



THE STATE OF “IGNORED” PERFORMANCE REPORTING BY GOVERNMENTS IN THE USA

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Abstract

Citizens and politicians alike in the USA have become increasingly frustrated with government performance and the non-transparent decisions made by their elected and appointed officials. At present the USA is suffering from unparalleled sequestering in response to the last thirty years of newly adopted government performance budgeting and reporting initiatives that have been implemented with questionable efficacy. The promises by SLGs, which accompanied these new initiatives, to provide constituents with decision useful performance information and transparency, were poorly 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. This paper traces this build up in no confidence and compares US government agencies with government performance reporting in New Zealand.

Key Words: Accountability, Performance & Service Efforts Reports

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1. 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.

Governments and politicians are, today, aware of the need for accountability in this era of "New Public Management" (Dubnick, 2005) and not surprisingly the use of internet home pages has increased the supply of available information to state and local government (SLG) service users. Although much information is available to the citizenry and other stakeholders, these reports appear to be ignored by all except the government administrative preparers themselves. Perhaps, proverbially, it is hard to find the wood from the trees.

It has been suggested that the effectiveness of the SEA report could be increased if government units disseminated disclosures that are relevant to the needs of SEA performance report users using diverse forms of communication (for example, direct mailings or videos) (Sage & Sage 2010, p. 118).

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.

The authors examined US SLG documents for a twenty year time period and determined that there were three elements which would improve the relevance and the efficacy of performance reporting documents. These three elements, all present in private sector 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.

2. Paper Purpose and Organization

The purpose of this paper is threefold. First, to present a brief history of performance budgeting, also known as performance measurement reporting, by SLG within the U.S.A. The conceptual framework for performance measurements in the USA are known as Service Efforts and Accomplishment Reporting (SEA). Secondly, we report on the current status of SEA reporting. And thirdly, the authors identify the current missing elements of performance reporting that rules out meaningful analysis and interpretation.

The paper is comprised of the following sections: an Introduction, Paper Purpose and Organization, the Research Method, A Brief History of Performance Reporting, Missing Elements of Today's Performance Reports suggested by the authors that prevent report users' meaningful analysis, clarity and decision usefulness. The last section of the paper provides a Summary and Conclusions.

3. Research Method

By appealing to the relevance of history when using the historicist method, we assume 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 (Novicevic et al, 2008, p.336):

- “1) that regularities based on chronologies and observation do exist; and
- 2) that historical evidence, though by nature interpretative, is meaningful”
(Marieta and Perlman, 2000, 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 (Novicevic et al, 2008, 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 (Novicevic et al. 2008, p. 336)

4. A Brief History of Performance Reporting

In a representative democracy, government is held accountable to the people. The concept, that a government should be accountable to its citizens, was loosely established with the signing of the Magna Carta in 1215. The current presentation of that accountability has evolved with the complex economic activity of governments and the ever changing needs of citizens. Without a doubt, the world has changed dramatically since the signing of the Magna Carta. Ever responsive demand for services and the accelerating changes accompanying these demands have influenced the world marketplace and national economies. Economic complexities have changed the way governments operate and the way that they report to their citizenry. Today, current economic factors continue to bring more change to all governments. The United States is no exception.

4.1. Years 1900 - 1940

State and local governments in the United States have strived to define, measure, and report government productivity to its citizens since the Industrial Revolution. In the late 1920’s, the National Committee on Municipal Standards developed measures for determining the efficiency and effectiveness of government services (Bouckaert, 1992). Public interest organizations joined this movement and took steps to ensure that performance reporting occurred. Between 1900 and into the 1940s, cities in the United States grew rapidly due to the influx of new immigrants looking for work in the new industries. Government services expanded to meet some of the economic needs of these new companies and political favors and corruption flourished. New

leaders emerged and a government bureaucracy evolved to isolate government from the influence of politics. Controls were put into place to allow reporting of performance. The reports concentrated on resources expended (inputs), the operating process (throughput), and the operating effect (outputs). 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 (Gulick, 1928). 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 (Barbour 1975).

4.2. Period 1940 - 1970

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." (Osborne and Gaebler, 1992) 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. This time period expanded the government's accountability to include the processes by which it conducts the planning, allocating, and managing of public resources.

Unfortunately, the reform initiatives identified by Osborne and Gaebler and others (Norman, 2002; Mulgan, 2000; Haque, 2000) focus on the 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). But Dubnik (2005) reflected:

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.

4.3. Period 1970 – 2010

The period 1970-2010 could be identified as the “greening” of performance measurement in government. Accountability was addressed in terms of program effectiveness in the achievement of pre-established program policies. Initiatives to correct ineffective programs included privatization of services and implementation of private sector techniques. During this time period the private sector accounting profession recognized the need to have a separate standard setting body for state and local government accounting and financial reporting. This ushered in the establishment of the GASB in 1984 which replaced the National Council on Governmental Accounting. GASB was recognized as equal in stature to the private sector’s Financial Accounting Standards Board (FASB). Both standard setting boards are overseen by the Financial Accounting Foundation (FAF), a not-for-profit organization. The 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.

In building its conceptual framework, the GASB stated that “accountability, as a concept, is the cornerstone of all financial reporting for state and local governmental entities (GASB 1987). 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.

4.4. Service Efforts and Accomplishment Reporting (SEA).

Performance reporting should explain the operating results in terms of accomplishments of goals or progress toward achieving desired community goals. As Epstein (1988) stated: "There are three main uses of public service performance measurement: to improve decisions, to improve accountability, and to improve the performance of public services."

Service Efforts and Accomplishment (SEA) reporting is an essential element of accountability. It is performance reporting of productivity information.

Productivity information has two primary purposes. The first is accountability. Productivity data enables managers, elected officials and ultimately the public to hold lower-level personnel responsible for the efficiency and, if service outcomes are included in the productivity measurement process, the outcomes of their use of public funds. When productivity is measured over time, these users can assess whether the service or program has been improving or declining, as well as examine the current level of performance

The second primary use, and probably overall the most important, is to encourage, and help, managers to improve their programs and services. Thus, managers can assess the level of productivity for activities, guiding activities that need attention and improvement. Subsequently, the productivity measurements can tell managers whether their actions have led to improved results. The reporting of productivity data can also be used to motivate managers, especially if targets are set at the beginning of the year and achievement against targets is regularly reported and reviewed throughout the year. (Hatry and Fisk, 1992)

In addition to the GASB effort on SEA reporting, other important professional groups endorsed the need for development of performance reporting only to be followed by the Federal Government. The National Academy of Public Administration issued a policy statement that urged policy makers and managers to use performance monitoring to track and report on the effectiveness of government programs (1991). The National Association of State Budget Officers have embarked on several projects to identify new and innovative methods and processes for measuring and reporting performance with the idea that such information can help the states to examine, refine, and improve their decision making processes and improve delivery of services. Also, The National Commission on the State and Local Public Service has undertaken several projects to improve the performance of state and local government (1993).

In 1993 the US federal government established the National Performance Review Committee. Its purpose was and is today to establish departmental strategically planned goals and objectives that are to be accompanied by financial and performance measures. The US Congressional Budget Office has acknowledged that much of the impetus for performance-based budgeting came from the efforts supplied by state and local governments (1993). 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. The Governmental Accounting Standards Board has defined service efforts and accomplishments as follows:

Service Efforts are the activities and expenditures that are undertaken by a democratic government, on behalf of its citizens; to achieve the citizen established goals and objectives. They include personnel, supplies, and other operating costs needed to deliver services.

Accomplishments are the realization or achievement of the goals and objectives given the service efforts. Accomplishments mean results, differences occurring because of those service efforts.

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 realization was that this type of accountability reporting could be costly. Therefore, GASB suggested that SLGs to do a cost-benefit analysis when developing and eventually reporting SEAs. This process would consider the general acceptance by citizens as to the need for measuring accomplishments and the appropriate indicators.

As the demand for more accountability increased, the GASB updated their Concepts Statement No. 2. in 2008 with the issuance of Concepts Statement No. 5. which reaffirmed 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”. The revision states that measures of service efforts should be both financial and non-financial. Those measures of service accomplishments (output measures) are intended to address both quantity and quality of performance. Also, measures relating service efforts to service accomplishments should disclose efficiency measures that relate efforts to outputs as well as disclosing cost-outcome measures that relate efforts to outcomes, and related information that provides a context for understanding and assessing results.

In Concepts Statement No. 5, the GASB addressed the scope of the GASB project and realized that one size does not fit all:

It is beyond the scope of the GASB to establish (a) the goals and objectives of state and local governmental services, (b) specific nonfinancial measures or indicators of service performance, or (c) standards of, or benchmarks for, service performance. Selection of goals and objectives, specific nonfinancial measures or indicators of service performance, or standards of, or benchmarks for, service performance should be made by those charged with that responsibility.

In 2010 the GASB issued *Suggested Guidelines for Voluntary Reporting of Service Efforts and Accomplishments Performance Information* which provides a common framework for the effective external communication of SEA performance information.

4.5. Criticism

The GASB has attracted occasional criticism by public sector professional organizations for their SEA project and initiatives. One complaint has been that accountants should not be involved in performance measurement as this is clearly an arena assigned to management/administrators. Although this fact, managers and administrators are ultimately responsible for SEA measurements and reporting, is not to be refuted, suffice it to say that most performance measures are tied to the financial and nonfinancial information provided by the accountants through the budget results reports and the broader financial statement reports. In addition, the maintenance and operational activities of the internal financial process are integral to the work activities and the professionalism of the accountants and the financial managers. The accounting profession has always been involved at all levels with managements' cost measurement and assessment, budgeting and budget measurement, and performance measurement and reporting within private, for profit, sector organizations. It is the trained accountant/auditor that must attest to the credibility of cost, cost measurement and performance reporting efficacy.

5. Missing Elements of Today's Performance Reporting

5.1. USA

Given that accountability and transparency are still needed, the authors sampled selected current government performance reporting practices in the USA. The sample looked at comprehensive annual financial reports and service efforts and accomplishment reports for several state and local governments. The authors found the following attributes:

- All budgetary comparison schedules were prepared on a budgetary basis (cash or modified accrual or other basis);
- The Statement of Activities is difficult to read and understand for those not financially trained in governmental financial reporting ; and
- There was no information to indicate that life cycle auditing was applied to the budget or the performance measurement reporting cycle.

First, the budget has become the basis for all performance measurement in government. Most government budgets, however, are prepared on a cash or modified accrual (near cash) basis. Although a full cost basis is recommended by the GASB in SEA reporting, we did not identify that full cost or the accrual basis of accounting were being used in the budget documents for the government reports reviewed.

5.1.1. Weaknesses

The cash basis or modified accrual basis of accounting is the choice for governmental budgets but they do not purport to measure full costs. Therefore, cost and performance measures based on this accounting will always be suspect, lack credibility and provide incomplete information. Further it is impossible to compare cash or a modified accrual budget statement with an accrual

operating statement like the government wide Statement of Activities required by GASB without *heroic* accounting measurement reconciliations. These necessary reconciliations are generally beyond the ability of most citizens and stakeholders to understand as the adjustments are complicated even for the trained accounting professional. Budgeting preparation and reporting needs to be changed to a (full) accrual basis of accounting for it is unwise to present financial comparisons with data that cannot be readily located within the government's published financial statement, but exist only because of complicated computational methodology. Misinformation and manipulation are generally the product of excessively complex financial information.

Secondly, government wide (consolidated) financial statements are prepared on an accrual basis. However, the government wide Statement of Activities format is so different from private sector income statement format that it creates an additional burden for the user, generally untrained, to comprehend the significance of the information reported. Then the user is confronted with the required Fund Financial Statements. A government's fund financial statements are provided in addition to the government wide statements and are measured on a modified accrual basis. To summarize the reporting requirements for USA state and local governments: government wide statements are prepared on the accrual basis of accounting; fund statements are prepared on a modified accrual basis (governmental fund types) and accrual basis (proprietary type funds); and budgetary comparison schedules are prepared on a budgetary basis, cash basis or a near cash basis. Performance measurements usually follow the budget basis.

Thirdly, governments are not required to print the findings of their performance audits. Without the auditor's assurance, the reader cannot rely on the credibility of the performance measures published by the government's management. If governments were required to have their performance measures audited by an independent auditor, the citizenry would have more confidence in the performance measures selected and reported by public managers.

5.2. A Benchmark

We contrast the reporting of NZ Government agencies with that of SLGs in the USA. The authors believe that New Zealand is spearheading an international movement towards improved performance reporting. The NZ Government reports on the accrual basis of accounting for financial and budgetary presentations. Because the national budget document follows accrual accounting, the budget information is included on the Statement of Financial Performance.

The NZ Statement of Financial Performance provides the same information to the citizenry as the US Statement of Activities. The Statement of Financial Performance (see exhibit A) for the Government of New Zealand for the year ended June 30, 2010 is a clear, concise, and understandable consolidated financial performance report. The operating results are presented on a comparative basis to the 2009 amounts allowing the reader a comparison with prior year's financial performance.

Exhibit A

The Government of New Zealand

Statement of Financial Performance for the year ended 30 June 2010						
Forecast				Actual		
Original Budget \$m	Estimated Actuals \$m		Note	30 June 2010 \$m	30 June 2009 \$m	
Revenue						
51,052	50,234	Taxation revenue	2	50,347	54,145	
4,860	4,663	Other sovereign revenue	2	4,682	4,118	
55,912	54,897	Total revenue levied through the Crown's sovereign power		55,029	58,263	
16,049	14,335	Sales of goods and services	3	14,331	15,356	
3,159	3,294	Interest revenue and dividends	4	2,315	2,997	
2,814	3,154	Other revenue	5	3,050	2,890	
22,022	20,783	Total revenue earned through operations		19,696	21,243	
77,934	75,680	Total revenue (excluding gains)		74,725	79,506	
Expenses						
21,175	21,400	Transfer payments and subsidies	6	21,213	19,962	
18,324	18,710	Personnel expenses	7	18,477	18,064	
4,126	4,144	Depreciation and amortisation	8	4,229	4,305	
34,855	32,102	Other operating expenses	9	31,338	34,116	
3,349	3,571	Interest expenses	10	2,777	3,070	
3,890	3,135	Insurance expenses	11	3,006	3,882	
254	-	Forecast new operating spending		-	-	
(300)	(455)	Top-down expense adjustment		-	-	
85,673	82,607	Total expenses (excluding losses)		81,040	83,399	
(7,739)	(6,927)	Operating balance before gains/(losses)		(6,315)	(3,893)	
1,416	3,916	Net gains/(losses) on financial instruments	12	2,522	(2,634)	
204	(205)	Net gains/(losses) on non-financial instruments	13	(960)	(4,165)	
1,620	3,711	Total gains/(losses)		1,562	(6,799)	
390	37	Net surplus from associates and joint ventures		227	212	
(5,729)	(3,179)	Operating balance (including minority interest)		(4,526)	(10,480)	
-	-	Operating balance attributable to minority interest in Air New Zealand		17	(25)	
(5,729)	(3,179)	Operating balance		(4,509)	(10,505)	

The accompanying notes (including accounting policies) are an integral part of these statements.

The Financial Performance Report also includes the Original Budget and the Estimated Actual amounts (the final revised budget) both GAAP based and approved by Parliament. A comparison of the Estimated Actual column to the Actual 2010 amounts will allow the reader to identify any positive or negative variances. With this format of presentation, the New Zealand Government demonstrates its accountability to its constituency in three ways:

- (1) by reporting the current year's financial performance in a very readable display;
- (2) by providing comparisons with the previous year's results to assess management's performance regarding operating decisions; and
- (3) by providing budget and actual data to assess management's compliance with parliamentary authorization (Kamnikar at al., 2011).

New Zealand's Auditor-General (AG) is responsible for conducting the audit of the annual financial statements and specified supplementary schedules comply with GAAP and fairly reflect:

- the financial position of the entity at the balance date,
- the results of operations and cash flows for the year ended on that date, and
- the service performance for the year.

In addition, the auditor will review the annual report for reasonableness and consistency with the financial statements and the statement of service performance. The two components are developed from the same strategic context and therefore should articulate with one another.

New Zealand Auditing Standard 4 (Revised), *The Audit of Service Performance Reports*, requires the auditor "to attest to whether the Statement of Service Performance complies with generally accepted accounting practice in New Zealand, and fairly reflects the entity's service performance for the year. This is a subtle change in the audit opinion, which requires the auditor to form an opinion on the fair reflection of the Statement of Service Performance per se, rather than to form an opinion merely on whether the Statement of Service Performance fairly reflects the forecast statement of service performance"(2010). The auditor will determine if the Statement of Service Performance is appropriate for the entity given its strategic context. If the auditor determines that the quality of the statement is significantly deficient, not appropriate, the auditor may qualify the audit report. Thus, the auditor's report lends credibility to the performance measures reported.

The New Zealand Government considers the planning and identification of the planning information as critical to the service performance information that is reported in the annual report. As such, the NZ Government has directed departments to work with central agencies during the development of their budgets.

Departments should engage early with the appointed auditor once a draft is prepared. The appropriateness of measures chosen and the auditability of systems used to record performance data are both of major concern to the auditor. Involvement of the appointed auditor at this initial stage may also assist departments in improving the quality of their performance measures (2010).

There is a natural bias based on the much focused work experience within a single entity. The auditor can bring the objectivity to the process. Engaging the independent auditor at the beginning of the planning cycle can provide the needed professional judgment to ensure that the strategic context and performance targets are appropriate for this entity. The process of involving the auditor for input at the beginning of operational cycle regarding the selected performance measures and also involving the auditor during the operational process and of course at the end of the operational process cycle, for a post independent audit, is defined in the accounting literature as Life-Cycle-Auditing.

6. Summary and Conclusions

During the twentieth century, state and local governments in the United States have made significant attempts to define, measure, and report government productivity to their citizens through the use of different types of performance indicators. Current influencing factors are calling for performance measurements that include outcome measures, efficiency measures, and effectiveness and economy measures that are decision useful, credible and transparent.

The reliability and relevance of the financial data used for reports, including performance measurements, is necessary if the government wishes to build its credibility with its citizens. The format of display of this information must be such that comparisons and differences within the government over time and between similar governments over time must be understandable and useable to broad government constituencies. If clear, honest, yet robust, financial and performance reporting is to be achieved and, is believed to be beneficial for the “National Interest”, then nationalization of performance reporting standards, methodology and structure is necessary. Quality standards for preparation and reporting are necessary to prevent local and national political campaigns from hijacking erroneous policy performance information for political benefit and to prevent information manipulation by bureaucratic administrations that choose to have performance issues removed from the public debate.

The GASB has jurisdiction over the accounting and financial reporting standards of state and local governments. Through its guidance, these governments improved accounting and reporting techniques so that common economic events are reported similarly regardless of the size and/or government jurisdiction. The need for such a movement toward the establishment of performance reporting standards is today documented by the lack of interest by the citizens and other constituents in currently circulated performance reports. Using accrual accounting for budgetary reporting would improve the quality, credibility and informational value to report users. 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.

It is impossible to compare cash cost of products/services from one year to another as cash expenditures vary from year to year and do not by definition measure the cost of government services. Business would not and does not use a cash basis for identifying and measuring cost. Business profit is measured on the accrual basis, cost of products and services are measured on the accrual basis and budgets in the private sector, other than a purposely created cash flow budget, are prepared on the accrual basis. Yet government believes that its cash basis budget can be used to establish a basis for measuring cost as well as an indicator of performance. This belief is fallacious, for cost measurements and performance can only be decision useful if they are honestly comprehensive and complete and sufficiently robust to measure results accurately.

To develop a robust performance management reporting program that would successfully communicate financial and performance results to constituents, the authors recommend that a performance management reporting program include: (1) a requirement that all government entities provide annual financial and performance reports, (2) formatted in the business model

based on accrual accounting that also conform to International GAAP, and (3) audited, using a life-cycle-auditing approach.

Because the budget information for governments is not measured on the accrual basis, it cannot be compared with financial results found in the government entity wide accrual bases statements. If the *Original Budget* and *Estimated Actuals* (final amended budget), and the *Actual Operating Results* were prepared following the business model, or full accrual basis, the statement reader would be able to accurately assess various aspects of the government's performance. Additionally, if the formatted financial statements for government were prepared similar to the business model, the statements would be more easily understood by many more citizens who already understand business formatted statements.

Life cycle auditing begins with the auditor reviewing and commenting on the appropriateness of the performance measures selected by a government agency to actually measure performance. The second issue is whether the data base generated by the performance indicator will be available and sufficient on which to base a post audit opinion. Life-cycle- auditing would have the auditors involvement before, during and after the operational and budget cycle and would include all agency plans, inputs measures, outcome measures and performance measures developed by program/agency managers. The authors believe that most professional managers in government, both operational and financial, maintain neutrality and objectivity throughout their work. However, they also believe it is important that an independent third party evaluate the appropriateness of all measurements selected by these managers to ensure the efficacy of the performance reports and the auditor's ability to audit the stated performance results.

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.

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