



October 30, 2009

Mr. David R. Bean
Director of Research and Technical Activities
No. 20-2
Governmental Accounting Standards Board (GASB)
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Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB or the board) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB) on its proposed Suggested Guidelines for *Voluntary Reporting of SEA Performance Information*. The FMSB, comprising 23 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately. The majority of FMSB members approved issuance of this comment letter. The FMSB has general comments and a few more specific comments on the proposed document.

Firstly we are not sure that the document goes far enough. The GASB has been dealing with SEA reporting since its inception in 1984. Its statement of objectives states explicitly that financial reporting "should provide information to assist users in assessing the service efforts, costs and accomplishments of the government entity." And yet, 25 years later, the GASB has yet to mandate any SEA disclosures. We cannot help contrasting this with the FASAB which explicitly requires entities to address in the Management Discussion and Analysis (MD&A) section of their financial reports "performance goals, objectives, and results."

This apparent timidity on the part of the Board regarding mandating the reporting of SEA has had its price for those who rely on the external financial reports of state and local governments. For example, GASB's creation through Statement 34 of an option to report infrastructure under the "modified approach," to include the disclosure of infrastructure condition levels, "the basis of condition measurement and the measurement scale used to assess and report condition" as Required Supplementary Information, was an outstanding use and incorporation of SEA information. As progressive as this action was, had the Board been able to foresee the current fiscal crises impacting governments, it might have mandated the "modified approach" and made optional the reporting of historical cost and depreciation. Today's readers of general purpose external financial reports, who daily dodge potholes and patches or take detours around bridges posted as unsafe, would have benefited by being able to more clearly understand the implications of greatly reduced transportation maintenance expenditures.



We fully support SEA reporting. We would like to give the GASB all our encouragement to adopt a more aggressive approach to SEA reporting. Specifically, we recommend that GASB substitute the word “recommended” for the word “suggested” throughout the current document and to issue the document under the title: “Recommended Guidelines for Voluntary Reporting of SEA Performance Information.” We encourage this change because, in all material respects, the current document is written as a serious set of recommendations. Further, the Board’s efforts to placate those individuals or organizations who have vociferously opposed any involvement by the Board with SEA reporting have been unsuccessful, and show evidence of remaining so. Accordingly, at this time would it not be more justifiable—professionally and under the Board’s mission—to articulate its pronouncement in a fashion that would have a higher likelihood or assurance of significantly impacting current and future SEA reporting practices?

Issuing the guidelines as set of recommendations, re-titled as above, would additionally result in the Board giving appropriate recognition to its own lengthy research and due process findings, and would appropriately “honor” the support for SEA reporting that the Board has received and/or from which it has significantly benefited. Examples of such support would include, but not be limited to, the following:

- The received support from the Board of Trustees of the Financial Accounting Foundation for GASB’s responsibilities in addressing SEA.
- The extraordinary and often self-driven efforts of the many state and local government officials and staff who have labored for years to develop and experiment with SEA reporting.
- The financial support and encouragement of organizations such as the Sloan Foundation who had faith in the Board’s objectivity and independence and who recognized that it was only the GASB whose eventual pronouncements would have the weight necessary to assure that SEA reporting would become a reality across the Nation.
- The financial support and encouragement from other professional governmental financial management organizations who have with faith and confidence supported the GASB’s 25 year history of efforts in support of SEA reporting and who, today, continue that high degree of support not only in regards to SEA reporting but to the continuing efforts of the Board to address the various and emerging reporting requirements of state and local governments—some of which have or will experience push-back from some in the preparer community.

In short, issuing the pronouncement as Recommended Guidelines for Voluntary Reporting of SEA Performance Information would not only be fully justified by the Board’s own research and due process, but would give timely and appropriate acknowledgement to all of those preparers, auditors, and users who consistently support the independent standards setting mission of the GASB. As a final point, there was discussion among the members of the FMSB as to whether the GASB should actually issue this pronouncement in the form of a Statement. It was judged, however, that such a change in approach would further delay the issuance of these very important guidelines.

As a further general comment, we understand that GASB has set forth in Appendix C its rationale for not addressing SEA financial reporting. What GASB does not state is that to have meaningful reporting of SEA or performance measurements such measures first need to be established and reported as part of the budget adoption process.

It is fair to ask whether many government entities are going to allow another non-mandatory financial report to be issued that can be potentially damaging in a political sense. If politicians decide to issue some form of report on SEA or performance measurements they are going to ‘cherry pick’ those which are favorable to their agenda. While one may argue that some reporting is better than nothing, voluntary reporting alone will probably not result in achieving the "Major Goals and Objectives" of SEA reports as set forth in this document. In this light, GASB could speak to who the “preparers” of SEA reports could be. Currently, government budget offices, elected officials, and audit offices are producing SEA reports.

Other Comments

Applicability, paragraph 4, page 2 – Paragraph 4 points out that, "... there is a relationship between the information in an SEA report and information within other financial reports that needs to be acknowledged with the SEA report" (consistent with paragraph 98 on page 37). It’s also important that the information contained in the various reports is internally consistent and can be reconciled one to the other. For example, any financial information in the SEA reports must be consistent with information in the Annual Financial Report.

Similarly, the Suggested Guidelines suggest that performance information may be presented in various levels of aggregation, for different geographic areas, at different levels of detail, multiple levels of reporting, in reports in different forms for different users, etc. It is critical again that the information be "the same" -- that is from the same source, with the same totals and reconcilable irrespective of the number of different form or formats in which it is presented. Certainly no individual user would try to "match" all the uses of the data. However, if the information is to be viewed as reliable and consistent it must be from the same data base and likely for the same time period.

Major Goals and Objectives, paragraph 10, page 4 – We are surprised by the statement in paragraph 10, "Some governments establish goals and objectives of individual programs and services to further the goals and objectives at the government-wide level." That sounds like individual programs and services may have goals and objectives that do not further the goals and objectives at the government-wide level or do not have goals and objectives at all. We know that GASB cannot prescribe that all programs and services have goals and objectives but when they do have goals and objectives, it seems to us that they must be consistent with and support the government-wide goals and objectives.

One member commented that unfortunately, inconsistency between the two levels of goals and objectives does exist. Some governmental units exist due to legislative or executive mandate that may be inconsistent with other mandates. Often the only link to a government-wide objective is really vague such as “protect the general welfare.” Sometimes the unit was established by one administration for its goals, and a subsequent administration does not accept those goals but is unable to dismantle the organization and so appoints leadership that stymies the unit's purpose. Several of these have been in the news at the federal level in the last couple of years. The member agrees that communicating the goals of the unit's leadership to the public is a good idea, but in cases where the leadership wants to limit the unit's effectiveness (such as an “anti-regulation” appointee), does one communicate the unit's official goals or the leader's goal? One may end up with a meaningless statement like “regulate the X industry to the extent it is necessary” where the leadership feels it is minimally necessary.

Elements of SEA Performance Measures, Figure 2, page 7 – We like the way the same example is continued throughout the chart.

Key Measures of SEA Performance, paragraph 20, page 8 (and elsewhere) – We suggest that comparisons always be made with the targets established for a program or service, in addition to other appropriate comparisons. If the services rendered can also be rendered by the private sector or non-governmental charities, comparisons with them may also be useful. This is especially true if the government has or is considering outsourcing this function.

Discussion and Analysis of Results and Challenges, paragraph 26, page 9 (and elsewhere) – We suggest that the MD&A include discussion of actions the government plans to take to correct measures that do not achieve their target.

Relevance, paragraph 31, page 10 – If the time to obtain relevant information may negatively affect the timeliness of the report, perhaps estimates, with proper disclosure, can be used. Alternatively performance information may be for a different time period so long as the differences are used consistently and are disclosed.

Relevance, Paragraph 33, page 10 – Another question can relate to the relationship between annual (or other short term performance measures) to the longer term goals, objectives and performance measures of the entity.

Timeliness, paragraph 44, page 12 (and elsewhere) – In most cases, timeliness is more important than precision, particularly for non-financial information. To be useful, information must be timely. Therefore, as noted above, estimates may be useful (if properly disclosed and used consistently year to year) to ensure that the bulk of the information is timely (see paragraph 52 on page 14).

Forms of Communication, paragraph 60, page 15 – We do not think that this paragraph really says anything and recommend combining paragraphs 60 and 61 into one cohesive thought. Also, we thought that there was a requirement to provide an internet address with each SEA report (e.g., in the bottom margin of each page), so that the user knows where to obtain the report. We believe a point of contact for comments on the agency's report is also required. We think that adding a paragraph or two to address these points under “Forms of Communication” would be helpful.

Discussion and Analysis of Results and Challenges, paragraph 67, Illustration 5, page 22 – The government may want to comment on what might happen to the measurement if fuel prices go down again. Also, does the city run public transportation and has this taken up the slack? They only discuss carpooling. The government may want to comment more on that.

Illustration 9, Understandability, page 26 – The illustrations for the qualitative characteristics are very helpful. In particular, Illustration 9 – Understandability, is an excellent example!

Content of SEA Reports – The SEA Report is referred to in this paragraph and several other times as "a financial report" or as "another financial report". We recognize why such reference is necessary; however, somewhere it should be communicated that an SEA report goes well beyond finances (it deals with government services) and at times may not include financial information, as for example in paragraph 71 on page 27.

Comparability, paragraph 71, Illustration 10, page 27 – The government might want to comment about why several targets were not achieved.

Appendix C Board Considerations, page 35 – We agree with the Board's final decisions - especially that performance measures in the SEA should be aligned with the mission, goals, and objectives of the government.

Major Goals and Objectives, paragraph 113, page 40 – We agree that “... the public does not care about governmental organizational boundaries but wants services delivered regardless of the organizational structure.” To us this means that when presenting the performance of a particular service, the entire service must be presented, regardless of the number of organizational units involved. For example, if two organizations are responsible for road repairs and maintenance, the performance of each department must be included in the reported measure(s).

Appendix C Understandability, paragraph 136, page 45 – This states that the Board included “obtaining feedback” under “Effective Communication,” but it was not included. We recommend adding a paragraph that provides the website or contact individual and information for readers to provide their feedback on the SEA report (this is also a requirement of SEA reporting).

Lastly, some minor editorial points – Throughout the document reference is made to “an SEA report.” While we know that this usage is because SEA as pronounced seems to start with a vowel, it does seem in writing at least, to violate the normal rule that ‘an’ should only precede a word beginning with a vowel. We recommend changing all references to “an SEA report” to “a SEA report” or rewording the phrase where it occurs. Specifically in paragraph 17, also on page 6, we recommend replacing “An SEA report is most effective when it includes...” with “The SEA report is most effective when it includes...” And in paragraph 10 on page 6, the last word in the paragraph, “exits,” should be “exits.”

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. If you have questions concerning the letter, please contact Anna D. Gowans Miller, CPA, AGA’s director of research and staff liaison for the FMSB, at amiller@agacgfm.org or 703.684.6931 ext. 313.

Sincerely,



Robert L. Childree, Chair
AGA Financial Management Standards Board

cc: William A. Morehead, Ph.D., CPA, CGFM
AGA National President

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