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by
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Biographical Sketch

Michael Granof is a member of the Governmental Accounting Standards Board (GASB), the independent not-for-profit organization that establishes and improves financial accounting and reporting standards for state and local governments. He is the Ernst & Young Distinguished Professor of Accounting, McCombs School of Business, The University of Texas at Austin and a former chairman of its Department of Accounting. He is also a Distinguished Teaching Professor of Business and Public Affairs, Lyndon Baines Johnson School of Public Affairs, the University of Texas at Austin. Prof. Granof's research interests include governmental accounting, not-for-profit accounting, financial accounting, and auditing. He is the author, or co-author, of articles in many of the leading academic and practitioner journals, including: *Financial Accounting: Principles and Issues; Accounting for Managers and Investors;* and *Government and Not-for-Profit Accounting*, now in its fifth edition. He is a frequent speaker at professional conferences, where he has addressed ethical issues in business and public accounting; including bank bailouts and underfunded pension funds. Prof. Granof has been a workshop leader for the State of Texas, the City of Austin and several private organizations. He has won numerous teaching excellent awards, including membership in The University of Texas Academy of Distinguished Teachers. Prof. Granof earned a Bachelor of Arts degree from Hamilton College; a Master of Business Administration from Columbia University and a Ph.D. from the University of Michigan.

The views expressed in his lecture are strictly his own. They do not necessarily represent those of the Governmental Accounting Standards Board or the Federal Accounting Standards Advisory Board.

Can There be Government Accounting Without Accountability?

I am especially honored to be here tonight and to have been invited to give the Emanuel Saxe Distinguished Lecture in Accounting. In part, this is for the expected reasons. Baruch College has an outstanding history of being a leader not only in accounting education and research but also in the development of accounting standards and thought. Moreover, I am also, of course, pleased to be included among the long-line of other accountants who have delivered the Emanuel Saxe Lecture.

But beyond these reasons are those that are more personal.

First, David Saxe, Emanuel's son, was a classmate of mine in P.S. 82 Junior High School and again at the Bronx High School of Science. David's career as both a practicing attorney and then as an eminent appellate court judge has been no less illustrious than that of his father.

Second, Baruch's own Emanual Saxe Emeritus Professor, Abe Briloff, has long been one of my heroes. I am firmly convinced that Abe has been the single most influential academic accountant of the past sixty years. When

Abe speaks both Wall Street and accounting standards-setters listen. They may do so reluctantly and they usually don't like what they hear, but what he ways is too powerful and persuasive for them to ignore.

Third, and perhaps most saliently, this invitation strikes an emotional chord. Both my mother and my father were graduates of the City University of New York (CUNY). My mother was a graduate of Hunter College and had a career as a teacher in the New York public schools. My father was a graduate of CCNY - what is now Baruch -- in 1932. He came to the United States from Russia just a few years earlier. He had no family in the United States save a distant relative and he did not speak English. He attended Baruch at night and supported himself by delivering newspapers. His route included some of New York's most luxurious townhouses including that of your college's namesake. My father earned New York State CPA certificate #4850 (they are now up to #108,000) and spent his career as an independent practitioner.

Owing to Baruch College, both my brother and I have had the opportunity to realize the American dream. As first generation Americans we have had the best of educations and we have had unbounded professional opportunities.

I mention this not merely to express gratitude to Baruch, but also because it is directly relevant to my talk today.

Governments today, at all levels, are in fiscal crises. One result is that few, if any, tuition-free institutions of higher education, remain in the United States. Hence, for both immigrants, their children, and many, many others, the American Dream may become nothing but a hallucinatory aspiration.

If governments — those at all levels — are to continue to provide the services expected of them they will have to become more efficient and more effective. Here is where accounting can play a major role. Accounting can and should provide discipline, accountability and transparency. As Prof. Briloff, has so often emphasized by quoting from Justice Brandeis, "sunshine is the best disinfectant."

The title of my talk today is ***Can There be Government Accounting Without Accountability?*** But I considered an alternative: "Must Government Accounting's Future Be in Its Past." The answer to both questions should be both noncontroversial and obvious - a clear and resounding "no."

Regretably, this negative answer to my two questions is not obvious to all. In my talk today I would like to address two initiatives by which the Governmental Accounting Standards Board, the GASB, is attempting to bring accounting into the 21st century. In both, however, it is being thwarted by powerful interests that believe that what was seemingly good enough for the past is also good enough for the future. The first initiative will enhance accountability for governments' performance – that is for achieving their goals; the second will enhance accountability for their fiscal sustainability – for assessing whether their current policies are adequate to enable them to continue to provide the services expected of them in the future. Then, I would like to suggest a means of facilitating the implementation of those proposals.

The Government Finance Officers Association (the GFOA) is the primary professional association of municipal accountants and budget officers – those charged with preparing the budgets and financial statements of local governments. In a 2006 resolution the association made it clear that with respect to governmental accounting, it believes, to paraphrase what the head of the U.S. Patent Office supposedly said in 1899, "everything that can be invented, has been invented." (1) To quote from the GFOA's explanation of that resolution:

> After operating for more than 20 years, the GASB has essentially completed the major tasks that it was originally created to accomplish (e.g., financial reporting model). The GASB's success has left it with something of a dilemma. Either the board must transition into more of a "maintenance mode" and focus primarily on addressing the demand for accounting guidance as it arises naturally in practice, or the board must actively seek creative new outlets for its standard-setting energies.

Not surprisingly, the GFOA opined that the GASB should opt for the former – moving into a maintenance mode and leaving current practice more or less as it was rather than seeking new outlets for its standard-setting energies. According to the GFOA:

> The GASB appears in recent years to be attempting more and more to find an accounting solution to every financial problem ("to a man with a hammer, everything looks like a nail,"). Thus also the GASB's insistence that its charge extends not just to accounting, but to all aspects of *accountability* [emphasis added], thereby staking out a claim to set future reporting standards for virtually all aspects of public administration, both financial and nonfinancial. (2)

The GFOA has never backed away from that resolution and its position is still representative of that of other preparer-oriented organizations.

It is precisely this issue of accountability that is central to my talk today.

For our purposes today I define accounting as the reports that are in accord with generally accepted accounting principles and the processes that generate such reports. Accountability, by contrast, is the obligation to accept responsibility for one's actions. As it relates to accountability, accepting responsibility for one's actions includes providing the information by which interested parties can assess not only whether they have achieved their objectives, but also whether they have done so efficiently and effectively.

The primary goal of a typical business is to earn a profit, and the "bottom line" of business accounting financial statements is therefore profit or loss. Hence, with respect to entity performance, the conventional business accounting report serves as a report on accountability. Accounting equals accountability.

As is made clear in the first chapter of most any government accounting textbook the objectives of a government are quite different than those of a business. The objectives of a government are mainly to provide various types of services to its constituents. If the financial statements of a government are to report exclusively on monetary-type historical transactions they cannot possibly provide the information necessary to assess whether the entity has achieved its objectives. Moreover, inasmuch as efficiency is defined as the ratio of inputs to outputs – that of costs to productivity – neither can they facilitate an assessment of efficiency. To me – and indeed to the GASB – these purposes are not merely ancillary to accounting. They are its very essence.

What I'm suggesting is hardly new. As early as 1913 the Metz Fund *Handbook of Municipal Accounting* declared in the third sentence of its introduction that one of the key functions of accounting "is to locate responsibility for waste, inefficiency, and infidelity; another is to make and preserve the evidence of efficiency and proper regard for the duties and responsibilities of office." (3) Herman Metz, who provided the funding for the handbook and on whose managerial achievements the work is based, was the controller of the City of New York from 1906 to 1910. His office was a stone's throw from where we are gathered today. Whereas it may be a stretch to say that Metz was a proponent of the type of full-scale performance reporting that I will argue for today, his handbook nevertheless included exhibits of statements that related inputs (i.e., costs) to outputs – in other words reports on what today we call service efforts and accomplishments.

To leap to relatively modern times, in 1987, the Governmental Accounting Standards Board in its very first concept statement established as a key objective of financial reporting that "Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability." It went on to proclaim:

Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity. This information, when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions. The information should be based on objective criteria to aid interperiod analysis within an entity and comparisons among similar entities. Information about physical resources .... should also assist in determining cost of services. (4)

From 1989 to 1992 the GASB issued a series of reports demonstrating the feasibility of establishing meaningful and measurable operational objectives and of reporting on the extent to which they were achieved. They did so for 12 different governmental functions, including fire, police and sanitation. These were summarized in a 1990 report with a title that now seems ironic: *Service Efforts and Accomplishments Reporting: Its Time Has Come.* (5) Then, in 1994, it issued Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting.* (6) In this Statement the Board identified and developed the key characteristics and elements of service efforts and accomplishment(SEA) reports.

Since then the Board has conducted extensive research on the appropriate means of SEA reporting. This research included surveys, interviews with academicians and experienced professionals, and case studies. Based on its research, and in an effort to encourage municipalities to voluntarily provide SEA information, it has issued reports and maintained a website that enabled governments to share their experiences with others. Most notably, in 2008 it amended its earlier concept statement to incorporate the most up-to-date thinking on the issues and in 2010 issued, *Suggested Guidelines for Voluntary Reporting of Performance Information,* a comprehensive set of SEA guidelines. (7), (8)

The basics of SEA reporting are reasonably simple. For each of the major services that they provide or activities in which they engage, governments would establish and report measures of inputs, outputs, outcomes and efficiency. Inputs are the financial as well as nonfinancial resources applied to a service or activity. For a division of a highway department responsible for road maintenance, inputs might include dollar costs, personnel hours or tons of material. Outputs might be the quantity of the service or activity provided, such as number of lane-miles of roads repaired. Outcomes, which are closely tied to outputs, add a qualitative dimension to the outputs and measure the results associated with the service or activity. For the highway department, they might include the percentage of roads in good or excellent condition per specified objective criteria or even less objective criteria such residents' ratings of the quality of the roads. Efficiency measures are simply the ratios of the various inputs to both the outputs and the outcomes. (9)

Today, almost twenty-five years after it issued Concept Statement No. 1 the objective of reporting on service efforts and accomplishments has not yet been achieved. Owing in large part to opposition from preparer groups, the GASB has not yet issued a standard that requires governments to report SEA information.

To put that in perspective, the Manhattan Project was initiated in 1941 and the first atomic bomb was dropped in 1945. President Kennedy announced the goal of landing a man on the moon in 1961 and we did so in 1968. Developing informative SEA reports is neither atomic nor rocket science. But as we've seen in many other contexts, political problems are often far less tractable than scientific ones.

Opposition to linking SEA and accounting measures can no longer be justified as a rational reluctance to venture into the unknown. In the United States, for more than two decades the federal government has mandated SEA reporting. Its 1993 Government Performance and Results Act has required federal agencies to establish performance goals and to measure and report upon the extent to which they have been achieved. (10) Moreover, Concepts Statement No. 2 of the Federal Accounting Standards Advisory Board (FASAB) (which establishes accounting standards for the federal government at-large and each of its components) explicitly directs that agencies include in their general purpose federal financial reports a "statement of program performance measures." (11) Today most federal agencies satisfy the FASAB requirements by issuing a combined performance and accountability report (and actually entitled "Performance and Accountability Report") that includes both their traditional financial statements and the information mandated by the Government Performance and Results Act.

United States standard setters are not the only ones that recognize that financial information cannot be divorced from performance measures. The International Federation of Accountants has also issued a study in which it explicitly declares that the main constituents of government's financial statements have an interest in nonfinancial data and presents guidelines as to how the data should be measured and reported. (12)

Moreover, other countries, most notably New Zealand, require that both national government agencies as well as local authorities incorporate performance measures into their annual reports. Specifically, New Zealand local authorities must include in their annual reports information, the purpose of which is “to compare the actual activities and the actual performance of the local authority in the year with the intended activities and the intended level of performance as set out in respect of the year in the long-term plan and the annual plan.” (13)

With respect to service efforts and accomplishments reporting as it applies to state and local governments, the future is already here. However, due in part to economic challenges and disinterested lawmakers, preparers are choosing to let it pass them by.

Fiscal Sustainability

Governments must not only be accountable for performing the functions assigned to them efficiently and effectively but they must also be responsible for ensuring that they have the fiscal capability to do so in to the future. Before year-end the GASB will release a "preliminary views" document in which it proposes that governments include in their annual financial reports "fiscal sustainability" measures – most notably ***projections*** of future cash flows. The rationale – seemingly incontrovertible – is that a fundamental purpose of financial reporting is to enable users to assess whether the government can both pay off its debts and provide the services expected of it.

To say that this proposal is controversial is the ultimate understatement. In fact, while the fiscal sustainability proposals were a mere glint in the eyes of GASB, and before the Board had even begun work on the project, the GFOA and other government-related associations formally objected. They declared, that "the issue of assessing a government's future fiscal sustainability clearly is beyond the scope of accounting and financial reporting as they have traditionally and universally been understood." (14)

While it is certainly true that "traditional" financial statements have excluded measures of fiscal sustainability it is most definitely not true that it is universally understood that that they should continue to be excluded. In the United States, per FASAB standards, fiscal sustainability information is now an integral part of the federal government's Consolidated Financial Report. Further, the International Public Sector Accounting Standards Board (IPSASB) concluded in a recent report that, "the presentation of information on long-term fiscal sustainability is necessary to meet the accountability and decision-making objectives of financial reporting." (15)

The GASB, like the FASAB and the IPSASB, believes that accountability for fiscal sustainability is not only within the scope of accounting but, like service efforts and accomplishment information, is essential to it. After all, if statement readers are not concerned with the fiscal viability of government, then in what are they interested?

Information on fiscal sustainability, no less than that on service efforts and accomplishments, is consistent with the objectives of financial accounting. As stated in Concepts Statement No. 1, *Objectives of Financial Reporting,* "Financial reports are commonly used to assess a state or local government's financial condition, that is, its financial position and its ability to continue to provide services and meet its obligations as they come due." (16)

The idea that accounting reports should incorporate projections is hardly radical. Accounting reports are intended to inform decisions that will affect the future. Whereas the traditional balance sheet and statement of activities focus on transactions and events that have taken place in the past, they nevertheless do so with an eye decidedly on the future. The basic accounting statements by necessity incorporate any number of estimates and assumptions as to what will take place in the future. Moreover, at the most fundamental level they assume "going concerns." Further, the very definition of an asset indicates that it is a resource that an entity owns or controls in the expectation that it will provide ***future*** benefits. To determine the value that we should assign an asset we forecast not only the date at which the asset will be sold – perhaps decades in the future – but the dollar amount that will be received upon its retirement.

Today, unfortunately, the financial statements of a state and local government may give us no clue as to whether the government will continue to provide services at the same level as it does today. To be sure, the financial statements capture governments' explicit liabilities. Bonds payable, for example, are accorded balance sheet recognition and extensive details as to interest rates and repayment terms are provided in the notes. Obligations derived from operating leases, while not reported on the balance sheet, are at least disclosed in notes.

But think of all the known obligations that are not reported. Consider, for example entitlements. Entitlements are payments in either dollars or goods or services to which an individual or a lower level government is entitled as a matter of law. Although the granting government may have to appropriate the funds to support the program each budget cycle, the enabling legislation, once enacted, remains in effect until changed. For example, federal Medicaid laws stipulate that states provide a specified level of medical care to eligible recipients. Or a current law may provide that school children from families below a specified level of income are entitled to subsidized lunches. Under current accounting rules governments would not have to recognize either an expense or a liability for the required payments until they are actually due. As a consequence, payments that the government can readily project as inevitable are not accorded recognition in either the basic financial statements or the notes thereto.

Similarly, even without the explicit legislation attached to entitlements, governments know that they will be expected to provide a certain level of services in the future. More often than not the cost of providing such services is readily predictable, at least within a range. For example, if a school district knows that its school age population is increasing, then it is almost certain that its costs will also increase. But nowhere in the financial statements or notes thereto will you be told about such inevitable future costs.

There are obviously sound reasons for the extant standards that allow for this delayed expense and liability recognition of inevitable costs. They are consistent, for example, with accepted concepts of interperiod equity – those they dictate that the cost of entitlements and services be recognized in the period in which the citizenry benefits from them. Nevertheless, it would seem fatuous to suggest that the expectation of costs to be incurred in the future is irrelevant to the fiscal health today of the reporting entity and should not therefore be reported in either notes or required supplementary information.

Financial reports that look only to the past can easily mislead readers into believing that the future will be as bright as the past. Take the 2010 Comprehensive Annual Financial Report (CAFR)of my state, Texas. The government-wide balance sheet reported a healthy net position of $132 billion, up by about $2 billion from the prior year. The general fund had a healthy balance of $8.4 billion, down only slightly from the 2009. Although the Management Discussion and Analysis (MD&A)incorporated a few words of caution, I doubt whether even the most sophisticated reader would discern from that CAFR that in 2011 the state would be facing what some estimated to be a $28 billion budgetary shortfall and that without structural changes in the tax system the outlook for the more distant future was no brighter.

Compare this with the 2010 annual report of the U.S. Government. This report leaves the reader with no doubt that based on current laws the federal government faces a fiscal future that is not merely bleak, but is unsustainable. Table 1 of Required Supplemental Information (RSI), *Long Range Projections of Federal Receipts and Spending* indicates that the present value over the next 75 years of non-interest spending less receipts would be $16.3 trillion. When interest is added, the gap becomes far wider. More telling under the major heading "Where We are Headed" and the subheading "Fiscal Sustainability" the MD&A states categorically, "The projections in this Report indicate that the trajectory of current policy is not sustainable. If current policies are kept in place indefinitely, the debt to GDP ratio is projected to exceed 350 percent in 2085 and to rise continuously thereafter." (17) Moreover, in the interest of even greater candor the report notes that, per generally accepted accounting standards the projections are based on current law. Under current law (i.e., the Affordable Care Act), expenditures for Medicare and Medicaid are projected to decrease. Yet neither the trustees of Medicare nor virtually anyone else believe that current law itself is sustainable. Therefore, the report itself states explicitly that the projections included in the report understate the severity of the fiscal gap. There is nothing wishy-washy or unclear about that type of reporting. This, I believe, is precisely what users want and to which they are entitled.

Most notably, per an FASAB standard adopted in 2009, the consolidated financial report of the U.S. Government now includes a statement that reports:

- the present value of projected receipts and non-interest spending under current policy without change,
- the relationship of these amounts to projected Gross Domestic Product (GDP), and
- changes in the present value of projected receipts and non-interest spending from the prior year. (18)

Although this statement is now included in RSI, starting in fiscal 2013 it will become a basic financial statement. (19)

The GASB is now proposing to remedy the serious lacuna in state and local government reporting. The GASB will soon issue a preliminary views document outstanding, the title of which is *Economic Condition Reporting: Financial Projections.* In essence the proposed standard will require governments to present the forward looking information that, at a minimum, is necessary for statement users to assess the government's fiscal sustainability.

"Fiscal sustainability" is an elusive concept. Governments do not typically face legal maximums that prevent them from increasing taxes or fees and there are generally no legal minimums below which they are prohibited from providing services. Therefore, in that sense governments may almost always be fiscally sustainable. They can always either raise taxes or cut services. In practice, however, there are obvious constraints on the abilities of government to generate revenues and to reduce expenditures. Beyond a point, higher tax rates reduce tax collections and decreases in services lead taxpayers to "vote with their feet" for a more friendly public environment, thereby contracting the government's tax base.

The Board is proposing that governments should present five specific indicators of sustainability, each of which would be based on *current* policies adjusted for any known events and conditions that affect the future.

- Projections of major categories of cash inflows, both in dollars and as a percentage of total cash inflows
- Projections of major categories of cash outflow (either by program or function) both in dollars and as a percentage of total cash inflows
- Projections of financial obligations, including bonds, pensions, other post-employment benefits and long-term contracts
- Projections of annual debt service (i.e., interest and principal)
- A narrative discussion of major intergovernmental service interdependencies.

This last requirement, a narrative discussion of major intergovernmental service independencies, is especially significant in as much as approximately 29 percent percent of state and local government revenues now come from the federal government. (20) To paraphrase Prince Metternich, when the federal government sneezes, state and local governments catch cold. We are clearly witnessing this today. As the federal government cuts its expenditures, the costs of providing services are passed down to the states. And as the states cut **their** expenditures – for education, for example – the burden must be assumed by local school districts.

Note that the proposed pronouncement calls for projections, not forecasts. As a consequence, even if the standards were in effect in 2007, the reports of state and local governments would not have projected the downturn in tax revenues attributable to the recession that began in 2008. The GASB is not demanding that state and local finance officers become seers.

Relative to the federal government, state and local governments face a special issue relating to projections. Unlike the federal government, almost all state and local governments are required to balance their budgets. Accordingly, if the projections reveal a gap between revenues and expenses, they cannot, by law, be considered reliable. Changes will have to be made. Either revenues will have to increase or expenses decrease. That, however, is the very purpose of requiring that projections – **those based on current policy** – be made and reported. They demonstrate that insofar as the expense line on a graph is consistently above the revenue line, then current policies are unsustainable and changes are in order.

From the perspective of a standard setter, a projection requirement raises a myriad of technical issues:

- Over how many years should the projections be made? The federal government projects revenues and expenses for a period of 75 years. That makes sense for the federal government because its expenses are driven in large part by social insurance entitlements, such social security and Medicare, which by their very nature have to be assessed over generations, not merely years. Local governments, however, have a drastically shorter time horizon. The GASB has tentatively proposed that the projections extend over a minimum of five years.

- Should they be on a cash basis or an accrual basis? Governments, like businesses, fail because they run out of cash. The GASB believes that users are more concerned with flows of cash rather than flows of income-type measures. Therefore the projections should generally be cash based, with the exception that financial obligations should be on an accrual basis.

- Should capital outlays be reported separately from other expenses. State and local governments typically budget for, and finance, their capital outlays apart from other outlays. The GASB has tentatively decided that they should be broken out from functional outlays (e.g. public safety, sanitation, education).

For certain, any standards eventually issued by the GASB will be principles based, allowing governments wide discretion in their assumptions and means of making projections. Moreover, they will be given ample opportunity to explain, justify and comment upon all aspects of their projections.

Fiscal sustainability information is another example of the importance of greater accountability and the need to bring accounting into the 21st century.

Electronic Financial Reporting

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To be fair to those who object to the GASB proposals pertaining to both service efforts and accomplishments and fiscal sustainability reporting, it must be noted that they do not suggest that governments should not be accumulating information in those areas or even that it should not be made public. Rather, they believe that it should be separate and distinct from traditional financial reporting. Their view is motivated, at least in part, by the difficulty of interfering with the typical organizational boundaries within individual governments. Whereas traditional financial information typically is accumulated and reported by one department – that of a comptroller, for example, – performance data are scattered among various functional departments, and financial projections are often within the province of a budget or economics department.

Twenty-first century technology can and must be marshaled so as to achieve twenty first century accountability. Both computers and access to the Internet are now nearly ubiquitous and that means that financial reporting must advance beyond paper and the printing press. Cyberspace is virtually unrestricted by either internal or external informational boundaries. The technology is now in place to dramatically increase not merely the amount of *data*, but more importantly the amount *information* provided to users. Best of all, this can be done without causing information overload, for users will be able to pick and choose precisely the types of data that they want.

Today, all but the smallest of governments post their annual financial reports on the Internet. Often the reports are in Pdf format. In this format the computer and the Internet serve little more than as a high-speed postal service, delivering on screen what was previously delivered in a spiral-bound book.

The obvious means of enhancing accountability is through added disclosures; that is more notes and more pages. As annual reports get lengthier and lengthier, that will no longer be a satisfactory response. The 2010 annual report of the United States is 250 pages. That of the City of Austin is 218. Both are far too long to be easily navigable, most definitely for non-accountants who might be unaware of where to find the information they are seeking.

Electronic financial reporting can take many forms, ranging from posted reports on the Internet (e.g. in Pdf format) to full scale "data warehouses." Data warehouses (in essence large data bases uploaded from operational systems) have the potential to fully integrate just about all data – financial and nonfinancial – gathered and stored by a government.

As emphasized earlier, financial information has significance only when related to what is typically considered to be nonfinancial information, most notably that relating to service efforts and accomplishments. Such nonfinancial information is not typically maintained or reported by the department of the government that is responsible for preparing the government's annual financial statements. Rather it is maintained by the various operating departments – in the case of a city, for example, the police, fire, and recreation departments. Modern computers, however, can readily link the data systems of the department that prepares the financial reports with those of the operating departments.

Consider the following. The annual report of a city currently indicates the total dollar amount spent on police. That number is certainly of relevance to many types of judgments. Of even greater concern to many citizens is the amount spent in their own police precinct and how it compares to expenditures both in previous years and in other precincts. Leaving aside issues of how to allocate common city-wide costs, that amount is either already available in computer files of the police department or can readily be calculated. Moreover, citizens are interested in results; that is, to what extent the amounts being spent are accomplishing what they are supposed to. Such information, whether on arrests, response times, complaints, etc. is also available. The technology to provide that information, to link it to the traditional financial data and to make it accessible, is available today – and in fact has been for many years.

The reluctance of both governments and standard setters to take the necessary giant steps towards developing a reporting system based on full scale data warehouse is readily understandable. In an era of fiscal exigency, there is little incentive for them to do so. Such a system would be costly and would raise any number of issues as to the responsibility of the government's independent auditors for expressing an opinion on the new types of information.

Nevertheless, there is less excuse for failing to take at least baby steps in the direction of enhanced electronic reporting. As a minimum, for example, electronic versions of reports can and should link key numbers with related notes, tables and schedules. If an item on the balance sheet includes a parenthetical reference to a note, a reader should be able to click on that reference and be directed to that note. Similarly, if an expense is an aggregated amount, the reader should be able to click on it and be presented with the relevant supporting schedule.

Taking a mini step beyond that, reports of independent but related entities can also be linked. For example, an employer's pension plan is generally a fiscal and accounting entity separate from the employer itself. Yet to understand the pension liability of the employer it is necessary to understand much about the assets that are held in the plan. Accordingly, much of the information reported in the plan's financial statements is repeated in the employer's financial report.

Wouldn't it be more efficient, however, if the employer, rather than reporting the same information as the plan itself would simply contain an electronic link to the financial statements of the plan? Not only would readers of the employer's report have immediate access to more information, but the report would be much less voluminous and hence considerable more manageable.

Going a step further, electronic financial reporting can provide far more information than do extant conventional reports – but only the information that users actually want. Electronic reporting could enable users to "drill down" to the depth of data that they find useful. A typical CAFR of a fair-sized municipality contains page after page of text and schedules providing data on outstanding bonds. (21) Among the data are issue dates, interest rates, principal outstanding and range of maturity dates. Almost certainly these data cause the eyes of the vast majority of statement users to glaze over. Yet other users – perhaps bond dealers – may want even more information – perhaps, for example, the specific maturity dates and projected cash flows associated with each bond issue. Electronic reporting would enable the user to click on an individual bond and then be directed to a menu of detailed schedules or notes providing far more detail than can possibly be incorporated into paper reports. Indeed, there is no reason why the complete bond prospectus itself should not be more than a click away.

Similarly, electronic reporting facilitates the settlement of disputes over preferred bases of reporting. Disregarding the costs of making appropriate adjustments to the accounts (which admittedly may not be trivial), the cost of providing alternative statements, each on a different basis, now becomes minimal.

Although the costs and benefits of electronic reporting are also applicable to businesses, electronic reporting is more suitable for governments than for businesses. In governments, as compared with businesses, almost all information is in the public domain. In fact, in many governments much of the information that is of interest to citizens is already posted on their web sites. A data warehouse, therefore, is mainly a means of linking what is already available.

Conclusion

Governments today face unprecedented fiscal constraints and in light of the difficulties of merely maintaining services at their current levels, it is understandable why neither elected officials nor their constituents place high priority on improved financial reporting. But that is a serious misjudgment. To minimize the impact on the services that they provide, governments will have to operate more efficiently and effectively. Improved financial reporting is central to achieving that objective. Accounting matters. What we measure is what we manage.

I'm here today because of what institutions of government – and specifically Baruch and the City University of New York -- did for my parents. As accountants – as current and future members of a profession dedicated to serving the public – it is incumbent upon us to make certain that that the American dream remains the American reality. That means ensuring that accounting of the future advances beyond that of the past and that accounting is not divorced from accountability.

References

(1) This quote is widely ascribed to Charles H. Duell, Commissioner, U.S. Patent Office, who alleged said it in 1899. However, a web site (http://www.quotationspage.com/weblog/2005-08-26-239/) refers to the statement as "one of those classic misquotations."

(2) Government Finance Officers Association. “The GFOA's position on the Governmental Accounting Standards Board (GASB).” Government Finance Review, Vol. 23, No. 2 (April, 2007), p.3.

(3) Bureau of Municipal Research. Handbook of Municipal Accounting (New York and London: D. Appleton and Company), 1913. p. ix.

(4) Governmental Accounting Standards Board. *Objectives of Financial Reporting*, Concepts Statement No. 1, 1987, para. 77.

(5) Governmental Accounting Standards Board. *Service Efforts and Accomplishments: Its Time Has Come, An Overview*, 1990.

(6) Governmental Accounting Standards Board. *Service Efforts and Accomplishments Reporting*, Concepts Statement No. 2, 1994.

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(9) These definitions and examples are drawn from, *Service Efforts and Accomplishments Reporting, An Amendment of GASB Concept Statement No. 2*, Concept Statement No. 5, 2008, para. 8.

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(17) Department of the Treasury, *2010 Financial Report of the United States Government*, p. 17

(18) Federal Accounting Standards Advisory Board. *Comprehensive Long-Term Projections for the U.S. Government*, Statement of Federal Financial Accounting Standards No. 36, 2009.

(19) Federal Accounting Standards Advisory Board. *Social Insurance: Additional Requirements for Management's Discuss and Analysis and Basic Financial Statements*, Statement of Federal Financial Accounting Standards No. 35, 2010.

(20) Edward J. Mazur, "Our Nation's Governors – Walking a Tightrope Without a Net," *Journal of Government Financial Management*, Vol. 60, No, 2 (Summer 2011), p. 13.

(21) Note 10 ("Debt and Non-Debt Liabilities") of the City of Austin's 2010 CAFR was 20 pages.