



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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GASB Adds Project on Performance Reporting

Some aspects of accounting and financial reporting remain on the drawing board for a long time before they are ready for standards setting. GASB Statement 34, which enhanced and expanded the blueprint for the annual financial reports of state and local governments, is a prime example. The research, gathering of public input, and deliberation that resulted in Statement 34 began with the GASB's creation in 1984 and continued for 15 years until the standard was issued in June 1999. Exhibit B is government performance reporting. The GASB has been studying performance reporting and promoting experimentation with the practice for nearly all of the GASB's 23-year existence, but it was not until this month that the GASB added a project on performance reporting to its current technical agenda.

Projects on the current technical agenda are those that the Board is actively deliberating, as opposed to projects that are still in a preliminary research and information gathering phase. At its April meeting the Board voted unanimously to add a project on Service Efforts and Accomplishments (SEA) Reporting. The purpose of this project is to consider how to establish principles-based, suggested guidelines for governments that voluntarily choose to report on their performance. Unlike most projects on the GASB's current technical agenda, the SEA Reporting project will not result in any new *requirements*—whatever the outcome of the project, governments will not be required to report on their performance.

What Is So Important about Performance Reporting?

The central question of someone examining the financial statements of a corporation is, "Did it make a profit?" The performance of governments is not so easily pinpointed. Most governmental entities do not have a profit motive, though they do try to ensure that sufficient resources are raised to cover their costs. Making ends meet is important because it helps to ensure a government's long-run financial viability. But knowing only whether a government raised more or less money than it spent is not sufficient to evaluate its "success"—to understand *how well* a government performed, you need information about what a government did with the resources it raised. How much service did it provide? Were the services provided efficiently and effectively? What did the government accomplish?

For nearly forty years the accounting industry and academia have recognized that a key component of accounting and financial reporting by governments is SEA or

performance information. The GASB's immediate predecessor, the National Council on Governmental Accounting (NCGA), stated in its Concepts Statement 1 that one of the six basic objectives of accounting and financial reporting by governments is, "To provide information useful for evaluating managerial and organizational performance." In the NCGA's view, governments should provide information that can be used to evaluate "the efficiency and economy of operations" and "the results of programs, activities, and functions and their effectiveness in achieving their goals and objectives."

What Has the GASB Been Doing?

The agreement creating the GASB required it to adopt the existing NCGA pronouncements, including its Concepts Statement. The GASB has since incorporated SEA reporting into its own conceptual framework and has worked for more than two decades to encourage governments to experiment with performance reporting and to monitor their progress. The GASB's research work has included:

- Publication of research reports discussing the basics of performance measurement and reporting for a dozen government service areas
- Two national surveys of governments regarding their use and reporting of performance measures
- Creating a website devoted to government performance measurement, www.seagov.org, to serve as a national clearinghouse for information about SEA reporting
- Case studies of leading performance measurement and reporting programs based on extensive visits to 26 state and local governments
- Conducting 19 citizen discussion groups around the country to learn about public views of the need for performance information
- Development and publication of a staff document on suggested criteria for effectively communicating performance information to the public.

The GASB's efforts are widely recognized as having played a significant role in advancing the state of the art of performance measurement and reporting by state and local governments.

What Is the New SEA Project All About?

The project that the GASB has just added to its agenda has two parts. One part will update portions of GASB Concepts Statement 2, *Service Efforts and Accomplishments Reporting*, based on what has been learned from the GASB's research and other developments during the past 13 years since it was published. For instance, Concepts Statement 2 contemplated the issuance of standards requiring the reporting of specific SEA measures for a variety of government services. However, the results of the GASB's research and monitoring suggest that it is more appropriate to establish principles-based guidelines for SEA reporting that assist governments in

meaningfully and understandably reporting measures they select based on the goals and objectives they themselves establish. The initial work plan anticipates issuing a draft of the revisions for public comment in February 2008.

The other part of the project will explore how such principles-based guidelines might be established. The GASB envisions the guidelines as *suggested* practices, based on essential principles of performance measurement and reporting, for governments that *voluntarily* choose to report on their performance to the public.

When a project is added to the GASB's agenda, there is typically a step-by-step plan that leads from Board deliberations, through public exposure of a draft, and ultimately to the final publication of a pronouncement. The GASB plans to issue a preliminary document to obtain public comment on draft guidelines, roughly at the same time as the draft revisions of Concepts Statement 2. However, the path forward from that point has not yet been determined. The GASB had decided to wait until it has reviewed the input it will receive in response to the preliminary document before deciding any next steps.

Isn't There Some Controversy Regarding This Project?

Several professional organizations have objected to the GASB's work on performance reporting. Although they support government performance measurement, these organizations believe that the GASB should not be involved. Specifically, they have stated that choosing what performance to measure is a public policy decision that should be made by elected officials based on their government's mission and goals, not by the GASB.

The GASB agrees completely with this point and has taken several steps to address their concerns. In January, the GASB convened a roundtable discussion in Washington, DC, to give the organizations an opportunity to speak directly to the Board members and to open a dialogue between those organizations and the constituent groups that support the GASB involvement in an SEA reporting project. In response to what the GASB heard at that roundtable, at meetings of the Governmental Accounting Standards Advisory Council (which includes representatives of the opposing organizations), and at other meetings the GASB decided to amend Concepts Statement 2 to highlight that its role is limited to performance *reporting* and to revise the project plan in order to make the following clear:

- The project *will not* require governments to report on their performance.
- The project *will not* establish goals and objectives for governments.
- The project *will not* create specific performance measures that governments would have to report.
- The project *will not* set benchmarks or required levels of performance that governments would be expected to meet.

The organizations opposing the GASB project have also stated that even if the GASB's reporting guidelines are optional, they will open the door to the setting of standards that require performance reporting of measures that are specifically required by the GASB. The GASB hopes that, by revising its conceptual framework, it will be clear that it does not intend to follow that path.

Will the Public Be Able to Participate in the SEA Reporting Project?

The GASB is planning a variety of opportunities for interested individuals and organizations to get involved. The GASB wants its constituents to be as involved and to provide as much feedback as they wish. The details have not all been worked out yet, but at a minimum the GASB expects to:

- Create an advisory task force comprising experts on performance reporting from inside of government, the accounting industry, academia, and the general public
- Work with the Joint Performance Management Initiative proposed by the organizations that have raised objections to the GASB project and solicit that group's input as the GASB project proceeds.
- Utilize its Performance Measurement for Government website to make up-to-date information about the project available, perhaps by an electronic news service
- Publish articles in the GASB's newsletters, *The GASB Report* and *The User's Perspective*, as well as in constituent publications
- Make presentations about the project at constituent conferences and meetings
- Invite constituents to offer insights at a variety of points in the project prior to the issuance of the draft revisions of Concepts Statement 2 and the preliminary document on suggested guidelines
- Provide an Internet-based mechanism for constituents to express their views on those documents when they have been issued
- Host events at which constituents can directly express their views to the GASB members and staff, such as hearings and roundtable discussions.

It is vitally important to the GASB that its constituents be able to easily follow the progress of this project and to have ample opportunity to speak their minds. The GASB wants everyone to be fully and accurately informed about what it is doing.

Where Can You Get More Information about the Project?

As the GASB works to implement the communication efforts listed above, you can find information about the project in two places. The Performance Measurement for Government website (www.seagov.org) offers a wealth of information about the background of the project, the GASB's work thus far, including its research reports, and links to governments and organizations involved in performance measurement and

reporting. The project plan can be found on the GASB website, www.gasb.org, in both the full Technical Plan and the Project Pages section.