

## WHAT HATH THE GASB WROUGHT? THE UTILITY OF THE NEW REPORTING MODEL: A NATIONAL SURVEY OF LOCAL GOVERNMENT FINANCE OFFICERS

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**ABSTRACT.** Results from a national survey of local government finance directors suggest that five years after implementation, the post-Statement 34 accrual-based accounting model has done little to stimulate the development of operating cost data (such as activity-based costing) or performance measurement, and provides decision makers with little information to improve short- or long-term financial planning,. While younger respondents attach greater value-added to the New Reporting Model (NRM), overall support for the hybrid approach (traditional fund reporting plus entity-wide full accrual reporting) is limited. Consistent with the “Theory of Planned Behavior” applied in prior accounting research; traditional sociological drivers (community size, form of government, and other demographic factors.) do not impact perceptions of the NRM. Findings also suggest “accrual anomie” due to lack of experience with this basis of accounting.

### INTRODUCTION

This article is based on a national survey of local finance directors regarding their attitudes towards adoption of what the authors term the New Reporting Model (NRM). The NRM is our descriptor of the state-local accounting model principally represented by the implementation of Governmental Accounting Standards Board Statement Number 34 of 1999, which focused on the adoption of

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fixed asset depreciation and entity-wide statements, as well as subsequent statements dealing with topics such as the treatment of brownfields, and other post-employment benefits (OPEBS). The preface to Statement 34 (Governmental Accounting Standards Board, 1999) notes that implementation was based on “retaining the familiar” (p. 2) in keeping the reporting of traditional funds, while “bringing in new information, including the sufficiency of revenues relative to costs, the status of finances year over year, the investment in capital assets, and the ability to make better comparisons between governments” (p. 3). The authors view promulgation of the NRM as part of the 25 year trend throughout the world’s industrialized countries to adopt accrual-based accounting schemes having roots in the private sector (Premchand, 2006). Support for these models can be predicated on two assumptions: more realistic portrayal of accounting condition and their capacity to address normative concerns for intergenerational equity (Osborne & Plastrik, 2000; Coe, 2007).

Adoption of the NRM has not been without criticism. Christiaens and Rommel (2008) contend that it is a de facto threat to a federal system given that compliance with generally accepted accounting principles (GAAP) may undermine community political preferences (e.g., a community that funds schools better than its peers do but spends less on sewers may be seen as “underinvesting” even if it is building human capital that fosters economic growth). The Government Finance Officers Association (GFOA) and the Government Accounting Standards Board (GASB) have had serious differences of opinion regarding the scope of GASB’s NRM implementation, particularly the latter’s possible rollout of mandatory performance reporting (Foltin, 2008). While this conflict is not central to our discussion, its existence does speak to underlying disagreement among local finance professionals regarding the NRM’s organizational utility and of the GASB as a standard setter.

For the record, and to paraphrase from Julius Caesar, we come to neither praise nor bury the NRM. Our principal interest is assessment of the NRM’s *perceived* impact on a bundle of daily and long-range managerial functions. While some of these functions may be outside the realm of financial reporting for which respondents are primarily responsible, we assume the following. While accounting data are retrospective (i.e., “rear view”) in nature, their principal intent is to

inform future managerial behavior (Simini, 1978; Monahan, 2001; Niven, 2003; Siciliano, 2003). We make this assertion with two important provisos: (a) our respondents' influence and professional judgment are attenuated by workplaces influenced by political forces and highly differentiated "business lines;" (e.g., parks and recreation, police, solid waste) and (b) dissemination of accounting reports and statements may be of limited utility to a financially illiterate citizenry (Coy, Dixon, Buchanan & Tower, 1997; American Institute of Certified Public Accountants, 2006; Frank & Fink, 2008), factors that effectively limit their substantive and symbolic value as accountability tools. These prisms notwithstanding, the authors believe they provide an important read on the accrual-based accounting model that has taken root in America and elsewhere.

Our work is primarily descriptive in nature. We do, however, endeavor to find "drivers" of respondent attitudes, deploying community and respondent characteristics such as population, governance structure (city manager vs. strong mayor), years of respondent experience, etc. Our hope is to present a "gestalt" or pattern indicative of attitudes held by chief financial officers in regard to the NRM and its impact on operations in their communities. We conclude the paper with an assessment of how these attitudes might square with the use of the NRM as a management tool now and in the future.

#### LITERATURE REVIEW

The literature related to implementation of Government Account Standards Board (GASB) Statement 34 and its succeeding statements has taken several tacks. One approach, generally aimed at practitioners, is of a "how to" nature – describing, for example, how different financial statements are created, what capital assets are to be depreciated, and how these reports are to be prepared for public dissemination. (Patton & Bean, 2001; Engstrom & Tidrick, 2001; Chase & Triggs, 2001; Dillinger, 2001; Kinnersley & Patton, 2005). Another direction is characterized as normative, with emphasis on the expected value of an accrual model (i.e., the heightened awareness of capital depreciation; expected concern for intergenerational concerns of public budgeting decisions; utility for inter-jurisdictional comparisons of financial condition (Chan, 2001; Kravchuk & Voorhees, 2001; Mead, 2002; Esser, 2006; Gloster, 2006; Wang,

Dennis, & Yuan, 2007). Others have empirically assessed the impact of accrual-based accounting on government balance sheets and bond ratings (Frank, 1997; Marlowe, 2007).

This article follows on the works of Shirota (2003), Frank, Gianakis, and McCue (2005) and Gianakis, McCue, and Frank (2007) that examine a fundamental question: how and in what ways does the NRM impact operations in local government financial management? Subsidiary questions relate to the NRM's relative value as a reporting tool to critical stakeholders, including service delivery managers, and of topical significance, local officers' views of the Governmental Accounting Standards Board (GASB) as both a standard setter and proponent of a private-sector oriented accounting model in the local sector.

Our rationale for this approach is twofold. First, we argue that the value of a management innovation must be ultimately viewed in terms of its value to daily operations (Armstrong, 1985; Ammons, 2002). In essence, organizational utility is a critical acid test for a new management tool and limited integration with existing administrative systems and management processes is a telltale sign of short-circuited adoption or outright irrelevance. Second, we believe that with at least a half-decade of experience with the NRM, survey-driven findings are no longer tapping non-attitudes (Achen, 1975; Bertrand & Mullainathan, 2001) with unclear referent and significant social desirability bias (Newman, 2004). On the face of it, our respondents have had sufficient time working with this model to speak to its relative merits with a high degree of confidence, bolstering the validity of the findings. We further expect they have complied with the NRM for a number of accounting cycles, allowing for accurate assessment of its tangible and intangible benefits and costs (Frank & Fink, 2008)

#### METHODOLOGY

The authors conducted a national mail survey of chief financial officers of cities 50,000 or larger during the summer of 2007. This was from a randomly chosen sample of 407 cities. The thirteen municipalities selected from New Jersey were eliminated, because the state mandates that their municipalities report finances using a format other than the GAAP promulgated by the GASB. Five cases from the sample proved to be bad addresses. Of the 402 sound

surveys sent, the authors received 154 completed surveys after two mailings, yielding a response rate of 38 percent, which is on par with mail administrations undertaken in an era of increasing aversion to surveys (Neuman, 2004). The majority of our survey items were answerable with five-point Likert scales, with some 10-point scales, and several simple binary or multiple-choice demographic questions. We pre-tested the instrument with finance officials and staff from professional survey firms.

To foster greater reliability of our findings, our definition of the NRM as “embodied by GASB 34 and subsequent statements that more closely align the local sector’s accounting approach to that found in the private sector,” was on the survey instrument. While there is no universally-accepted definition of the NRM, the authors hoped this repetition would allow for a consistent definition during administration.

**TABLE 1**  
**Key Respondent and Community Attributes**

Attribute	Mean	Median
Years Experience in Finance	18.9	20.0
Age	50	51
City Population	102,947	51,460
General Fund Budget	\$82,715,000	\$45,950,000

Table 1 contains the descriptive statistics regarding our respondents and the communities they serve. Chief financial officers in our sample are experienced (with length of service in their field of nearly 20 years) and may be characterized as “mid-career” with an average age of approximately 50. The average age and experience of respondents suggest their formative professional years were prior to the adoption of the NRM, a factor that may color their impressions of its implementation. We also found that nearly 44.0 percent of our respondents held an advanced degree, 97.0 percent were members of the GFOA, and nearly three-quarters reported that their city had won the GFOA’s Certificate of Achievement for Excellence in Financial Reporting.

In terms of community demographics, our survey respondents were predominantly representing smaller- to mid-size communities, with 83.0% representing cities under 100,000 in population. We did, however, receive 25 responses from cities with populations over 100,000, and cross-tabulation with our sample demographics does not suggest a significant under-representing of larger cities with the possible exception of cities over 1,000,000 populations (1 of 9 represented).

### FINDINGS

Our initial survey findings are divided into three groups: community impact, fiscal impact, and implementation. We then examine the respondents' attitudes regarding the role of the GASB, and a sample of open-ended responses. Survey responses are on a six-point Likert scale ranging from strongly disagree (SD) to strongly agree (SA), allowing for a neutral response.

The data in Table 2 suggest that the NRM is a "non-event" in terms of community impact. Fifty-six percent of our respondents strongly disagree or disagree with NRM's potential for more accurate bond rating, while only 29.0 percent agree or strongly agree with the model resulting in more useful information to bond buyers. These results are surprising given the centrality of the bond rating community to GASB in their promulgation of the NRM (Mead, 2001; 2002). Similarly, 78.0 percent disagree or strongly disagree with the NRM's ability to provide managers with information useful to program planning or decision making. Almost half (45.0%) disagree with the contention that the NRM will assist with benchmarking financial condition to peers and nearly two-thirds (66.0%) disagree with its utility in user fee and charge setting. Arguably, the NRM's characterization of net expense (revenues) as the difference between program cost and income would facilitate establishment of fees as well as inter-jurisdictional comparison (either in absolute terms or in terms percentage of costs recovered). Our findings suggest this has not been the case.

Only 15.0 percent of our respondents agreed that the NRM "enhanced communication of government operations to the public." This finding is consistent with several decades of accounting research (Justice, Melitski, & Smith, 2006; Frank & Fink, 2008) suggesting that

**TABLE 2**  
**Implementing the NRM in My Community Has...**  
**Frequencies in Percent (N in Parentheses)**

Statement	SD	D	N	A	SA	MD
Resulted in more accurate bond rating	<b>25</b> (30)	<b>31</b> (37)	<b>31</b> (37)	<b>11</b> (13)	<b>1</b> (1)	<b>2</b>
Provided prospective buyers of bonds/COP's with more useful information	<b>20</b> (25)	<b>26</b> (32)	<b>26</b> (32)	<b>23</b> (29)	<b>6</b> (7)	<b>3</b>
Informed the decision-making capacity of elected officials	<b>36</b> (52)	<b>37</b> (55)	<b>15</b> (22)	<b>10</b> (15)	<b>2</b> (3)	<b>2</b>
Provided operating managers (e.g., police, sanitation) with information they can use for program planning and decision making	<b>36</b> (52)	<b>42</b> (64)	<b>15</b> (22)	<b>7</b> (10)	<b>1</b> (1)	<b>2</b>
Enhanced comparisons of jurisdiction's financial condition relative to peers or benchmarks	<b>19</b> (27)	<b>26</b> (37)	<b>30</b> (43)	<b>19</b> (27)	<b>6</b> (8)	<b>3</b>
Helped to align user fees and charges with actual costs	<b>24</b> (36)	<b>42</b> (63)	<b>19</b> (29)	<b>13</b> (19)	<b>2</b> (3)	<b>2</b>
Enhanced communication of government operations to the public	<b>31</b> (46)	<b>38</b> (57)	<b>14</b> (21)	<b>14</b> (21)	<b>1</b> (2)	<b>2</b>

Legends: SD = strongly disagree; D = Disagreement; N = Neutral; A = Agreement; SA = strongly agree; MD = Median Response.

numerous efforts to simplify government financial statements have done little to enhance their public understanding.

In the aggregate, findings in Table 2 indicate that the “disagree” category emerges is modal in six of the seven items regarding community impact. This suggests our respondents do not believe the NRM constitutes an improvement in meeting the information needs of external users, or potential internal users, and this perception is grounded in a broad cross-section of municipal activities and functions.

Our findings in Table 3 cover questions dealing with the NRM's implementation and its impact on city finances. Consistent with findings reported in Table 2, we found little perceived impact of implementation. For example, only four percent agreed or strongly

agreed that implementation was increasing reliance on fees and charges or increasing general fund tax rates. Seventy-seven percent disagree or strongly disagree with the NRM's bringing increased utilization of defined contribution pensions and only twenty-two percent agree or strongly agree with its implementation leading to reduced post-employment benefits. Eighty percent show disagreement with rollout leading to more informed debate over operating budget priorities, and a similar proportion (77.0%) disagree that it leads to heightened debate over capital spending. The latter finding is surprising in light of GASB 34's intent to better reveal the "wearing out" of fixed assets (Frank, 1997). And it is even more striking when considering that 91.0% of our respondents adopted the depreciation method (as opposed to the modified approach, grounded in periodic engineering studies), suggesting their communities are receiving an annual signal regarding net additions or subtractions to the physical

**TABLE 3**  
**Implementing the NRM in My Community Has Contributed To...**  
**Frequencies in Percent (N in Parentheses)**

Statement	SD	D	N	A	SA	MD
Increased reliance on fees and charges	39 (57)	37 (53)	20 (29)	3 (5)	1 (1)	2
Increases in general fund tax rates	43 (65)	40 (60)	12 (18)	3 (5)	1 (2)	2
Increased pressure to adopt defined-contribution pension plans	39 (56)	38 (54)	14 (20)	6 (8)	4 (6)	2
Increased pressure to reduce other post-employment benefits	28 (42)	32 (47)	18 (27)	16 (24)	6 (9)	2
More informed political debate over operating budget priorities	41 (62)	39 (59)	13 (19)	6 (9)	2 (3)	2
More informed political debate over capital budget priorities	42 (63)	35 (53)	12 (19)	9 (15)	2 (4)	2
Heightened concern for short-term budgetary balance	39 (59)	38 (58)	16 (24)	7 (10)	1 (2)	2
Heightened concern for long-term financial condition	33 (51)	30 (46)	14 (22)	19 (29)	3 (5)	2

Legends: SD = strongly disagree; D = Disagreement; N = Neutral; A = Agreement; SA = strongly agree; MD = Median Response.



plant. Table 3 findings also indicate that sizable majorities (77.0% and 63.0%, respectively) show disagreement with the NRM's heightening concern for either short-term balance or long-term financial condition. In theory, the accrual-based model promulgated by GASB should increase decision-makers' awareness of the actual financial conditions of their communities in terms of budget balance and long-term solvency. Our findings suggest this may not be the case.

The anomalous findings in Table 3 relate to the "increased pressure to adopt defined-contribution pension plans" and the "increased pressure to reduce other post-employment benefits" items. Rapidly increasing costs of public pensions and post-retirement benefits and their displacement of other current services has become headline news across the country (Byrnes, 2005; McNeil, 2007; McDonald; 2007; Christensen, 2008; Lowenstein, 2008); academic work suggests growth of these expenditures is beginning to negatively impact bond ratings in at least some large communities (Marlowe, 2007). Perhaps our respondents do not see the NRM as the immediate driver of these benefit cost increases, but instead view the causation as political in nature, with elected officials and employees unwilling or unable to deal with the economic reality of rapidly escalating pensions and OPEBs.<sup>1</sup> In any case, Table 3's across-the-board median scores of 2.0 on a scale of 1.0 to 5.0 suggest that our respondents collectively view the NRM as having relatively limited impact on community finances.

There is no unified theory of public financial disclosure (Frank & Fink, 2008), and given the exploratory nature of this study, we felt a priori statement of hypotheses would be premature. Nonetheless, the authors collected data on a number of potential drivers of attitudes such as education level, population, GFOA membership, GFOA award status, form of government, and length of service. Of these, the one consistent driver was length of service. We divided the "years of experience in public finance" variable by quartile (less than 10 years, 11-19 years, 20-25 years, and greater than 25 years) and used ANOVA (deploying conservative Scheffe a posteriori tests) to test for impact and found that our youngest quartile of respondents perceived greater impact on several key facets of financial management. These included "helped to align user fees and charges with actual costs" "more accurate bond ratings," "pressure to spend

more on capital replacement,” “increased use of cost accounting techniques,” “enhanced communication to the public,” pressure to spend more on capital maintenance,” and “pressure to spend more on capital replacement.” This finding suggests a possible generational factor is at play in terms of perceived impact of the NRM. Younger finance professionals may be more receptive to the intent of GASB in implementing an accrual-based accounting system due to formal training, or they have come of age professionally under a new model and have had less to unlearn with its successful rollout.

This potential generational impact is consistent with Ajzen’s (1991) Theory of Planned Behavior (TPB), often deployed in the accounting literature (Clikeman & Henning, 2000; Bobek & Hatfield, 2003; Carpenter & Reimers, 2005). TPB would hold that finance officers’ attitudes toward accounting disclosure are more likely determined by subjective norms of appropriate behavior, including their moral-ethical stance and perceptions of best practice among peers, than traditional sociological determinants such as gender, race, or educational level. Thus as younger professionals come to the fore in local finance, they may have a more favorable view of the NRM’s value to their respective communities.

Findings in Table 4 reveal respondents’ perceptions of the NRM and its cost of implementation. These responses tap attitudes toward the NRM as a generic type with an eye to assessing the organizational resources required for its rollout.

Responses to the first two items in Table 4 address attitudes regarding the value of the Statement of Net Assets and Statement of Activities that are reported on full-accrual, jurisdiction-wide, and functional basis (e.g., public safety, parks and recreation) reports. These jurisdiction-wide reports have been superimposed on the traditional fund accounting structure. In theory, these statements should present information to senior managers and elected officials which stimulate thinking about the economic resources “consumed” by current residents relative to past and future users. In practice, this “Dual-Perspective” accounting approach has been a source of consternation to finance professionals since the promulgation of GASB 34 (Government Accounting Standards Board, 1999, pp. 104-105), because this complicated fund structure is tied to two different bases of accounting (full accrual versus modified accrual) at different

**TABLE 4**  
**Views on Selected Issues Related to NRM Implementation**  
**Frequencies in Percent (N in Parentheses)**

Statement	SD	D	N	SA	A	MD
Financial data required by the NRM is too highly aggregated to inform the policy-making process	4 (6)	14 (21)	21 (32)	40 (60)	21 (31)	4
Financial data required is also too highly aggregated to inform operations management	4 (7)	9 (14)	16 (24)	46 (69)	25 (37)	4
GASB should require the reporting of financial data disaggregated to the departmental level	19 (26)	19 (26)	16 (23)	15 (21)	3 (4)	2
The NRM's implementation has encouraged the use of performance measures in my jurisdiction	36 (53)	40 (60)	14 (21)	8 (13)	1 (2)	2
GASB should require some form of performance measures	64 (63)	21 (21)	7 (7)	6 (6)	3 (2)	2
The MD & A results in candid reporting of the economic, political, and social factors that affect my community's financial condition	9 (13)	14 (22)	26 (39)	36 (55)	15 (23)	4
Requirements of the MD & A have forced my city to lengthen the time horizon of its financial planning	27 (40)	39 (59)	25 (38)	5 (8)	3 (5)	2
Compliance with NRM requirements in our city has been more difficult than expected	6 (9)	26 (40)	35 (53)	23 (35)	9 (14)	3

Legends: SD = strongly disagree; D = Disagreement; N = Neutral; A = Agreement; SA = strongly agree; MD = Median Response.

organizational levels. Nearly two-thirds of our respondents (61.0% and 66.0%, respectively) agree or strongly agree that these data are too aggregated to assist with policy or programmatic decision-making. These frequencies confirm an implicit hypothesis that the information garnered in the newly-created government-wide statements is of limited utility to daily operations because it is not tied to activities at the departmental level, underscoring what might be termed a design

flaw in the NRM.<sup>2</sup> These findings dovetail with those of an earlier national survey of local finance officers (Gianakis, McCue, & Frank, 2007) in suggesting NRM rollout has provided little incentive to adopt activity-based-costing (ABC) or related methods; the current findings suggest that data aggregation to the fund level may present an impediment to adoption.

Activity-based costing was not the only practice the NRM has failed to stimulate. Over three-quarters of our respondents disagreed or strongly disagreed with the contention that the NRM “has encouraged the use of performance measures in my jurisdiction.” Similarly, 85.0 percent showed disagreement with the statement that “GASB should require some form of performance measurement.” Consistent with what was stated at the onset, the authors are agnostic on the “hot button” issue of mandatory “service effort and accomplishment” (SEA) reporting. Nonetheless, it seemed appropriate to query if NRM induced support for implementation. Holding in abeyance GASB’s (and the Association of Governmental Accountants’) strong support for performance reporting, we argue that notions of effective practice in financial reporting link financial and performance reporting. The federal government requires annual reports that contain financials and performance data (Mullen, 2006). Many local and state governments have adopted a balanced scorecard (BSC) approach to performance that examines financial and non-financial performance in annual budgeting (Monahan, 2001). Our findings suggest rollout of the NRM has not fostered concomitant performance reporting in the local governments tapped in this study.

Our respondents were more sanguine about the impact of the Management Discussion and Analysis (MD&A), in which the jurisdiction’s chief executive provides a narrative summary of the community’s financial position and economic condition. A bare majority (51.0%) agree that the NRM’s MD & A requirement has stimulated more candid reporting of the socioeconomic conditions impacting their communities. On the other hand, a majority (66.0%) disagreed with the contention that the MD & A has stimulated long-range financial planning. This dichotomy suggests that the import of the MD & A from the private sector appears to have had mixed results in terms of financial reporting and planning. A clear inference is that the MD & A may contribute to more transparent reporting the current

financial condition but fails to stimulate debate regarding long-term financial or economic development policy, a possible result of the restrictions GASB places on MD & A content (Governmental Accounting Standards Board, 2008).

Our results also show ambivalence in regard to the costs of compliance with the NRM. The modal response to the contention that “compliance with NRM requirements in our city has been more difficult than expected” is neutral, although nearly one-third of the respondents disagreed with this statement, and nearly one third agreed. One possible explanation is that the GASB gave ample warning about the costs of implementation. (GASB, 1999; Mead, 2002). The data in Table 5 provide further insight into why findings may reflect a degree of ambivalence.

Responses indicate that the greatest burden is “retraining of current staff,” while the third greatest incremental cost is “temporary use of other department’s staff.” Other expenses related to professional services and computer enhancements may be one time costs. Although eight percent of the respondents report that their jurisdictions had to invest in additional hardware to comply with the NRM, two of the top three investments for NRM implementation were not necessarily out-of-pocket, explaining in part the mixed distribution of results. Open-ended responses to the “other” category were

**TABLE 5**  
**Incremental Resources Needed to Implement the NRM**  
**Percentage of Cities Answering “Yes”**

Resource	Percent
Retraining of current staff	65
Hiring of Financial consultant/advisor	35
Temporary use of other department’s staff	32
Acquisition of new accounting software	22
Hiring of additional professional staff	20
Hiring of engineering consultants	20
Hiring of additional clerical staff	15
Reorganization of finance office	14
Other	14
Additional legal staff	8
Acquisition of new data processing hardware	8

primarily the increased auditing costs associated with auditing two sets of books, entity-wide and fund-based. Thus, rollout has generated fairly significant costs, but the greatest may be those associated with redeployment of current staff and its associated disruptions to other services.

The authors believed it was valuable to obtain respondent views regarding the NRM as a generic type and of the GASB as the GAAP standard setter. Prior research (Chan, 2003; Johnson & Lapsley, 2005) suggests local finance officials are at best ambivalent regarding implementation of the NRM, appreciating its calls for greater transparency in reporting but seeing little value added for informing the public about local government operations or their financing. The long-standing tiff between the GASB and the GFOA over mandatory reporting of government performance standards noted earlier (Gauthier, 2007) is a possible driver of local finance officials' attitudes toward the NRM, attitudes that were probably formed during a professional socialization period that antedated the NRM's implementation.

Table 6 presents findings regarding three questions concerning the GASB and the NRM. Our respondents show limited enthusiasm for the GASB as a standard setter (median score of 4.8). They show even less support for the NRM as an approach to financial reporting (median score of 4.0), with 90.0% of our respondents grading the

**TABLE 6**  
**Respondent Opinions of the Governmental Accounting Standards Board (Frequencies in Parentheses)**

Question	1-3	4-7	8-10	MD
How would you rate the GASB's overall performance as standard setting (i.e., GAAP establishing body for local governments? (1 is poor, 10 is excellent)?	<b>33</b> (49)	<b>55</b> (82)	<b>13</b> (19)	4.8
How would you rate the New Reporting Model as a desired approach to municipal accounting (1 is undesirable, 10 is highly desirable)?	<b>48</b> (73)	<b>41</b> (62)	<b>11</b> (16)	4.0
On a scale from 1 to 10 (1 = strongly disagree, 10 = strongly agree), to what extent do you agree that the NRM eliminates the need for a GASB that is separate from the FASB?	<b>41</b> (60)	<b>40</b> (58)	<b>19</b> (27)	5.0

NRM at 7 or lower on our 10-point scale. That said, there does not seem to be a groundswell of support for returning to the pre-1984 days in which government accounting standards were established by the Financial Accounting Standards Board (FASB), a change that might make sense if respondents saw the NRM and governmental accounting as little more than a subset of its private counterpart (median score of 5.0). In short, our respondents seem conflicted, with considerable disaffection for the GASB and the NRM, but no compelling desire to view government accounting as an adjunct of private accounting. Taken in sum, these findings *may* suggest our respondents find a “comfort zone” in a traditional control-oriented fund accounting model and perceive limited utility in the NRM’s more broadly-defined managerial model with private sector roots.

At the end of our survey we allowed for open-ended responses to the simple question, “Do you have any comments regarding NRM implementation in your city?” Fifty-five respondents (just over one-third of our completed surveys) responded. Generally negative responses outnumbered generally positive comments by an over a four to one margin (45 to 10). It is very easy to characterize the negative responses: the majority is couched in benefit-cost terms, with respondents seeing little value-added relative to the cost and effort of implementation. The second overarching theme is the difficulty associated with understanding of the statements. Some representative statements are as follows:

“Very expensive to implement, given the value received.”

“NRM has too few benefits compared to cost. Presenting two sets of financial statements is confusing for the average citizen. GASB needs a new mission and should stop finding solutions where there are no findings.”

“I view it as an ‘Unfunded Mandate’ that created morale problems, clouds the important issue of accountability by Fund, and is not understood or appreciated by elected officials; and it is not as important to bond rating agency analysis as we’re led to believe.”

“The complexity of our CAFR’s deters most people including our elected officials from using the data. Instead they rely on budget data.”

“The information being reported has been of little use or benefit to the elected officials, staff, or public. The info generates difficult questions regarding interpretation of year to year variance because of the high level of aggregation. Reporting at this level of aggregation implies to the public that more assets are available for general use than there are. I asked the S & P analyst performing a rating review recently about Statement 34 and was informed they don’t use it as the level of reporting does not reveal information they can use analytically due to the level of aggregation.”

“I do agree with capturing the cost of infrastructure with its related depreciation, to show more true cost of operations of the governmental units. I think this was a good result of the NRM, and I also agree that governments should begin to report some form of performance measurement, however, I don’t think the financial statement is the correct format to do that...The Statement of Activities is formatted to show results similar to the private sector, however, government is not funded like the private sector, so it is very difficult to draw any sort of comparisons. If the purpose of the NRM was to draw attention to the fact that governments are not supported through fees and charges, then it succeeded. However, I think that was pretty common knowledge in the first place.”

On a more positive note, some comments suggest that the NRM has enhanced the quantity and quality of discussion regarding community financial condition and spending priorities. Here are some representative comments:

“There has been increased pressure and political debate on spending issues, budgetary balance, capital maintenance and replacement, and concern for both the short-term budgetary balance and the long-term financial condition.”

“I believe through GASB 34 the “true” financial condition of gov’t entities is presented; Adding pension + OPEB also helps—for rating agencies and similar financial organizations, not the average user (citizens, commission).”

“Easier to implement than we thought it would be. The MD & A has been very helpful in explaining the financial position & issues to non-finance elected officials and the public. Before



GASB 34 I used to write a summary memo to the town council. Now it's all in the MD & A. A big improvement.”

The majority of open-ended respondents tended to view the NRM as little more than a paper exercise that complicates rather than illuminates their financial reporting, with little or no value to the public or elected officials. On the other hand, at least some respondents felt that the NRM has achieved a modicum of success as a reporting tool, enhancing the quality of financial reporting to critical stakeholders. Positive views of the NRM tend to focus on the utility of the MD & A. This split tends to corroborate our survey findings by demonstrating both the range of views held by respondents, as well as the deep-seated frustration that at least some harbor in regard to the NRM in terms of its value to a broad cross-section of financial management activities.

### CONCLUSION

Interpretation of survey results is not an exact science and the authors have not followed their fixed-response or open-ended questions with probative interrogatories via face-to-face or electronic means. That shortcoming notwithstanding, the attitudes reflected in this survey's responses are grounded in a half-decade of experience under GASB 34 and its successors. Stated differently, we have surveyed at a juncture that should reflect crystallization of attitude based on real world experience with an accounting structure rooted in the private sector. There are at least four plausible scenarios that may drive the tepid support for the NRM found above. Taken in their entirety they provide a grounded rationale for our survey findings:

#### 1. *Accrual Accounting is not a Panacea for Budgeting in Tough Times*

The first determinant may be that accrual accounting has been oversold as a financial management tool in the public sector. Showing the true cost of government operations over their lifetime is viewed as a pillar of contemporary public management (Osborne & Plastrik, 2000). Nonetheless, Premchand (2006) notes that accrual accounting has been deployed at all levels of government throughout the Organization for Economic Co-Operation (OECD) for nearly 20 years, but has done little to restrain the growth of government or ease fiscal stress. The NRM may illuminate trade-offs inherent in the budgetary process but it is no substitute for political will needed for

tough choices. The NRM cannot eliminate the business cycle and its impact on revenues, and it cannot bring us back to September 10, 2001, in terms of the perceived need for homeland security outlays faced by local governments (Reddick & Frank, 2006). Nor can it obviate the serious erosion of the local sector tax base in an era of tax revolts, internet retailing, sectoral economic shifts, and fierce inter-jurisdictional competition (Brunori, 1998). It is hard to disagree with Charles Coe's (2007) belief that full accrual accounting represents an analytic advance over its cash or modified accrual predecessors, but our work supports Premchand's (2006) contention in that respondents may not see the NRM as a tool for improved decision-making. Policy makers and financial managers are buffeted by winds that attenuate the utility of the NRM.

## *2. There is an "Accrual Anomie" with Respect to Government Operations*

Jorge, Carvalho, and Fernandes (2007) have studied the implementation of accrual accounting in local governments throughout Portugal and other countries in the Euro Zone and found that many practitioners are unaware of how it has impacted fixed and financial asset reporting or the meaning of "net worth" in their communities. Mattison, Salme, and Tagesson (2004), had similar findings in their work in Finland and Sweden, where implementation in the latter was fostered by intervention from the central government. These international studies point to the accounting equivalent of Emile Durkheim's sociological state of normlessness or anomie.

We argue that such anomie may be the result of limited experience with, or failure to understand, how information garnered with an accrual model can be put to use for internal analysis or inter-jurisdictional comparisons. Mead (2006) notes that it has only been in the past few years that information made available via GASB 34 has been integrated into local government financial condition analysis. Further, to the authors' best knowledge, there exists no *Yahoo! Finance* analog wherein practitioners can go online to see how their communities compare in terms of administrative overhead, annual percentage of fixed assets replaced, or accrued pension liabilities, all at the click of a mouse. The upshot is that by dint of training and experience, our respondents may suffer from "Accrual

Anomie.” In this view, realization of the potential benefits of the NRM may require a much longer time than its designers imagined.

*3. Older Respondents Have Come of Age under a Different Accounting Model and See Limited Utility in Putting the NRM to Use: Paradigm Shifts to Not Take Place Overnight,*

The statistical differences in attitudes found between our younger and older respondents suggest that a generation gap exists regarding the NRM’s potential impact. Younger finance officials may see value-added to at least some of the information now available to them. Older professionals may not wish to invest the psychic energy or organizational resources needed to embrace a new paradigm as opposed to simply complying with its paper requirements. Conversely, as our responses regarding defined contributions may suggest, older officials may not want to hear any “bad news” brought about via introduction of the NRM. Indeed, when we asked the finance officers to rate the financial condition of their respective jurisdictions from 1 (poor) to 5 (excellent), they recorded a mean of 4.05 (standard deviation .84), an estimate that does not comport with common perceptions of a local sector strained by many crosscurrents, not the least of which is implementation of the NRM.

This generational perspective hearkens to what Kuhn (1962) spoke to in *The Structure of Scientific Revolutions*: Paradigm shifts do not take place overnight and are instead a function of incremental shifts in beliefs about what constitutes best explanatory theory. If indeed the GASB has sought a paradigm shift from a control-oriented model to one that supports a broader managerial approach, it may take years or even decades of practice to take hold. Re-socialization of adult behavior is not an easy task (e.g., physiology aside, the military’s preference for young as opposed to middle-aged recruits). Our generational differential is consistent with a slow-but-steady shift in perceptions among finance professionals rather than any “big bang.”

*4. Adopting the “Dual Perspective” Accounting Model Sent Unclear Signals about the Future of Local Financial Reporting.*

The biblical proverb from Hosea 8:7 “They have sewn the wind, and they shall reap the whirlwind,” may help in interpreting our results. GASB’s “Dual Perspective” adoption of the accrual model did not make a clean sweep with the past, leaving practitioners with

elements of a fund-based control orientation and jurisdiction-wide accrual statements. This ambiguity may have contributed to the “Accrual Anomie” among practitioners, limiting the incentives for putting the information garnered from the NRM to use in daily financial management activities or longer-range planning. A cleaner break with the traditional fund model *may* have altered the prism through which practitioners viewed the NRM and given impetus to thinking through how accrual-based information could be utilized in a redefined financial management capacity. However, a cleaner break would entail a realignment of the organizational role of the finance function from control to support of operating departments, particularly in the form of disaggregated cost data. This broadened role, may not square with their professional socialization or self-defined roles (Gianakis & McCue, 1999).

Our findings hint that younger practitioners see greater utility with the NRM than their senior colleagues. Future cohorts of finance professionals may better understand how information garnered under the NRM can be put to use for short- and long-term financial management. Nonetheless, the majority of our respondents feel ill at ease with the hybrid model GASB has brought to bear. Whether this discomfort is the result of an objective benefit-cost calculus that augurs against the NRM’s utility for decision-making or a subjective assessment that the new model brings bad tidings (deferred infrastructure repair, burgeoning costs of pensions and OPEB’s) that might have been less visible under the old standards, is something our findings cannot address. Nonetheless, they suggest that for the foreseeable future, many local finance managers may view the NRM as a wasteful effort that does little to help them in their day-to-day tasks. Future research may reveal whether GASB expectations and practitioner attitudes and practice will converge to run on parallel tracks, wrought on a fulcrum that balances concern for short-term efficiency and financial controls with a broader appreciation of managerial effectiveness and intergenerational equity.

#### NOTES

1. A related alternative explanation is that our respondents and many of the employees and managers of the communities in which they work are in a state of denial regarding the financial and political sustainability of their current pensions and OPEBs.

This would square with recent experience of “The Big 3” automakers and the United Auto Workers (UAW) when the UAW absorbed health costs and other OPEBs via creation of Voluntary Employee Benefit Associations (VEBA’s) that took these liabilities off the car makers’ books after decades of believing that their funding issues could be solved within the respective corporations (Lowenstein, 2008) . Herman Leonard (1988) raised this possibility two decades ago in *Checks Unbalanced: The Quiet Side of Public Spending*, when he noted the propensity of governments to continually underfund their defined benefit pensions and post-retirement benefits. Simply put, our respondents may not be capable of understanding that when it comes to pensions and OPEB’s the NRM is making their communities “legacy employers” much like the automakers, airlines, and steel companies in the recent past. It is worth noting that the Pension Protection of Act of 2006 contains provisions for such a reality via coverage of 457 and 403(b) plans typically associated with public employment. This suggests that federal legislators may understand, possibly better than those in the proverbial “trenches,” that the days of traditional benefit packages in local government are drawing to a close.

2. It is conceivable that the NRM would have stimulated more activity-based costing (ABC) or related private sector costing approaches if rollout had been mandated at the fund level. Only about nine percent of our respondents reported that the NRM had led to implementation of ABC in their communities. This percentage squares with what Kennett, Durler, and Downs (2007: 27) report for large cities (population over 250,000) where ABC was deployed by 16.0% of respondents.

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