	Group	Question Number	Results	Chi-square	Significance*
H_7 Adequate analysis of financial information takes more time than most legislators have available.	Legislative	3	Agree	45.94	.001
Legislators are afraid to put pressure upon state administrators to improve financial reporting.	Legislative	6	Disagree	58.78	.001
State legislators follow-up to see if the intent of legislation is being carried out by state agencies.	Legislative Executive	9 9	Disagree --	2.14 1.30	.25 Insignificant
Legislators have difficulty reviewing state agencies.	Legislative	28	Major	13.79	.001
State accountants often bargain with the federal government regarding accounting procedures to follow.	Executive	6	--	1.14	Insignificant

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

met is the reason for the first statement. Statement number 3 on the legislative questionnaire states, "Adequate analysis of financial information takes more time than most legislators have available." The statement, if consistent with the hypothesis, should be accepted by the legislators. However, the wording is strong enough that it was expected that the legislators would not indicate that their colleagues did not have enough time to adequately analyze financial information.

The legislators agreed with the statement, indicating that lack of time to analyze existing financial information may be an element in this factor. The question of time alone does not establish the existence of this factor, however. Additional statements are included in an effort to further establish its existence.

Legislative statement 6 states, "Legislators are afraid to put pressure upon state administrators to improve financial reporting." Another element in the failure to follow-up may be a reluctance on the part of legislators to question state administrators. This statement is strongly worded, so that a response disagreeing with it was expected. This expectation was based largely on the ego-involvement that was anticipated from the word "afraid." The legislators disagreed with the statement.

The use of a wording that is a little more sensitive might have gotten agreement, but of course that is speculation. The strong wording was used to obtain an indication of the strength of this factor. Agreement with statement number 6 would have provided evidence suggesting that this factor is present in financial reporting.

A statement directly aimed at the intent of the question is included. This statement is not as overtly worded as the two referred to in the preceding discussion. Statement number 9 on both the legislative and executive studies reads, "State legislators follow-up to see if the intent of legislation is being carried out by state agencies." The legislators disagreed with the statement, as expected according to the hypothesis. The results obtained from the executive respondents did not permit the null hypothesis to be rejected. The null hypothesis, as is true for all of the statements, is that the respondents would neither agree nor disagree with it.

A version of the statement is also contained on the legislative questionnaire. It asks them to rank the significance of this element on efforts to improve accounting (legislative study question number 28). They replied that it has a serious impact on efforts to improve accounting.

One more statement is included in the executive study (number 6) in an attempt to examine another element of this factor. It states, "State accountants often bargain with the federal government regarding accounting procedures to follow." The results did not permit the rejection of the null hypothesis. A conclusion, therefore, could not be developed from that statement.

Conclusion: H_7 Accounting Improvements Are Not Implemented Because Legislators Do Not Follow-up to See if the Intent of Their Legislation Is Being Met

The legislators seemed to indicate that this factor does exist, and they said they believe its impact upon efforts to improve accounting is serious. The executive responses did not permit a determination regarding the factor. This may be due to the tendency on the part of the executives not to be concerned that their agencies are not being reviewed. The section on autonomous departments contains references to that element.

The indication on the part of the legislators that they are not comfortable with the degree of follow-up seems to provide evidence that this may be an important element in hindering efforts to improve accounting.

H_8 The Personnel Preparing Government Financial Reports Are Not Adequately Qualified

The two questionnaires contain statements that attempt to determine if the respondents hold a view consistent with the hypothesis. It is possible to determine the qualifications of existing state employees. Several educational programs were found in the literature that contained suggested training models.

The question is a subjective one and would remain so regardless of a study of the qualifications and a subsequent comparison with educational models. That comparison, however, would reduce the amount of subjectivity.

Table 11

Lack of Qualified Personnel

Hypothesis 8 Statement	Group	Question Number	Results	Chi-square	Significance*
H_8 Personnel preparing state financial reports are adequately qualified for that task.	Legislative	19	Agree	24.93	.001
	Executive	16	Agree	13.20	.001
The people preparing accounting reports are not qualified for that task.	Legislative	27	Minor	18.29	.001
	Executive	38	Minor	6.90	.01

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

An attempt was made through the questionnaires to see if these two groups viewed this as a problem for accounting. If it is a serious problem, then additional research could be undertaken later to explore the particular shortcomings of the preparers.

The statement (legislative question number 19 and executive question number 16) reads, "Personnel preparing state financial reports are adequately qualified for that task." The two groups agreed with the statement. This means that they felt the qualifications of the personnel do not seem to be a factor in efforts to improve accounting.

A second statement is included that asks the respondents to rank the degree of impact that this factor might have on efforts to improve accounting (legislative question number 27 and executive question number 38). The two groups indicated that they thought the impact is minor. This is consistent with the results obtained from the other statement on qualifications.

Conclusion: H_8 The Personnel Preparing Government Financial Reports Are Not Adequately Qualified

The two groups did not support this factor. This does not mean that additional training is not desired for public sector accountants. It means that the respondent groups viewed the personnel as adequately qualified to understand and operate the current system. It should also suggest that the respondents believe that the present personnel can implement any improvements that are needed.

H_9 Accounting Does Not Measure Government Operations

This is the broadest of the hypotheses as far as its impact on accounting is concerned. It challenges the nature of the data being provided by government accounting systems.

The first statement included on both questionnaires approaches the hypothesis directly. The statement (legislative question number 17 and executive question number 14) reads, "Current state financial reports show the benefits received by society from government programs." Both of the groups disagreed with the statement. A corollary statement is contained in both questionnaires to obtain a rating of the significance of the impact of this factor on efforts to improve accounting (legislative question number 26 and executive question number 37). The legislators stated this factor has a serious impact upon efforts to improve government accounting. The executives rated it as neither minor nor serious. The results obtained from the two groups are consistent with the hypothesis.

The original statement ("Current state financial reports show the benefits received by society from government programs.") is much broader than that pertaining to financial information. For example, it would be difficult to say that private sector financial reports show the benefits received by society from commercial enterprises. The costs to society and the benefits could far exceed that shown in the financial reports.

Accounting is reporting about a particular entity. It is helpful to examine some aspects of present reporting to see if the

Table 12

Accounting Does Not Measure Government Operations

Hypothesis 9 Statement	Group	Question Number	Results	Chi-Square	Significance*
H_9 Current state financial reports show the benefits received from government programs.	Legislative	17	Disagree	12.50	.001
	Executive	14	Disagree	61.45	.001
Accounting has not measured the benefits of government programs.	Legislative	26	Major	13.52	.001
	Executive	37	--	1.29	Insignificant
Existing state government accounting systems meet the needs of most users.	Executive	5	--	.17	Insignificant
State governments should use the same accounting and budgeting principles as those used by business enterprises.	Executive	1	Disagree	12.30	.001

*The levels of significance are listed in categories: .001, .01, .10, and .25. All levels outside of .25 are labeled as insignificant.

respondents feel it meets the needs of the users. Statement 5 on the executive study reads, "Existing state government accounting systems meet the needs of most users." The null hypothesis was not rejected in this situation. The respondents were about evenly split in agreement and disagreement with that statement.

A final question explores the direction that government sector accounting is moving toward in the establishment of reporting principles. The intent was to see if the executives agreed with that direction. If they did, there is an implication that government sector accounting may be approaching the measurement and reporting of government operations that is referred to in this hypothesis.

Ernst and Ernst, in commenting on the discussion memorandum issued on not-for-profit accounting, argued that it was prepared based upon certain premises.

> Financial accounting principles as promulgated by the FASB and its predecessor bodies generally should apply to financial reporting in nonbusiness organizations. Exceptions may be permitted where circumstances or information needs in nonbusiness organizations warrant an alternative treatment of a particular transaction.[9]

They stated that there is general agreement on the premises they present, hence "these need not be stated."[10] Statement number 1 on the executive questionnaire says, "State governments should use the same accounting and budgeting principles as those used by business

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[9]Ernst & Ernst, Financial Reporting Developments: Accounting by Nonbusiness Organizations (Ernst & Ernst, August 1978), p. 5.

[10]Ibid.

enterprises." The executives disagreed with that statement. Sixty-eight percent of the respondents indicated disagreement.

This does not mean that they rejected private sector principles in total. Several comments were received noting the differences that existed between the two sectors. Accounting groups, when designing principles, need to consider this attitude. The consideration would probably involve either the education of government sector employees on the common basis of commercial enterprise and government entities or the recognition of any differences in the design of accounting principles.

Conclusion: H_9 Accounting Does Not Measure Government Operations

The legislators were not satisfied with the government measurements provided by accounting and they viewed this as having a serious impact on efforts to improve the present systems.

The executives seemed to neither agree nor disagree with the present measurements. They did, however, clearly disagree with the assumption that government should use the same principles as commercial accounting.

CHAPTER V

SUMMARY

Why aren't government accounting principles implemented? The development of accounting principles for government proceeds under the assumption that once developed, the principles will be implemented. Chapter II summarizes research evidence that the principles developed by the organizations described in Chapter I are not being implemented. The objective of this study is to identify and then validate some of the factors that hinder the implementation of government accounting principles.

A review of the literature was made to obtain an indication of problems that affect the implementation process. Chapter III details the results of that review. The literature, while it contained numerous articles describing the problems that appear as accounting principles are implemented, offered little or no empirical support validating the existence of those problems.

A questionnaire approach was used as a research method in an attempt to find empirical evidence to support the propositions found in the literature. Two groups were targeted as subjects of mail questionnaires. An executive group was composed of people in three positions for each of the fifty states. These state government positions, accountant, auditor, and budget director, were selected since they represent those people most likely to possess knowledge regarding the development and implementation of state accounting systems.

A second questionnaire was mailed to a sample of 302 legislators from the fifty states. They were selected randomly.

The questionnaires contain many questions in common. However, the executive questionnaire contains some questions that require a detailed knowledge of accounting to complete. It was expected that the legislators, most of whom are not accountants, would not be familiar enough with the subject to respond to those types of questions. The response rate for the legislative questionnaire was 27.2 percent. The executives responded at a rate of 59.4 percent.

The use of a mail questionnaire imposes some limitations on the study. First, a non-response bias may be introduced when not all of the questionnaires are completed and returned. Second, the wording of the statements composing the instrument introduces a degree of subjectivity on the part of the respondent and the researcher. Recognizing those limitations, the following are the findings of the survey.

Disclosure

Politicians resist disclosure of financial information. The legislative respondents indicated that their colleagues do not want to be held accountable at election time for the decisions they have made regarding the spending of tax dollars. The legislators said they believe that special interests groups do not want the benefits they receive revealed to the public.

Both state government financial executives and legislators were of the opinion that resistance to disclosure does not have a major deterrent effect on the implementation of accounting principles at the state government level. The impact of disclosure on the implementation of accounting principles may be minor for the following reasons.

The argument in the literature suggested that politicians do not want to disclose since they would then be held accountable for the financial effect of their decisions. The legislators stated that (1) voters have a difficult time holding legislators accountable for the financial impact of decisions and (2) the citizen's primary concern is the amount of taxes paid rather than the financial strength of state government. Since the amount of taxes paid can be calculated by a citizen, additional disclosure would not affect that decision criterion. A large proportion of the legislators, 92 percent, believed that the financial position of their state is either good or very good. The legislators, contrary to the argument in the literature, might view disclosure of financial information as having potential benefits to their cause since it would be expected to support their view of state finances.

Business Experience of Legislators

Legislators stated that they lack the experience needed to understand state government financial reports. They also viewed this factor as having a major negative impact on the effort to implement accounting principles. Consistent with the discussion in the literature, this deterrent effect results since, due to the lack of experience, legislators may not know the difference between good and bad financial information. The legislator is not, therefore, able to consider legislation designed to improve financial reporting. The effect of the inability to design legislation is significant due to the fact that a major source of accounting principles for state government is state law.

This lack of business experience could be offset if the legislators received assistance from either staff or some other source. This would reduce the need for personal knowledge on their part. The legislators indicated that the assistance they receive from staff and from sources outside of government is not adequate to meet their needs.

Lack of Follow-up

The legislators were not satisfied with the amount of their follow-up to determine if state agencies are complying with the intent of legislation. One of the reasons for this lack of follow-up is the fact that adequate analysis of financial information takes more time than most legislators felt they could allocate to that task.

Lack of business experience, inadequate assistance from staff or other sources, and difficulty in dealing with accounting terminology are all factors that complicate the follow-up process. The existence of those factors increases the time needed to perform follow-up and could mean that the average legislator does not possess the tools needed to conduct the review.

Accounting Principles

The executive respondents said they believe that state governments should not use the same accounting principles as those used by commercial enterprises. This does not mean that private sector principles should not be used. It means that the applicability of selected principles depends upon government and business sharing common foundations.

As mentioned earlier, voters have a difficult time holding legislators responsible for the financial impact of decisions. A review of the information needs of the voters should be undertaken to determine if a part of their difficulty results from the reporting processes currently in use. For example, does the political nature of government affect the type of financial information needed?

Measurement

State government accounting, as currently practiced, does not measure or report the benefits received from government programs. This finding suggests that neither legislators nor state executives are satisfied with the information currently being reported for state governments.

There are implications that reinforce some of the other findings discussed previously. Legislative follow-up and a voter's ability to hold legislators accountable are difficult if the benefits are not being measured. The argument from the literature suggested that neither the appropriation-expenditure accounting used by government nor the revenue-expense determination used by business would provide a measurement of government benefits.

Cost Versus Benefit

Both executive and legislative respondents believed that the cost of needed improvements in financial information systems does not exceed the expected benefits resulting from the implementation of government accounting principles.

This finding should probably be qualified to state that the opinion is limited to modifications of present accounting systems and may not hold if major redesigns were to occur as suggested in the section on measurement.

Source of Accounting Principles

The primary sources of accounting principles used by state governments, according to the executives, are state law and GAAFR. Those sources of accounting principles that focus on the profit sector but claim to have some application to government are not major components of state accounting. This finding is consistent with the earlier comments regarding the use of commercial principles for state government.

Autonomous Departments

Both groups of respondents agreed that the existence of autonomous departments within state government is not a deterrent to the development and implementation of government accounting principles.

Involvement of Accountants

The literature contained the argument that one of the reasons principles were not implemented was that professional accounting was not involved in that process. The executive respondents indicated that they believe accountants are adequately involved in the development of state government accounting principles.

This finding seems inconsistent with the earlier one indicating that the primary sources of accounting principles are state law and GAAFR. Professional accounting organizations are represented on the National Committee on Governmental Accounting which is responsible for the development of GAAFR. The inconsistency is reduced when that participation is recognized.

The inconsistency may be eliminated entirely when public comments regarding FASB activity are considered. The latest Municipal Finance Officers national meeting led to comments stating that the FASB should not set principles for government accounting.[1] This could

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[1]Byron Klapper, "Accounting Study Could Set Off Sparks at Municipal Finance Officers' Meeting," The Wall Street Journal, 15 (May 1978): 28.

mean that participation in the GAAFR projects is viewed as adequate involvement by professional accountants.

Qualifications of Personnel

Both the legislative and the executive respondents said they believe the personnel preparing state government financial reports are adequately qualified for that task.

The state executives indicated, in response to a statement on autonomous departments, that most of the accounting reports used by decision makers are prepared by agency rather than central accounting personnel. The questionnaire response by central accounting administrators may not have considered the qualifications of department personnel.

Conclusion

The study is significant for several reasons. First, as discussed earlier, the literature provided many reasons for the failure to implement state government sector accounting principles but did not contain evidence supporting those reasons. The study was designed to find evidence regarding several of them. Secondly, much time and effort is being spent in the design and implementation of government sector principles. This study should assist in the implementation process. Finally, the study may challenge some of the assumptions underlying the design of accounting principles for government. The correction of the assumptions should assist the design process.

The accounting profession should undertake specific actions to overcome the deterrents to principles implementation. While politicians resist disclosure of financial information, the legislative and executive respondents indicated that they are not satisfied with current reports and believe that needed changes would be beneficial. Both the state legislators and the financial executives said they would welcome the development and implementation of government accounting principles. Even though the same persons felt that professional accountants are adequately involved in government accounting, such is contrary to the results of the survey.

Professional involvement is inadequate because the principles are being developed virtually completely by those on whom the system is reporting. For this reason, perhaps the accounting profession should seek actively to develop and implement accounting principles for state government. In recognition of the status of law as a source of principles, this may entail the development and passage of model accounting legislation.

Professional involvement in state government accounting principles development must involve more than framework studies and the suggestion that private sector principles, if applicable, should be utilized by government. Research projects, a closer working relationship with government accountants, and educational programs for government and commercial sector accountants may be aspects of that increased participation.

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APPENDIX A

Principles Presented by Oakey

National Committee on Governmental Accounting

Committee on Concepts of Accounting Applicable
to the Public Sector

General Accounting Office

Principles Presented by Oakey[1]

1. That the only assets and liabilities of a government that can be intelligently expressed in dollars and cents in a balance sheet are those assets and liabilities that are funded, that is, that are restricted by funds.

2. That the assets that are restricted by funds are those which are susceptible of expenditure; in other words, are current assets, such as cash, taxes accrued, not collected, miscellaneous revenues accrued, not collected, stores, assessments receivable, etc.

3. That there are two exceptions to the principles just stated; namely, assets of endowment funds and sinking funds. The assets of endowment funds are non-expendable since they represent investments acquired to produce income. The assets of sinking funds are non-expendable as far as the current period immediately passing is concerned. They are expendable only at a future date for the redemption of debt.

4. That a government balance sheet should include only those liabilities that are funded, that is to say, which grow out of the operations of a fund and are to be liquidated by the assets of a fund. Such liabilities include vouchers payable, warrants payable, temporary loans, etc.

5. That there is one exception to this principle, namely, the liability consisting of long-term bonded debt. Such debt sometimes is to be liquidated out of the assets of a fund, that is, of the sinking fund, but such debt does not grow out of the operations of the fund.

6. That the liability for the public debt should be shown separately from the balance sheet together with the details relating to the sinking fund.

7. That the assets and liabilities and the operations of endowment funds should be shown separately from all other funds and should not be included in the balance sheet of the government.

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[1]Francis Oakey, Principles of Government Accounting and Reporting (New York: D. Appleton and Company, 1921).

8. That each fund has a definite financial condition that can be ascertained and should be separately accounted for and reported on. Each fund has a distinct series of operations which should be accounted for and reported separately from the operations of all other funds.

9. That the accounts relating to funds should be divided into two main parts: (1) Those that relate to public funds or funds established to carry on activities of the government for the benefit of the public; and (2) private funds or those in respect to which the government exercises the responsibility of custodian rather than owner.

10. That the operation account should include all expenditures, that is, capital outlays as well as expenses of administration, operation, and maintenance. Capital outlays for the acquisition of property reduce resources of funds, just as much as expenditures on account of administration, operation and maintenance. Permanent properties are not fund resources. Consistent with this principle, capital outlays for the acquisition of property do not result in the setting up of fixed assets in the proprietary accounts nor in the balance sheet.

11. That, consistent with the principles above stated, the operation account of the government as a whole should include all receipts--proceeds of bond issues as well as revenues--as increasing elements; and should include all expenditures--capital outlays as well as expenses of administration, operation, and maintenance--as decreasing elements, arriving at a surplus representing the excess of all receipts over all expenditures.

National Committee on Governmental Accounting
GAAFR

1968 GAAFR[2]

Legal Compliance and Financial Operations

1. A governmental accounting system must make it possible: (a) to show that all applicable legal provisions have been complied with; and (b) to determine fairly and with full disclosure the financial position and results of financial operations of the constituent funds and self-balancing account groups of the governmental unit.

Conflicts between Accounting Principles and Legal Provisions

2. If there is a conflict between legal provisions and generally accepted accounting principles applicable to governmental units, legal provisions must take precedence. Insofar as possible, however, the governmental accounting system should make possible the full disclosure and fair presentation of financial position and operating results in accordance with generally accepted principles of accounting applicable to governmental units.

Proposed GAAFR Revision[3]

1. A governmental accounting system must make it possible both: (a) to determine compliance with legal provisions; and (b) to determine fairly and with full disclosure the financial position and results of financial operations of the constituent funds and account groups of the governmental unit in conformity with generally accepted accounting principles.

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[2]National Committee on Governmental Accounting, Governmental Accounting, Auditing, and Financial Reporting (Chicago: Municipal Finance Officers Association, 1968).

[3]National Council on Governmental Accounting, Working Draft GAAFR Restatement: Introduction and Principles (Chicago: Municipal Finance Officers Association, 1977).

The Budget and Budgetary Accounting

3. An annual budget should be adopted by every governmental unit, whether required by law or not, and the accounting system should provide budgetary control over general governmental revenues and expenditures.

Appropriate Budgeting and Budgetary Control

9. An annual operating budget should be adopted by every governmental unit, whether or not required by law. The basis on which the budget is prepared should be consistent with generally accepted accounting principles applicable to governments, and the accounting system should provide appropriate budgetary control over governmental fund revenues, expenditures, and transfers.

Fund Accounting

4. Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund Accounting Systems

2. Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or financial resources together with all related liabilities (and residual equities or balances, and charges therein, which are) segregated for the purpose of carrying out specific activities in accordance with special regulations, restrictions, or limitations.

Types of Funds

5. The following types of funds are recognized and should be used in accounting for governmental financial operations as indicated.

Types of Funds

3. The following types of funds should be used in accounting for state and local governments:

(1) The General Fund to account for all financial transactions not properly accounted for in another fund;
(2) Special Revenue Funds to account for the proceeds of specific revenue sources (other than special assessments) or to finance specified activities as required by law or administrative regulation;
(3) Debt Service Funds to account for the payment of interest and principal on long-term debt other than special assessment and revenue bonds;
(4) Capital Projects Funds to account for the receipt and disbursement of moneys used for the acquisition of capital facilities other than those financed by special assessment and enterprise funds;
(5) Enterprise Funds to account for the financing of all services to the general public where all or most of the costs involved are paid in the form of charges by users of such services;
(6) Trust and Agency Funds to account for assets held by a governmental unit as trustee or agent for individuals, private organizations, and other governmental units.
(7) Intragovernmental Service Funds to account for the financing of special activities and services performed by a designated

Governmental Funds

(1) The General Fund--to account for all externally unrestricted resources except those required to be accounted for in another fund.
(2) Special Revenue Funds--to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or for major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.
(3) Capital Projects Funds--to account for financial resources segregated for the acquisition of major capital facilities (other than those financed by Special Assessment and Enterprise Funds).
(4) Debt Service Funds--to account for the accumulation of resources for, and the payment of, interest and principal on general obligation long-term debt (other than special assessment and enterprise debt).
(5) Special Assessment Funds--to account for the financing of public improvements or services deemed to benefit the properties against which special assessments are levied.

Proprietary Funds

(6) Enterprise Funds--to account for the provision of goods or services to the general public on a continuing basis where all or most of the costs involved are financed by user

organization unit within a governmental jurisdiction for other organization units within the same governmental jurisdiction;

(8) Special Assessment Funds to account for special assessments levied to finance public improvements or services deemed to benefit the properties against which the assessments are levied.

charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for management control, accountability, or other purposes.

(7) Internal Service Funds--to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis.

Fiduciary Funds

(8) Trust and Agency Funds--to account for assets held by a governmental unit as trustee or agent for individuals, private organizations, and/or other governmental units. These include (a) Expendable Trust Funds (governmental), (b) Pension Trust Funds (governmental) (c) Agency Funds (governmental) and (d) Nonexpendable Trust Funds (proprietary).

Number of Funds

(6) Every governmental unit should establish and maintain those funds required by law and sound financial administration. Since numerous funds make for inflexibility, undue complexity, and unnecessary expense in both the accounting system and the over-all financial administration, however, only the minimum number of funds consistent with legal and operating requirements should be established.

Number of Funds

(4) Every governmental unit should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and unwarranted expense both in the accounting system and in overall financial administration.

Funds Accounts

(7) A complete self-balancing group of accounts should be established and maintained for each fund. This group should include all general ledger accounts and subsidiary records necessary to reflect compliance with legal provisions and to set forth the financial position and the results of financial operations of the fund. A clear distinction should be made between the accounts relating to current assets and liabilities and those relating to fixed assets and liabilities. With the exception of Intragovernmental Service Funds, Enterprise Funds, and certain Trust Funds, fixed assets should not be accounted for in the same fund with the current assets, but should be set up in a separate, self-balancing group of accounts called the General Fixed Asset Group of Accounts. Similarly, except in Special Assessment, Enterprise, and certain Trust Funds, long-term liabilities should not be carried with the current liabilities of any fund, but should be set up in a separate, self-balancing group of accounts known as the General Long-Term Debt Group of Accounts.

Account Groups

(5) A clear distinction should be made between the accounts relating to the assets and liabilities of proprietary and governmental funds and those relating to its general fixed assets and general obligation long-term liabilities.
(a) Fixed assets related to specific proprietary funds should be accounted for through these funds; all other fixed assets of a governmental unit should be accounted for in the General Fixed Assets Account Group.
(b) Noncurrent liabilities of proprietary funds and of Special Assessment and certain Fiduciary Funds (e.g., Pension Trust Funds) should be accounted for through these funds. All other unmatured general obligation liabilities of the governmental unit should be accounted for in the General Long-Term Debt Account Group.

Valuation of Fixed Assets

(8) The fixed asset accounts should be maintained on the basis of original cost, or the estimated cost if the original cost is not available, or, in the

Valuation of Fixed Assets

(6) Fixed assets should be accounted for at cost or, if the cost is not readily determinable, at estimated cost. Donated assets should

case of gifts, the appraised value at the time received.

Depreciation

(9) Depreciation on general fixed assets should not be recorded in the general accounting records. Depreciation charges on such assets may be computed for unit cost purposes, provided such charges are recorded only in memorandum form and do not appear in the fund accounts.

Basis of Accounting

(10) The accrual basis of accounting is recommended for Enterprise, Trust, Capital Projects, Special Assessment, and Intragovernmental Service Funds. For the General, Special Revenue, and Debt Service Funds, the modified accrual basis of accounting is recommended. The modified accrual basis of accounting is defined as that method of accounting in which expenditures other than accrued interest on general long-term debt are recorded at the time liabilities are incurred and revenues are recorded when

be recorded at their estimated fair market value at the time received.

Depreciation

(7) a. Depreciation of fixed assets accounted for through proprietary funds should be recorded in the accounts of the appropriate proprietary fund.

b. Depreciation of general fixed assets should not be recorded in the accounts of governmental funds. Depreciation of general fixed assets may be recorded in supplemental cost accounting systems or calculated for cost finding analyses; and depreciation and/or accumulated depreciation may be recorded in the General Fixed Assets Account Group.

Accrual Basis in Governmental Accounting

(8) The accrual basis of accounting for assets, liabilities, revenues, expenditures or expenses, and transfers should be utilized to the extent practicable in measuring financial position and operating results.

a. Proprietary fund revenues should be recognized in the accounting period in which they are earned and become objectively measurable; expenses should be recognized in the period incurred if objectively measurable.

received in cash, except for material or available revenues which should be accrued to reflect properly the taxes levied and the revenues earned.

b. Governmental fund revenues should be recognized in the accounting period in which they become available and objectively measurable. Expenditures should be recognized in the accounting period in which they are incurred, if objectively measurable, except for unmatured interest on general long-term debt and special assessment indebtedness secured by interest-bearing special assessment levies, which should be recognized when due.

c. Transfers should be recognized in the accounting period for which they are authorized.

Classification of Accounts

(11) Governmental revenues should be classified by fund and source. Expenditures should be classified by fund, function, organization unit, activity, character, and principal classes of objects in accordance with standard recognized classification.

Transfer, Revenue, Expenditure, and Expense Classification

(10) a. Interfund transfers and proceeds of general long-term debt issues should be classified separately from fund revenues and expenditures or expenses.

b. Governmental fund revenues should be classified by fund and source. Expenditures should be classified by fund, function and/or program, organization unit, activity, character, and principal classes of objects.

c. Proprietary fund revenues and expenses should be classified in essentially the same manner as those of similar organizations, functions, or activities in the private sector.

Common Terminology and Classification

(12) A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports.

Financial Reporting

(13) Financial statements and reports showing the current condition of budgetary and proprietary accounts should be prepared periodically to control financial operations. At the close of each fiscal year, a comprehensive annual financial report covering all funds and financial operations of the governmental unit should be prepared and published.

Common Terminology and Classification

(11) A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports.

Interim and Annual Financial Reports

(12) a. Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations and, where necessary or desired, for external reporting purposes.

b. A comprehensive annual financial report covering all funds and account groups of the governmental unit, together with appropriate combined statements, schedules, and statistical tables, should be prepared and published promptly after the close of each fiscal year.

Committee on Concepts of Accounting Applicable to the Public Sector[4]

I. Objectives of Accounting in the Public Sector

A. 1) To provide the information necessary for faithful, efficient, effective, and economical management of an operation and of the resources entrusted to it. This objective relates to Management Control.
2) To provide information to enable managers to report on the discharge of their responsibilities to administer faithfully, efficiently, and effectively the programs and use the resources under their direction; and to permit all public officials to report to the public on the results of government operations and the use of public funds. This objective relates to Accountability.

B. Four types of Public Sector Entities
1) A government--state, city, county, etc.
2) "An organizational unit within a government. (An agency, a department, a bureau, etc.)"
3) A program--may cross organizational lines or a single agency can have several programs.
4) "A fund (A fiscal entity created to account for resources or other assets that have some special restrictions, character, or requirement.)"

II. The Acquisition and Use of Public Funds

A. Acquisition: Revenue is any increase in expendable assets that does not simultaneously give rise to an increase in liabilities or public debt or that does not represent simply a reimbursement of costs or the recovery of excessive charges against the government.

--Committee discusses the accrual concept of revenue recognition for governmental accounting--

B. Use of Funds: Four critical events are recognized in the use of public sector funds.

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[4] American Accounting Association, "Report of the Committee on Concepts of Accounting Applicable to the Public Sector, 1970-71," The Accounting Review (Supplement to Vol. 47): 76-108.

1) Appropriation--A legislative authorization to spend governmental funds. The authorization includes the amount of money available, the time period of availability and the purpose for which the funds are available.
2) Obligation or encumberance--entering into a transaction that will require the future expenditure of governmental funds. The critical event is the placing of an order.
3) Expenditure--the Committee's Report divides the expenditure into two components.
   a) Accrued expenditure--the incurring of a liability that will require the use of government funds to extinguish. The critical event is the receipt of the materials or services requested.
   b) Applied cost (expense)--the use or consuming of the material mentioned in 3a.
4) Disbursement--"the payment of cash for government expenditures." The payments may precede, coincide with or follow the expenditure.

C. Information for Economic Policy Decisions
1) ". . . to the extent that it makes a difference in economic analysis and policy formulation, each classification of revenues and receipts must be distinguished in accounting reports."
2) The concept of accrued expenditures is extremely important for economic analysis. Expenditures should be classified according to the type of impacts that relate to them.

III. Cost and Accomplishment of Public Programs

1) The commercial world's matching of revenue and expense is not relevant to the public sector.
2) The relevant concept that is similar to the matching concept found in the commercial sector is the relationship between effect and accomplishment of government programs.
   a) Effort: the cost of operations
   b) Accomplishment: the resulting benefit from operations

A. Concepts of Cost
1) Acquisition cost--cost of acquiring an asset, usually composed of the purchase price of the good or service plus related expenses.
2) Applied cost--the portion of an asset's cost (acquisition) that is assigned to a particular program, project, or time period.
3) Replacement cost--amount that would now have to be sacrificed to acquire the equivalent asset.

4) Program cost--the sum of the assigned historical costs that are applied during a particular period of operations.

5) Total cost to the government--includes all program costs plus administrative overhead for general government.

6) Social cost--the total sacrifice made by the public to support government programs. This is measured as the opportunity cost to the public of paying taxes, using resources, and conducting the program in question.

7) Concept of positive correlation--this requires the matching of the costs representing effort as expenses in the period when the resulting benefits are realized.

8) Loss--the loss, destruction, or discarding of an asset when no benefits result. This is to be distinguished from an expense.

B. Criteria for Evaluation of Objectives

1) Operations indicators--these are usually workload and performance statistics that are indicators in non-financial terms of what is produced for the money or effort expended.

2) Program impact indicators--the measure of the output of a program in terms of evaluating against planned accomplishments (benefits). This is expressed or implied in the program objectives.

3) Social indicators--"These indicators reflect changes in social conditions resulting from a combination of programs but not solely attributable to any one of them." These are the "quality of life" indicators.

C. Implications for Accounting

Since governmental programs are not normally undertaken to produce revenue, the accomplishment of any program must be measured in terms of the public good that results. Any information disclosing the results of operations in terms of the public good must be collected and processed through the accounting system to the extent possible if effort and accomplishment are to be meaningfully related.

General Accounting Office

Summary[5]

General Standards

1. The full scope of an audit of a governmental program, function, activity, or organization should encompass:

   a. An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.

   b. A review of efficiency and economy in the use of resources.

   c. A review to determine whether desired results are effectively achieved.

   In determining the scope for a particular audit, responsible officials should give consideration to the needs of the potential users of the results of that audit.

2. The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.

3. In all matters relating to audit work, the audit organization and the individual auditors shall maintain an independent attitude.

4. Due professional care is to be used in conducting the audit and in preparing related reports.

Examination and Evaluation Standards

1. Work is to be adequately planned.

2. Assistants are to be properly supervised.

3. A review is to be made of compliance with legal and regulatory requirements.

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[5]General Accounting Office, Standards for Audit of Governmental Organizations, Programs, Activities and Functions (Washington: U.S. Government Printing Office, 1972), pp. 6-9.

4. An evaluation is to be made of the system of internal control to assess the extent it can be relied upon to ensure accurate information, to ensure compliance with laws and regulations, and to provide for efficient and effective operations.

5. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations.

Reporting Standards

1. Written audit reports are to be submitted to the appropriate officials of the organizations requiring or arranging for the audits. Copies of the reports should be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others responsible or authorized to receive such reports. Unless restricted by law or regulation, copies should also be made available for public inspection.

2. Reports are to be issued on or before the dates specified by law, regulation, or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management and by legislative officials.

3. Each report shall:

   a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.

   b. Present factual matter accurately, completely, and fairly.

   c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.

   d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.

   e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.

f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.

g. Identify and explain issues and questions needing further study and consideration by the auditor or others.

h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.

i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.

j. Clearly explain the scope and objectives of the audit.

k. State whether any significant pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated.

4. Each audit report containing financial reports shall:

a. Contain an expression of the auditor's opinion as to whether the information in the financial reports is presented fairly in accordance with generally accepted accounting principles (or with other specified accounting principles applicable to the organization, program, function, or activity audited), applied on a basis consistent with that of the preceding reporting period. If the auditor cannot express an opinion, the reasons therefor should be stated in the audit report.

b. Certain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of noncompliance, and material changes in accounting policies and procedures, alone with their effect on the financial reports, shall be explained in the audit report.

APPENDIX B

Legislative Cover Letter

Legislative Questionnaire and Distribution
of Responses

Executive Cover Letter

Executive Questionnaire and Distribution
of Responses

THE UNIVERSITY OF NEBRASKA-LINCOLN
COLLEGE OF BUSINESS ADMINISTRATION
LINCOLN, NEBRASKA 68588

DEPARTMENT OF ACCOUNTING

This study is an attempt to obtain information from key legislators regarding state government financial information.

Several legislators from each of the fifty states are being surveyed as a part of a Ph.D. study being conducted by Richard L. Hodges of the University of Nebraska. The completion of the questionnaire will take a few minutes of your time.

I would strongly urge that you complete the accompanying questionnaire. It involves a topic that is of serious concern to state government officials. You can have a significant influence on the outcome of the study.

The study is important to you. First, there is widespread public interest in government accountability. This study allows you to express your opinions about present methods of accounting. Secondly, this study should help direct efforts to improve government accounting so state legislators and other users of the information can be better served.

Individual respondents cannot be identified. All replies will be kept "confidential". The information obtained will be combined with other replies so that no one will be able to identify specific questionnaires.

Prompt completion of the questionnaire will be greatly appreciated as your response is an important part of this study. A return envelope is provided for your convenience.

Thank you very much for your help.

Sincerely,

O. J. Anderson

O. J. Anderson
Professor of Accounting

Legislative Questionnaire

Distribution of Responses

1. Members of the legislature with business experience or training make different decisions regarding government finances than those without that background.

Strongly agree	33
Agree	36
Disagree	12
Strongly disagree	-

2. State government financial reports are received by legislators in time to be used in making decisions on legislation.

Strongly agree	2
Agree	42
Disagree	32
Strongly disagree	3
No response	2

3. Adequate analysis of financial information takes more time than most legislators have available.

Strongly agree	32
Agree	39
Disagree	9
Strongly disagree	1

4. Political considerations are more important than financial considerations when decisions are made on legislation.

Strongly agree	9
Agree	24
Disagree	38
Strongly disagree	8
No response	1
Neither agree nor disagree	1

5. Most special interest groups want the financial benefits they receive revealed to the public.

Strongly agree	2	No response	1
Agree	5	Neither agree nor disagree	2
Disagree	50	Don't know	2
Strongly disagree	19		

6. Legislators are afraid to put pressure upon state administrators to improve financial reporting.

Strongly agree	1
Agree	5
Disagree	55
Strongly disagree	20

7. Voters put enough pressure for financial accountability upon elected state officials.

Strongly agree	3
Agree	9
Disagree	46
Strongly disagree	23

8. Citizens are more concerned with the taxes they pay than with the financial strength of state government.

Strongly agree	22	Don't know	1
Agree	47		
Disagree	11		
Strongly disagree	-		

9. State legislators follow-up to see if the intent of legislation is being carried out by state agencies.

Strongly agree	3	No response	1
Agree	30	Don't know	1
Disagree	41		
Strongly disagree	5		

10. Most state agencies are responsive to the needs of legislators for financial information.

Strongly agree	5	No response	1
Agree	53		
Disagree	17		
Strongly disagree	5		

11. Legislative staffs are too small to provide much assistance to legislators in analyzing state financial information.

Strongly agree	21
Agree	33
Disagree	25
Strongly disagree	2

12. Sources outside of state government provide legislators with little assistance in analyzing state financial information.

Strongly agree	8		
Agree	41		
Disagree	29		
Strongly disagree	3		

13. Most state legislators want voters to hold them accountable at election time for decisions they have made on the spending of tax dollars.

Strongly agree	3	No response	2
Agree	29		
Disagree	36		
Strongly disagree	11		

14. Most state executive branch administrators, appointed and elected, attempt to prevent legislative review of their agencies' financial performance.

Strongly agree	7	No response	2
Agree	31	Don't know	1
Disagree	38		
Strongly disagree	2		

15. It is difficult for a voter to hold a legislator accountable for the financial impact of their (legislator's) decisions.

Strongly agree	14	No response	1
Agree	39	Neither agree nor disagree	1
Disagree	22		
Strongly disagree	4		

16. Financial information improvements needed are too expensive for the benefits that are expected.

Strongly agree	1	No response	1
Agree	13	Neither agree nor disagree	1
Disagree	53	Don't know	3
Strongly disagree	9		

17. Current state financial reports show the benefits received by society from government programs.

Don't know	8	No response	1
Strongly agree	1		
Agree	20		
Disagree	35		
Strongly disagree	16		

18. State financial reports are prepared by people who are responsive to the needs of the legislative user.

Don't know	8	No response	1
Strongly agree	-		
Agree	28		
Disagree	39		
Strongly disagree	5		

19. Personnel preparing state financial reports are adequately qualified for that task.

Don't know	19	No response	1
Strongly agree	4		
Agree	46		
Disagree	10		
Strongly disagree	1		

20. Most legislators are familiar with the meaning of terms in state accounting reports.

Strongly agree	-	No response	4
Agree	32		
Disagree	37		
Strongly disagree	8		

	N/A	1	2	3	4	5
21. Legislators set some accounting rules, but they lack the training needed to do that. (NR = 7)	8	15	13	23	6	9
22. Too many accounting reports exist. (NR = 5)	8	19	11	17	10	11
23. Accounting reports are hard to understand. (NR = 4)	4	10	4	19	21	19
24. Politicians do not favor disclosure of state financial information. (NR = 6)	19	30	1	10	5	10
25. Special interest groups do not want the benefits they receive revealed. (NR = 5)	7	15	9	8	11	26
26. Accounting has not measured the benefits of government programs. (NR = 7)	7	10	5	9	12	31

	N/A	1	2	3	4	5
27. The people preparing accounting reports are not qualified for that task. (NR = 5)	10	30	14	10	5	7
28. Legislators have difficulty reviewing state agencies. (NR = 5)	1	10	6	14	20	25
29. An improved accounting system is too costly. (NR = 6; Don't know = 1)	6	36	7	8	8	9
30. Accounting reports are received too late. (NR = 6)	10	12	10	10	14	19
31. Legislators lack business training or experience. (NR = 6)	6	13	9	21	12	14

32. How would you describe the financial strength of your state?

Very good	40	No response	2
Good	33		
Neither good nor bad	2		
Bad	3		
Very bad	1		

33. How much business experience do you have?

None	5	16-20 years	12
1 - 5 years	11	21-25 years	25
6 -10 years	8	26 years or more	7
11-15 years	9	No response	4

34. How long have you been a legislator?

1 - 4 years	31	13-16 years	6
5 - 8 years	22	17-20 years	2
9 -12 years	13	21 years or more	4
		No response	3

35. Did you hold an elective state, federal, or local government position before you became a legislator?

a) state: yes 3 no 76
b) federal: yes 1 no 78
c) local: yes 20 no 59

36. Other than military service, have you had work experience in state, federal, or local government before becoming a legislator? (Do not include elective government positions.)

a) state:	yes 10	no 69
b) federal:	yes 8	no 71
c) local:	yes 16	no 63

37. Please list any academic or professional degrees received.

B.S.	35
Masters	12
Ph.D. or Professional	15

THE UNIVERSITY OF NEBRASKA–LINCOLN
COLLEGE OF BUSINESS ADMINISTRATION
LINCOLN, NEBRASKA 68588

DEPARTMENT OF ACCOUNTING

June 26, 1978

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Several key officials from each of the fifty states are being surveyed as part of a Ph.D. study being conducted by Richard L. Hodges of the University of Nebraska. The completion of the questionnaire will take a few minutes of your time.

I would strongly urge that you complete the accompanying questionnaire. It involves a topic that is of serious concern to state government officials. You can have a significant influence on the outcome of the study.

The study is important to you. First, there is widespread public interest in government accountability. This study allows you to express your opinion about present methods of accounting. Secondly, this study should help direct efforts to improve government accounting so that problems you currently face as you attempt to improve financial reports can be overcome.

Individual respondents cannot be identified. All replies will be kept confidental. The information obtained will be combined with other replies so that no one will be able to identify specific questionnaires.

Prompt completion of the questionnaire will be greatly appreciated as your response is an important part of this study. A return envelope is provided for your convenience.

Thank you very much for your help.

Sincerely,

O. J. Anderson

O. J. Anderson
Professor of Accounting

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Enclosures

Executive Questionnaire

Distribution of Responses

1. State governments should use the same accounting and budgeting principles as those used by business enterprises.

Strongly agree	9	Don't know	1
Agree	20		
Disagree	41		
Strongly disagree	21		

2. There are too many state government institutions to permit the development of a single comprehensive accounting report.

Strongly agree	6
Agree	21
Disagree	39
Strongly disagree	26

3. Accountants are adequately involved in the development of state government accounting procedures.

Strongly agree	5	No response	1
Agree	59		
Disagree	24		
Strongly disagree	3		

4. Many people who are not skilled in accounting such as scientists are preparing state accounting reports.

Strongly agree	1	No response	1
Agree	24		
Disagree	58		
Strongly disagree	8		

5. Existing state government accounting systems meet the needs of most users.

Strongly agree	4	No response	1
Agree	40		
Disagree	35		
Strongly disagree	12		

6. State accountants often bargain with the federal government regarding accounting procedures to follow.

Strongly agree	3	No response	3
Agree	34	Neither agree nor disagree	1
Disagree	43	Don't know	2
Strongly disagree	6		

7. State government financial reports are received by legislators in time to be used in making decisions on legislation.

Strongly agree	6	No response	1
Agree	47		
Disagree	30		
Strongly disagree	8		

8. Most special interest groups want the financial benefits they receive revealed to the public.

Strongly agree	-	No response	3
Agree	6	Don't know	3
Disagree	63		
Strongly disagree	17		

9. State legislators follow-up to see if the intent of legislation is being carried out by state agencies.

Strongly agree	3	No response	2
Agree	47		
Disagree	34		
Strongly disagree	6		

10. Most state agencies are responsive to the needs of legislators for financial information.

Strongly agree	8	No response	1
Agree	69		
Disagree	13		
Strongly disagree	1		

11. Most state legislators want voters to hold them accountable at election time for decisions they have made on the spending of tax dollars.

Strongly agree	-	No response	3
Agree	29	Don't know	1
Disagree	42		
Strongly disagree	17		

12. Most state executive branch administrators, appointed and elected, attempt to prevent legislative review of their agencies' financial performance.

Strongly agree	2	No response	1
Agree	13		
Disagree	63		
Strongly disagree	13		

13. Financial information improvements needed are too expensive for the benefits that are expected.

Strongly agree	1	No response	2
Agree	10	Neither agree nor disagree	1
Disagree	65	Don't know	2
Strongly disagree	11		

14. Current state financial reports show the benefits received by society from government programs.

Strongly agree	-	Don't know	1
Agree	8		
Disagree	53		
Strongly disagree	30		

15. State financial reports are prepared by people who are responsive to the needs of the legislative user.

Strongly agree	-	Don't know	1
Agree	47		
Disagree	40		
Strongly disagree	4		

16. Personnel preparing state financial reports are adequately qualified for that task.

Strongly agree	2	Neither agree nor disagree	1
Agree	61		
Disagree	27		
Strongly disagree	1		

17. Most legislators are familiar with the definitions of terms used in state accounting reports.

Strongly agree	-
Agree	18
Disagree	60
Strongly disagree	14

18. Which basis of accounting does your state use?

Cash basis	35
Accrual	3
Modified accrual	53
Other (explain)	1

19. If your state uses cash basis reporting, please respond to the following statement. Reports based upon accrual accounting won't look much different than the current ones.

Strongly agree	1	No response	54
Agree	12	Neither agree nor disagree	2
Disagree	17	Not applicable	3
Strongly disagree	3		

20. In spite of central accounting, each agency prepared most of the accounting reports used by decision makers.

Strongly agree	7	No response	1
Agree	47	Not applicable	2
Disagree	25		
Strongly disagree	10		

	N/A	1	2	3	4	5
21. State law (NR = 2)	-	1	2	10	5	72
22. American Institute of CPA'S (NR = 4)	4	22	13	20	20	8
23. Government Accounting Office (NR = 4)	13	22	18	15	15	4
24. Financial Accounting Standards Board (NR = 5)	13	30	16	13	8	6
25. <u>Governmental Accounting, Auditing, and Financial Reporting</u> (NR = 5)	-	8	9	24	22	23
26. Common usage in accounting (NR = 7)	2	4	11	30	21	16
27. Accounting text (please list main one)						
28. Other (specify)						

29. How would you describe the financial strength of your state?

Very good	53
Good	30
Neither good nor bad	5
Bad	3
Very bad	1

30. How much business experience do you have?

None	11	16-20 years	13
1 - 5 years	13	21-25 years	6
6 -10 years	20	26 years or more	13
11-15 years	14	No response	2

31. Other than military service, how long have you worked in state, federal, or local government?

a) Did you work in state government? yes 92 no 0
b) Did you work in federal government? yes 11 no 81
c) Did you work in local government? yes 14 no 78

32. Please list any academic or professional degrees received.

B.S.	49	CPA	22
Masters	28		
Ph.D. or Professional	4		

	N/A	1	2	3	4	5
33. Legislators set some accounting rules, but they lack the training needed to do that.	4	16	19	19	23	11
34. Too many accounting reports exist.	6	39	20	17	8	2
35. Politicians do not favor disclosure of state financial information.	20	36	19	9	4	4
36. Special interest groups do not want the benefits they receive revealed.	13	32	16	13	10	8
37. Accounting has not measured the benefits of government programs. (NR = 1)	6	11	16	22	18	18

	N/A	1	2	3	4	5
38. The people preparing accounting reports are not qualified for that task. (NR = 1)	9	21	18	24	6	13
39. An improved accounting system is too costly.	4	24	18	18	17	11
40. Accounting reports are received too late.	3	26	16	24	13	10
41. There are too many state agencies.	10	32	23	9	10	8