

THE STATE OF PERFORMANCE REPORTING BY GOVERNMENTS IN THE USA

Edward Kamnikar, College of Business, Troy University Montgomery, 136 Catoma St., Montgomery, AL 36102, 334-2419703, ekamnikar@troy.edu

Judith Kamnikar, School of Business, Auburn University Montgomery, P.O.Box 244023, Montgomery, AL 36124-4023, 334-244-3227, jkamnika@aum.edu

Ashley Burrowes, Woodbury University, 7500 Glenoaks Boulevard, Burbank, California 91510, 818-245-0559, Ashley.Burrowes@woodbury.edu

ABSTRACT

Performance reporting is a widespread activity among state and local U.S. governments. Although they receive much interest during their initial implementation, the actual performance results documents are ignored. Performance reports are seldom if ever cited by the press or the local politicians as documentation of good or poor administrative performance. The authors believe that lack of interest is because current performance reports do not measure performance and suggest several widely used business practices that, if adopted, would enhance the efficacy of performance reports.

INTRODUCTION

Rarely do media outlets in the United States mention local, state or federal government performance measurement results. Elected officials seldom, if ever, quote their government's published performance results at the podium. While politicians often give a politically charged clarion call for government transparency and improvement of government products and services rarely do public officials ever tout their transparent decision making initiatives that are generally associated with performance reporting. We hear or see little, if any, post-election evidence of transparency or documented improvements.

Performance budgeting or performance measurement reporting is generally rhetorically prepared. In other words, the actual performance measurement document or performance budgeting preparation and its unveiling to constituents, appear to be the beginning and end of any successful or meaningful attempt to actually measure performance. Therefore, published performance documents that are to provide readers with the ability to analyze year-end results in terms of basic performance lack efficacy. And of the often promised transparency, very little or none at all is provided. Concerned citizens in the USA have become increasingly frustrated with government performance and the non-transparent decisions made by their elected and appointed officials.

Over the last thirty years, thousands of newly adopted government performance budgeting and reporting initiatives have been implemented. The promises by SLGs, which accompanied these new initiatives, to provide constituents with decision useful performance information and transparency, were rarely delivered. Therefore, even though many USA governments have provided some form of performance reporting or performance budgeting information, these documents have not gained acceptance as the "go-to" report for assessing governmental performance.

A BRIEF OVERVIEW OF PERFORMANCE REPORTING REFORMS

The concept, that a government should be accountable to its citizens, was loosely established with the signing of the Magna Carta in 1215 and developed with various countries as their respective economies emerged. Beginning with the industrial revolution, state and local governments in the United States strived to define, measure, and report government productivity to its citizens. In the late 1920's, the National Committee on Municipal Standards developed measures for determining the efficiency and effectiveness of government services [3]. Public interest organizations joined this movement and took steps to ensure that performance reporting occurred. Many bureaus of municipal government research were established to do efficiency surveys, develop reorganization programs and administrative reforms, and identify principles of administration for the public sector [4]. Some of these research bureaus attempted to report performance not only in terms of output, but also in terms of efficiency and effectiveness.

As far back as 1928, the National Committee on Municipal Standards developed means of measuring the effectiveness of government services....The International City Managers' Association, in the late 1930's, initiated an extensive study of the measurement of local government services [5].

During the period 1940-1970, constituent pressure for reform subsided giving public administrators an opportunity to initiate internal reforms. Government services were expanding and costs of services were increasing. "The kind of governments that developed during the industrial era, with their sluggish, centralized bureaucracies, their preoccupation with rules and regulations, and their hierarchical chains of command, no longer worked very well"[6]. To address the rising costs the administrators introduced, with more fanfare than success, reforms including program performance budgeting systems, zero based budgeting systems, management by objectives, and other cost containment endeavors. These reform initiatives focused on process/the mechanics of who (should be held accountable), how (the reporting and communication of performance results), and why (response to taxpayers, creditors, and other constituents). According to Dubnick, this creates an "accountability paradox" [7]:

The most basic form of performance focuses attention on tasks being carried out by the performing agent. It is the view of performance associated with the process of production..... The second form of performance elevates the significance of the quality of the act dimension in performance... Rather, it is a reflection of the quality of the agent's actions in applying higher levels of knowledge, skill, understanding, and so on in the carrying out of the tasks.... If the agent generates value, it is value of a narrower symbolic sort for the agencies who conduct the account giving to placate the powers-that-be with superficial or ceremonial activity... This situation helps explain a phenomenon that is best termed the "accountability paradox."

...there exists an inherent tension between accountability and performance on an operational level as well as logically: Increasing efforts to improve performance through accountability tends to have the opposite effect. Rather than acting as a driver for desired levels of improved performance, accountability tends to a "breaker" by either slowing down or stopping the improvements.

The paradox – as speech, acts, reporting, mitigating, and reframing demand attention and consume the energy and time of the account giver – thereby using resources that would otherwise be devoted to the more desired forms of performance.

The authors believe that Dubnik’s accountability paradox was invoked, intentionally or otherwise, as initiatives aimed at increasing accountability and transparencies through performance reporting were implemented. It is imperative to make changes that will reinforce the focus on productivity and goal achievement in simpler terms.

This solution lies with accounting standard setting bodies whose role is to improve the understandability of financial and nonfinancial reports and thus educate the citizenry to take responsibility for the government decision making that occurs in the democratic countries. With that, we continue the purpose of the paper with a brief history of the Governmental Accounting Standards Board (GASB) in its efforts to regulate service efforts reporting.

SERVICE EFFORTS AND ACCOMPLISHMENT REPORTING

In 1984, the Governmental Accounting Standards Board (GASB), a private sector initiative, was given the mission to establish and improve standards of state and local governmental accounting and financial reporting for the guidance and education of the public, including issuers, auditors and users of financial information. The conceptual framework established by GASB to provide the foundations for performance reporting stated that “accountability, as a concept, is the cornerstone of all financial reporting for state and local governmental entities [8]. It is, after all, the reason for financial reporting. The primary users of state and local government financial reports are (1) citizens, (2) legislators and oversight bodies, and (3) investors, creditors, and analysts. To date, GASB has issued several documents (Standards, Interpretations, Technical Bulletins, Implementation Guidelines, and Concepts) that have significantly improved financial reporting by SLGs. The financial reporting standards have resulted in more consistency, in that similar economic events are reported similarly by different governments. In addition, each government now prepares government wide (consolidated) financial statements. The government wide financial statements include the Statement of Activities, which is an accrual measurement of the government’s financial operating performance.

Performance reporting should explain the operating results in terms of accomplishments of goals or progress toward achieving desired community goals. "There are three main uses of public service performance measurement: to improve decisions, to improve accountability, and to improve the performance of public services"[9]. Accountability goes beyond preparation of general purpose financial statements and a demonstration of compliance. It is the extended need for accountability that supports service efforts and accomplishments reporting (SEA). As a result of an extensive research effort, Concepts Statements No. 2: Service Efforts and Accomplishments Reporting, was issued by GASB which reaffirmed the purpose of SEA reporting [10].

The Board emphasized that “SEA information, both financial and nonfinancial performance measures, was an essential aspect of the measurement of governmental performance and is necessary for assessing accountability and in making informed decisions.” All state and local governments were encouraged to embrace the concept statement as they worked to establish and/or improve their performance reporting. The document provided a conceptual framework for the continuous development of accountability indicators. The standard required that measurements of inputs and outputs/activities capture the total cost of government services. In addition, measures of outcome and accomplishment must also be

provided. The GASB issued Concepts Statement No. 5 reaffirming that SEA reporting is “a needed part of general purpose external financial reporting (GPEFR) that will assist financial report users to assess performance for accountability and decision-making purposes”[11] and provided a common framework or the effective external communication of SEA performance information [12].

RESEARCH METHODOLOGY

The authors examined US state and local government (SLG) documents for a twenty year time period. By appealing to the relevance of history when using the historicist method, we assumed that we can argue persuasively why performance reporting deserves investigation from its past contribution to the advancement of accountability. The authors thus adopt the following two fundamental assumptions of historicist methodology:

- “1) that regularities based on chronologies and observation do exist; and
- 2) that historical evidence, though by nature interpretative, is meaningful.” [2 p. 168]

In effect, authors employing the historicist method in performance reporting reviews assume the role of judges who make verdicts from the class of past theoretical contribution and empirical findings. The verdicts of these “judges” are suggested relevant paths leading to the current state and indicating future research directions in performance reporting.

In order to reach their verdicts, reviewers engage in a historic interpretation of past contributions to convince other actors in the field of inquiry of the veracity of their conclusions. In other words, the authors of narrative reviews try to increase the plausibility of their claims in the minds of the audience by arguing the coherence between their conclusion (i.e. current state and future directions) and the premises (i.e. perceived historic pattern of selected empirical findings). This coherence between the input of historic evidence and output of projective significance of past research is grounded in the author’s philosophy of historicism, which becomes manifest when the authors make judgments about the relevance of past contributions [2, p.336].

We deconstructed by way of textual analysis numerous SLG reports over a twenty year period in order to identify progress in performance reporting not only for the development of an alternative way to construct a shared history of the subject but also for the development of common norms for review articles that could help to advance government accounting scholarship.

This logic of meaningful retrospection brings to archival research a review of articles and edicts that develops pro/con arguments about different paths of progress in New Public Management. Arguably, the previous studies and edicts deconstructed provide the necessary social material of research experience and competence (i.e. theoretical maturity and empirical content) to construct blueprints for the current state and for future research directions [2].

SUMMARY OF FINDINGS AND CONCLUSIONS

After reviewing and analyzing the SLG documents, the authors determined that there were three used common business elements which would improve the relevance and the efficacy of performance

reporting documents. These three elements, all present in private sector reporting but rarely presented in state and local government reporting, are:

- (1) Accrual based budgeting to include the measurement of total estimated cost of services. This approach would permit budget estimation comparison with the actual cost of services as reported in the required government accrual based financial statement. Currently, SLGs prepare budgets on a cash or current resource available basis.
- (2) An updated government financial statement format comparable to the current business formatted financial statements. This change would provide readers a more commonly understood and thus, more user friendly format for analytical purposes.
- (3) A life-cycle-auditing approach to be implemented for the financial statements, the organization's budgets and the performance measurements reports.

Countries other than the USA do employ these elements in governmental reports are available for review and consideration. One example used as a comparison benchmark by the authors was the performance reporting practices followed by New Zealand [13]. There are several other examples also. With the work toward international harmonization of accounting standards in the public sector, it is possible that the accountability needs will be met by adoption of the best practices available. Through cooperation, not turf envy or protection by the various public interest groups, meaningful performance reporting reform can be accomplished. The reform, which had its beginning in the 90s, should produce two transformations: first, a new era of "Government by the People"; and second, a more efficient and effective, results driven government.

To summarize, performance measures are not accomplishing the results that the performance initiatives claimed. The elements that need to be incorporated to achieve results such as transparent decision useful reports which allow citizens and other stakeholders to judge performance of government managers and elected official are threefold:

- First, require all government financial reporting to be on the accrual basis of accounting and to follow the business model for formatting there revenues and expenses. Fund statements need not be discontinued, merely changed to accrual basis and formatted following the business model.
- Second, require governmental budgets to be prepared on an accrual basis of accounting.
- Third, require a Life Cycle Auditing approach to government performance measurements.

REFERENCES

- [1] Marieta, M. and Perlman, M. 2000. The uses of authority in economics: shared intellectual frameworks as the foundation of personal persuasion, *American Journal of Economics and Sociology*, 59 (2), pp. 151-89.
- [2] Novicevic, M., Harvey, M., Buckley, M. and Adams, G. 2008. Historicism in narrative reviews of strategic management research, *Journal of management History*, 14,

- [3] Bouckaert, G. 1992. Public productivity in retrospective. *Public Productivity Handbook*, New York: Marcel Dekker, Inc., pp. 15-46.
- [4] Gulick, L. 1928. *The national institute of Public Administration, a progress report*. New York: Institute of Public Administration.
- [5] Barbour, G. 1975. *Measuring Local Government Productivity*. *Municipal Yearbook*, Washington, D.C.: ICMA, pp. 38-46.
- [6] Osborne, D. and Gaebler, T. *Reinventing government: how the entrepreneurial spirit is transforming the public sector*. New York: Addison-Wesley Publishing Company, Inc., 1992.
- [7] Dubnick, M. 2005. *Accountability and the Promise of Performance: in search of the mechanisms*. *Public Performance & Management Review* 28(3), pp.376-417.
- [8] Governmental Accounting Standards Board. 1987. *Concepts Statement No. 1: Objectives of Financial Reporting*. Norwalk, Ct.: GASB.
- [9] Epstein, P. 1988. *Using performance measurement in local government: a guide to improving decisions, performance, and accountability*. New York: National Civic League Press, 1988.
- [10] Governmental Accounting Standards Board. 1993. *Concepts Statement No. 2: Service Efforts and Accomplishments Reporting*. Norwalk, Ct.: GASB.
- [11] Governmental Accounting Standards Board. 2008. *Concepts Statement No. 5: Service Efforts and Accomplishments Reporting, an amendment of Concepts Statement No. 2*. Norwalk, CT.: GASB.
- [12] Governmental Accounting Standards Board. 2010. *Suggested Guidelines for Voluntary Reporting of Service Efforts and Accomplishments (SEA) Performance Information*. Norwalk, CT.: GASB.
- [13] Kamnikar, J., Kamnikar, E. and Burrowes, A. 2011. *Government Financial Management in New Zealand*. *Journal of Government Financial Management* 60(3). Alexandria, VA: Association of Government Accountants, pp. 40-45.