

## GASB project – research reports

### Overview

The following text is adapted from *Service Efforts and Accomplishments: Its Time Has Come - An Overview*, by Harry P. Hatry, James R. Fountain, Jr., Jonathan M. Sullivan and Lorraine Kremer, editors.

### Introduction

This Research Report on service efforts and accomplishments (SEA) measurement and reporting is one of a series of reports to be published as part of the Governmental Accounting Standards Board's (GASB) research on the external reporting of SEA indicators. When completed, the set of reports will include this overview of the research with recommendations and summaries of the findings for each of twelve services,<sup>1</sup> and a separate report for each service. The service chapters in this report are excerpts from the individual full-length GASB Research Reports.

In 1987 the GASB - after completing and issuing its Concepts Statement No. 1, *Objectives of Financial Reporting* (May 1987) - initiated research into ways to improve the ability of public entity financial reports to present information useful in monitoring and assessing the "results of operations" of governmental entities. The GASB directed that the research seek ways to provide information useful in assessing not only *how much and on what* an entity spends its resources but also *what its citizens are getting* for the use of public funds and *how efficiently and effectively* these funds are being used.

This research on reporting SEA indicators responds to the GASB financial reporting objectives to "assist in fulfilling government's duty to be publicly accountable and...enable users to assess that accountability," and to "provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity."<sup>2</sup> This research also responds to concern—voiced by many managers, legislators, and citizens—that financial reports of governmental entities do not provide complete information to management, elected officials, and the public about the "results of operations" of the entity or its programs. Users, therefore, are not able to fully assess the adequacy of the governmental entity's performance or hold it accountable for the management of taxpayer and other resources.<sup>3</sup> Similarly, the governmental entity (its management and elected officials) is not able to communicate to resource providers information about goods and services provided or the entity's efficiency and effectiveness.

In May 1987, the GASB initiated a preliminary study to examine whether the state of the art in measuring and reporting SEA information was sufficiently

developed to warrant a full research project. The research, performed with the assistance of The Urban Institute, indicated that considerable experimentation with SEA measurement had already been undertaken in many public services, and that significant progress was being made in measuring SEA for many public services. Formal reporting of SEA data appeared to be "taking off" in many areas.

That report recommended proceeding with the full research project and identified eight primary issues associated with SEA reporting to be addressed. The GASB approved the full research project with a principal focus on gauging the state of SEA reporting practices covering the major activities of a number of public services. This report is the result of that research and presents the overall findings and recommendations, summarizing these for the twelve services researched. Full Research Reports for most of the public services are now being prepared for publication as separate reports. The report on elementary and secondary education was published in November 1989.

2 GASB Concepts Statement 1, para. 77.

3 For governmental entities the goals are to provide goods and services efficiently and effectively rather than to generate profits. Present financial reports do not provide accountability information about the efficient and effective use of resources.

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## **Objectives of Research**

*The primary objective of this research was to determine whether the state of the art in SEA measurement is sufficiently developed to warrant the GASB, state and local governments, and public interest groups encouraging governmental entities to present SEA indicators as part of their financial reporting. If so, the GASB asked that the researchers provide suggestions as to the structure and method of reporting, such as which SEA indicators to include and how they should be reported.*

GASB Concepts Statement 1 identifies accountability as the cornerstone of all financial reporting in government and defines it as "being obliged to explain one's actions, to justify what one does." The objectives of financial reporting include the presentation of SEA information in the financial report to help users "assess the economy, efficiency, and effectiveness of government."<sup>10</sup> The U.S. GAO's *Government Auditing Standards* also highlights the need for program evaluation information. In *Management: Tasks, Responsibilities, Practices*,<sup>11</sup> Peter F. Drucker clearly articulated the need to hold service institutions, including government, accountable for their use of public resources through SEA information. However, previous efforts to build SEA measurement into the reporting structure of governments have proven difficult. They have been hampered by difficulty in developing objective indicators that adequately measure

the results of programs or activities. Often there is a lack of verifiable data about the outcomes and efficiency of programs or activities. Management and elected officials have, at times, resisted the prospect of being required to report the results of operations, especially if that reporting is to include data on outputs and outcomes. This often has occurred because of a lack of agreement on what needs to be measured and how accurate and valid that information would be. This research explores these and associated issues, and provides recommendations on the direction that future SEA reporting might take. It also recommends SEA indicators for each service.

This research was based on the belief that it is the desire and responsibility of elected officials and managers of governmental entities to use the resources provided them in as efficient and effective a way as possible, to strive continuously to provide the highest quality services at a reasonable cost, and to be accountable by giving information that will assist the public in assessing the results of operations for the entity. To meet this accountability objective, management and elected officials need to have access to timely SEA information. Through the measurement, analysis, and evaluation of SEA data, public officials can identify ways to maintain or improve the efficiency and effectiveness of activities and provide the public with objective information on their results.

10GASB Concepts Statement 1, para. 77c.

11Peter F. Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper & Row, 1974).

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## **Scope of Research**

This research was completed under the guidance of the GASB and an advisory committee of experts on SEA measurement ([Exhibit 1-1](#)). The research was directed by a project team led by Harry P. Hatry, director of the state and local government research program of The Urban Institute, and James R. Fountain, Jr., assistant director of research of the GASB.

The project team, working with the advisory committee, chose twelve services ([Exhibit 1-2](#)) to be researched. These services were selected based on the proportion of state and local resources allocated to them and their perceived importance to elected officials and citizens. Eleven of the services are among the first fifteen in magnitude of total state and local government expenditure; the other, economic development has received much attention because of questions about program effectiveness and its major implications for state and local revenues. The research was performed by teams from the GASB staff, Urban Institute staff, academia, and experts in the specific services ([Exhibit 1-2](#)). Each

research team sought to include only those activities that represent the most significant product(s) or service(s) being provided. For example, the elementary and secondary education research addresses regular instructional activities but excludes special education, vocational education, and adult education.

The GASB decided that the study would focus on both state and local (city and county) governments; public school systems; public universities and colleges' public hospitals; and quasi-public organizations such as transportation, and water and wastewater authorities.

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## **Methodology**

The research teams first prepared preliminary reports based on their research, which were reviewed by the GASB and Urban Institute project staffs. The authors subsequently revised their reports, which were then reviewed by selected experts in each of the specific services and by members of the advisory committee.

The research teams used a variety of sources in developing their reports. These included literature searches, examination of reports provided by state and local agencies, interviews with practitioners and other public officials, and, in some cases, mail surveys of public officials.<sup>12</sup>

Each research team was asked to address the eight issues listed in [Exhibit 1-3](#). That list was developed in the first phase of the project to ensure that certain critical issues were addressed for each service.

A basic assumption made for each service was that the service is essential and should be provided. The researchers concentrated their attention on SEA indicators that would measure the inputs, outputs, outcomes, and efficiency of the program. The issue of whether a service should be provided at all would require a different type of analysis and, therefore, is beyond the scope of this research.

In preparing these Research Reports, we recognize that accounting and financial reporting objectives are primarily concerned with collecting, classifying, and reporting information about an entity's acquisition and use of financial resources, and the results of operations. Accordingly, these Research Reports are directed toward issues concerned with the uses of SEA data, and how to measure SEA and communicate these measures, especially to elected officials and the public. *The very important issues of determining what goals and objectives to establish, performance levels to expect, targets to set for performance, and methods to use to improve the results of governmental services are the domain of professionals*

*in the specific service and elected and appointed officials. They are therefore, outside the scope of these reports.*

12 As an example the researchers preparing the report on tire services surveyed over 200 US. cities that had experimented with reporting SEA data or had received other distinctions such as the Government Finance Officers Association "Certificate of Achievement for Excellence in Financial Reporting" or "Award for Distinguished Budget Presentation."

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## Indicator Types

A preliminary question for this research was which categories of financial and nonfinancial indicators should be included under the term *service efforts and accomplishments*. The [categories of SEA indicators](#) established by the project team are listed in Exhibit 1-4. These SEA categories are as follows:

1. [Input indicators](#). These are designed to report the amount of resources, either financial or other (especially personnel), that have been used for a specific service or program. Input indicators are ordinarily presented in budget submissions and sometimes external
2. [Output indicators](#). These report units produced or services provided by a service or program.
3. [Outcome indicators](#). These are designed to report the results (including quality) of the service. Examples of outcome indicators are the change in students' test scores, the percentage of hypertensives treated who now have controlled blood pressure, and the value of property lost due to crime.
4. [Efficiency \(and cost-effectiveness\) indicators](#).<sup>13</sup> These are defined as indicators that measure the cost (whether in dollars or employee-hours) per unit of output or outcome. Examples are cost per million gallons of drinking water delivered to consumers, or cost per thousand gallons of effluent treated to a certain level of quality.
5. [Explanatory information](#). This includes a variety of information about the environment and other factors that might affect an organization's performance on SEA indicators. Examples would be weather conditions for road maintenance, percentage of students with English as a second language for education, or quality of source water for water service.

<sup>13</sup> The term *efficiency* as used in this report encompasses the measurement of both cost per unit of output and cost per unit of outcome. In the FASB Research Report on reporting of service efforts and accomplishments, by Paul K. Brace et al., efficiency was used to identify cost per unit of output, and effectiveness to identify cost per unit of outcome (p. 8).

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## Overall Findings

In this section we present the overall findings on each of the issues identified in [Exhibit 1-3](#) (see [Exhibit 1-6](#)). Additional findings for each service, especially on Issues 1 through 4, are presented in the individual service chapters in this report.

Based on the findings of the research teams, we believe that the state of the art in SEA measurement has developed sufficiently to warrant widespread experimentation with the use of SEA indicators in external reports. The annual financial report is the primary accountability document made available to the public by governmental entities; as such, it is a logical place for SEA information to be reported, even if it also appears in another report. We believe that SEA information, where reported, has been of significant value to elected officials and citizens in assessing the results of governmental programs, leading to improvements in efficiency and effectiveness in accomplishing program goals and objectives. The following findings on each of the issues support this conclusion.

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## Recommendations

As the decade of the 1990s begins, governmental entities appear ready to expand experiments with external reporting of SEA indicators on a regular basis. Although SEA indicator reporting is not currently widespread, elected officials, the media, and the public seem eager for information on the SEA of programs to determine what they are getting for the money being spent. Governor John Ashcroft of Missouri highlighted this need in his Foreword to the Governors' Report on Education: "We need better indicators of educational progress. We need to know what our students know, what they should know, and what kinds of programs will help them learn what they need to know."<sup>17</sup>

The summary chapters in this report and the separate full reports provide detailed recommendations for each of the twelve services. Each research team suggested a set of SEA indicators for external reporting. For each service, a number of indicators are almost universally accepted (such as crime rates, number of fire incidents, student standardized test results, and frequency of missed schedules by public transit vehicles). However, each service also has aspects of service quality and efficiency for which better SEA indicators are needed.

We make the following recommendations based on the collective findings of the research teams.

1. We recommend that state and local governments begin external reporting of a comprehensive set of SEA indicators.
2. More emphasis should be placed on outcome measurement in the set of SEA data reported and not only on input or output indicators.
3. Governmental entities should undertake experimentation to develop and test indicators that relate cost (dollars and/or employee hours) to measures of service results, especially indicators that consider the quality and outcome of the service.
4. When SEA indicators are reported, certain commonsense disclosure requirements should be followed.
  - a. The indicators should be thoroughly defined so that readers of the report will be able to understand what the indicator measures.
  - b. Similarly, each indicator should be understandable and not overly technical.
  - c. The indicators should be relevant to the service for which they are being reported. They should be valid indicators of performance, and the agency should be able, at least partially, to affect the performance being measured by the indicator.
  - d. The indicators should be reported in a timely manner.
  - e. The indicators should be consistent and comparable over time.
  - f. The data shown should be verifiable.
5. We recommend that governmental entities provide their SEA indicators in a comprehensive format.
6. We urge governmental entities to tabulate and report major disaggregations of SEA indicators.
7. The reports should enable readers to compare current results with benchmarks.
8. Explanatory factors need to be included with the SEA indicators, and program managers should be the first public officials to review the SEA indicators.
9. Governmental entities need to consider the extent to which SEA indicators reported externally must be verified through some type of formal review or audit process.
10. We recommend that *collection* of nonfinancial data for SEA indicators be the responsibility of the particular operating agency. *Verification* of the data (where needed) should be the responsibility of an agency independent of the operating agency being reported on. *Compilation, production, and dissemination* of the SEA indicators probably should be the responsibility of a central staff office reporting to the chief executive or chief administrative officer. This could be a financial office or another analytical staff office. The external report of SEA indicators can be provided as a "new, separate" report or other existing report. Even if reported in another report, we recommend that a comprehensive set of

SEA indicators be included as part of the entity's comprehensive annual financial report.

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## **Final Observations**

As the title of this Research Report series indicates, the findings of the research teams strongly suggest that the time has come for major experimentation in implementing service efforts and accomplishments measurement and reporting SEA indicators to elected officials and the public. The project team believes *it is now important for governmental entities to experiment widely with external reporting of SEA indicators*. These experiments could start with the sets of indicators recommended for the twelve services researched and presented in this report. But it is important that the SEA indicators not be limited to those being recommended, or even necessarily includes all of the recommended SEA indicators. Experimenters should seek to identify and develop SEA indicators that will best report the results of operations for the program being considered, especially as they relate to accomplishing the goals and objectives established for that program. Several possible methods should be considered for external reporting of SEA indicators, including publication as part of governmental financial reports in their several forms and of various other reports such as budget documents, popular reports, and even special performance reports on SEA with the indicators presented in both graphic and tabular form.

We recognize that some may criticize the recommended SEA indicators as being too comprehensive, others as not being comprehensive enough. Some may believe the recommended indicators are not fully valid measures of performance. However; we believe the recommended indicators provide an excellent point to begin the development of a comprehensive set of SEA indicators and that, if used for expanded experimentation with the external reporting of SEA data, they can help focus and advance efforts aimed at improving the means of reporting accountability information to be used in monitoring the performance of governmental entities.

17 National Governors' Association, The Governors' 1991 Report on Education, Results in Education: 1988 (Washington, Dc, 1988), p. vi.

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