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Governmental Accounting Standards Series

Concepts Statement No. 2 of the Governmental Accounting Standards Board

on concepts related to

Service Efforts and Accomplishments Reporting

as amended by GASB Concepts Statements No. 3 and 5

GASB

Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Preface

The purpose of this document is to present, in its entirety, Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting,* as amended. The GASB issued Concepts Statement 2 in April 1994. Concepts Statement 2 subsequently was amended by Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, in April 2005 and by Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting,* an amendment of GASB Concepts Statement No. 2 in November 2008. Because Concepts Statements are not authoritative, Concepts Statements 2, 3, and 5 have not been integrated into the *Codification of Governmental Accounting and Financial Reporting Standards* but, instead, have been reproduced in Appendix B of the Codification. Concepts Statements 3 and 5 include modifications to Concepts Statement 2 but do not contain an entire version of Concepts Statement 2, as amended. In Appendix B of the Codification, Concepts Statement 2, as amended, includes the entire modified Concepts Statement. For the Summary, Background Information, and Basis for Conclusions sections discussing the amendments of Concepts Statement 2, see Concepts Statements 3 and 5. For the Background Information and Discussion Issues Raised during Due Process sections of Concepts Statement 2, see the original version of Concepts Statement 2 issued in 1994.

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November 2008

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SCOPE

1. The concepts in this Statement provide a framework that will be used by the Governmental Accounting Standards Board (GASB) in considering guidance for reporting service efforts and accomplishments (SEA) by state and local governmental entities. This Statement provides a rationale for the objective of SEA reporting, and identifies the elements of SEA reporting and the qualitative characteristics that SEA performance information should possess. This Statement also serves as a link between the financial reporting objectives of GASB Concepts Statement No. 1, *Objectives of Financial Reporting,* and future pronouncements or other communications that provide guidance for the reporting of SEA performance information. This Statement does not establish SEA reporting requirements; rather, it broadly describes why external reporting of SEA performance information assists users in assessing accountability and in making better informed decisions.

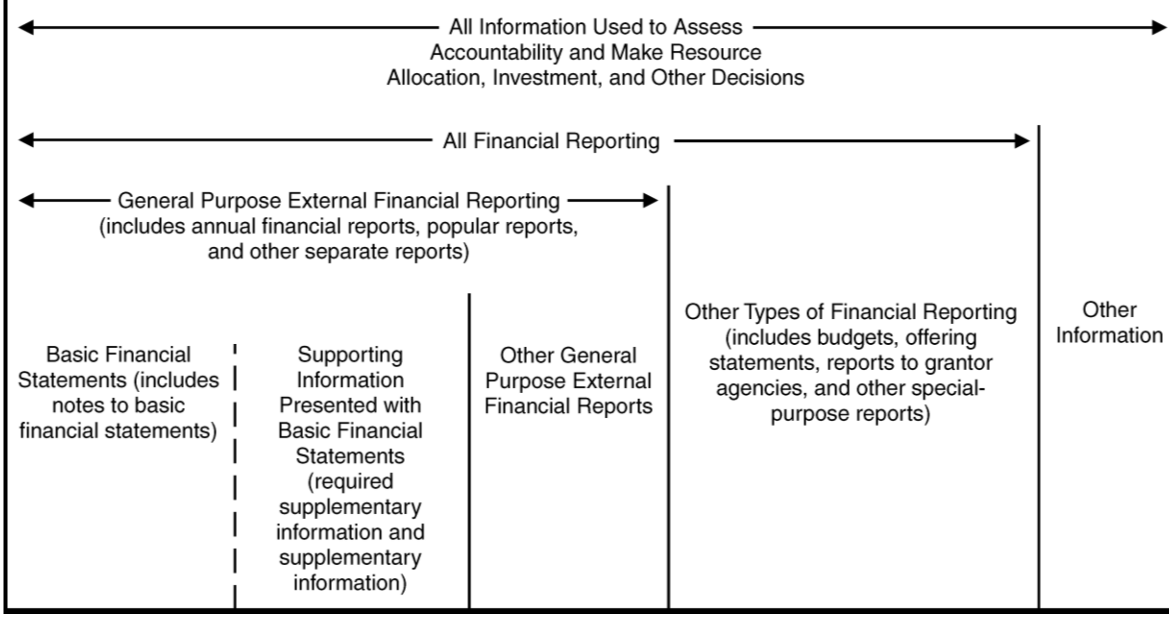
2. It is beyond the scope of the GASB to establish (a) the goals and objectives of state and local governmental services, (b) specific nonfinancial measures or indicators of service performance, or (c) standards of, or benchmarks for, service performance. Selection of goals and objectives, specific nonfinancial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

3. The services provided by state and local governmental entities are diverse and often complex in nature. Therefore, those directly involved in SEA reporting may need to collaborate with individuals and organizations that have specific technical knowledge, such as other management personnel, elected officials, legislative staff, citizens, auditors,

professional associations, and other interested parties.[1] The unique perspectives and professional and technical knowledge of these individuals and groups can inform the selection of SEA performance measures by the government.

4. General purpose external financial reporting (GPEFR) focuses on providing information to meet the needs of external users. SEA reporting is an important part of GPEFR.[2] (See Figure 1.)

Figure 1
Information Used by Financial Report Users



Concepts Statement 1 recognizes that GPEFR should provide information to assist users in assessing accountability and in making economic, social, and political decisions. In Concepts Statement 1, *accountability* is recognized as being the paramount objective of GPEFR by state and local governmental entities. Concepts Statement 1 (paragraph 77)

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[1]For example, see Harry P. Hatry and Others, *How Effective Are Your Community Services? Procedures for Measuring Their Quality*. 3rd ed. (Washington, DC: The Urban Institute and International City/County Management Association, 2006).

[2]SEA reporting was first identified in the state and local government conceptual framework in National Council on Governmental Accounting (NCGA) Concepts Statement 1, *Objectives of Accounting and Financial Reporting for Governmental Units* (1982). NCGA Concepts Statement 1 stated that "the overall goal of accounting and financial reporting for governmental units is to provide: 1) financial information useful for making economic, political and social decisions, and demonstrating accountability and stewardship; and 2) information useful for evaluating managerial and organizational performance" (paragraph 8). For more detail, see paragraph 9.V. of NCGA Concepts Statement 1.

states that GPEFR should assist in fulfilling a government's duty to be publicly accountable and in enabling users to assess that accountability by:

a. Providing information to determine whether current-year revenues were sufficient to pay for current-year services.
b. Demonstrating whether resources were obtained and used in accordance with the entity's legally adopted budget, and demonstrating compliance with other finance-related legal or contractual requirements.
c. Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.

5. Concepts Statement 1 (paragraph 77c) states that SEA performance 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."

6. Concepts Statement 1 (paragraphs 8 and 57) recognizes that meeting the information needs for decision making in the state and local government environment and for assessing public accountability could extend GPEFR beyond traditional accounting measures. This includes information to assist users in assessing an entity's performance in terms of SEA performance measures.

7. The costs and benefits of SEA reporting need to be considered. The Board recognizes both the importance and the complexity of assessing the costs and benefits of reporting SEA performance information. Costs and benefits are affected by many factors, such as the gathering, reporting, and use of the information.

PURPOSE

8. The purpose of this Statement is to provide conceptual guidance regarding the reporting of SEA performance information. This Statement is one of a series of Concepts Statements that will be used as a framework for evaluating existing guidance and practices, and for establishing future state and local reporting guidance. Although the GASB is the principal user of the concepts in this Statement, these concepts also may benefit the preparers and users of SEA performance information. The concepts in this Statement may help preparers and others develop effective methods of communicating SEA performance information. Greater consistency within, and comparability among, governments in their development of SEA reports will enhance the usefulness of reported information. The concepts in this Statement may enhance users' understanding of the

elements and related information, qualitative characteristics, limitations, and usefulness of SEA performance information.

THE GOVERNMENTAL ENVIRONMENT AND THE NEED FOR SEA REPORTING

9. GPEFR is not an end in itself, but is one of several means used to provide information to the citizenry, legislative and oversight bodies, investors and creditors, and others. The information reported is intended to be of value to those users in making economic, social, and political decisions and in assessing accountability. Concepts Statement 1 provides that one of the objectives of financial reporting is to assist in fulfilling government's duty to be publicly accountable and to enable users to assess that accountability. A subobjective is to provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity. Concepts Statement 1 notes that this information "may help form a basis for voting or funding decisions." The elements and qualitative characteristics of SEA reporting identified in this Statement are derived primarily from the needs of governmental financial report users to have information about an entity's SEA performance.

10. To better understand the elements and qualitative characteristics of SEA reporting, it is helpful to analyze the governmental environment, the systems of public administration that operate in that environment, the nature of public accountability, the decisions that are being made, and the role of financial reporting in providing information both for decision making and to demonstrate and assess accountability. The analysis that follows confirms that SEA reporting is an essential part of the information needed for assessing accountability and making decisions in the governmental environment. It also provides a basis for understanding the elements and qualitative characteristics of SEA performance information.

The Governmental Environment

11. Governments in the United States—federal, state, and local—are created and operate under a form of representative democracy. In a representative democracy, decisions are made in accordance with the principles of popular sovereignty, political equality, popular consultation, and majority rule. These concepts require that the ultimate power to make political decisions be vested in the people. These concepts do not require that all the people directly make the daily policy, management, or administrative decisions of

government. However, they do recognize that the people, being sovereign, have the right to decide which decision-making powers they will keep for themselves and which they will delegate, to whom, and under what conditions of accountability.

12. The overall operation of government is generally referred to as "public administration." Public administration has been described as the use of legislative, executive, and judicial governmental processes or actions to provide regulatory and service functions for the society as a whole or for some segment(s) of it.[3] Public administration (much like any other system of management or administration) includes the following functions: (a) perceiving needs, problems, and opportunities, (b) formulating problems, (c) developing proposals for solutions, (d) testing and forecasting the consequences of the proposals, (e) planning actions to carry out proposals, (f) selecting and approving action plans, (g) funding an approved action plan, (h) carrying out the action plan, (i) measuring and evaluating the outcomes of the actions taken, and (j) communicating the outcomes and the results of evaluations to decision makers.[4]

13. Public administration generally operates within an ongoing annual or biennial cycle. The process uses information gathered in the course of carrying out the action plan, together with additional information, to begin the cycle once again. The budget process is a major element of public administration. The budget process is also a series of continual cycles from budget formulation, to appropriation, to budget execution, to reporting and evaluation, and back to budget formulation.

Decision Making in State and Local Government

14. Decision making is at the center of public administration. More often than not, the process involves conflicting opinions and values. For example, the potential benefit of a service largely depends on the value one places on that service—a value that can vary widely among individual citizens or groups. It is extremely difficult to evaluate policy decisions when a choice is required to be made between two or more services, each of which is seen as being valuable to the community. For example, the decision of whether to increase funding either for elementary and secondary education or for public safety

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[3]David H. Rosenbloom, *Public Administration: Understanding Management, Politics, and Law in the Public Sector*, 2nd ed. (New York: Random House, 1989), p. 6.

[4]For examples of this or similar processes, see Thomas D. Lynch, *Public Budgeting in America* (Englewood Cliffs, NJ: Prentice-Hall, 1979), pp. 23–25; Peter F. Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper & Row, 1974), pp. 158 and 159; and State of Connecticut, Office of Policy and Management, *"Best Practices" in Gubernatorial Management of State Government* (Hartford, July 1991).

depends, in part, on factors such as the value the decision maker places on public education or on public safety, the correlation one believes is present between the resources provided and educational or public safety performance, and whether the decision maker has children (or grandchildren) of school age or has been or knows someone who has been a victim of a crime. But regardless of the processes, strategies, or methods used to make decisions, the decision maker needs information.

15. The quality of the information and the process of refining and communicating it are of critical importance to the decision maker. For this communication to be effective, information should meet certain basic qualitative characteristics, as discussed in paragraphs 62 through 68 of Concepts Statement 1. That is, the information should be understandable to users, as reliable and as free from bias as possible, relevant to the outcome being measured and the decision being made, timely, consistent over time, and comparable. It is also important for the decision maker to recognize the degree of objectivity and subjectivity of the information. Here the difference is a matter of degree and not of kind, because all information contains both objective and subjective elements.[5]

16. Decisions made by the citizenry, investors and creditors, elected officials, appointed officials, and others involved in the governmental processes include:

Citizenry—general

- Determining the extent and types of powers given to elected and administrative officials by the people.
- Choosing the checks and balances to impose on the system.
- Selecting officials as representatives, and making other voting decisions.
- Assessing the accountability and performance of elected and appointed officials.
- Evaluating the level of taxes and other charges made by governmental units, and deciding what action, if any, to take.

[5]Irwin D. J. Bross, *Design for Decision* (New York: Macmillan, 1953), pp. 19–21 and 150–152.

Citizenry—as service recipients

- Deciding when and whether to use the services[6] provided by the governmental entity.
- Evaluating the quantity and quality of services provided.
- Deciding which service changes to request.

Investors and creditors

- Deciding whether to lend funds or provide goods or services to the governmental entity, and setting the charge for those funds or goods or services.

Elected officials

- Establishing laws.
- Assessing the accountability and performance of appointed officials.

Elected and appointed officials

- Selecting services to be provided by the government.
- Allocating resources.
- Setting tax rates and user charges.
- Establishing goals and objectives for programs.
- Establishing rules and regulations.
- Prioritizing services.
- Setting performance levels and targets for specific services.
- Measuring and assessing the performance of programs and the effect of taxes and user charges.
- Measuring and assessing the extent that public needs are being met by services, and the extent that some needs remain unmet.
- Selecting alternative methods of financing expenditures, including the issuance of debt.
- Selecting information to be requested and reported.
- Deciding whether to modify, continue, expand, reduce, or curtail programs or activities.
- Deciding which programs require more detailed investigation or evaluation to determine the causes and effects of results.
- Deciding ways to improve or modify service performance.
- Deciding which activities and processes are needed to produce services.
- Deciding how to measure the results of services.
- Deciding how to improve strategies, activities, or processes for better service performance.

[6]As used in this Concepts Statement, *services* includes general governance, the establishment and enforcement of laws, the regulation of public and private activities, and the provision of products and services.

Information Needed for Decision Making

17. To facilitate the process of decision making in the context of the public administration system and budgetary cycle, ideally a governmental entity should establish and communicate clear, relevant goals and objectives; set measurable targets for accomplishment; and develop and report indicators that measure its progress in achieving those goals and objectives (measures of SEA performance). For example, for governmental entities to have appropriate information for making decisions and assessing accountability, information needs to be provided about results achieved (service accomplishments or SEA performance) through the use of the resources provided (service efforts) and how those results compare with what was planned. The terms *economy*, *efficiency*, and *effectiveness*[7] often are used in this context to describe the categories of SEA performance information needed.[8]

18. This need for comprehensive SEA performance information is highlighted by a guideline on economy, efficiency, and effectiveness supporting a British Chartered Institute of Public Finance and Accountancy (CIPFA) standard in 1982. The guideline states: "Economy and efficiency in the execution of programmes is of small consequence if those programmes are not meeting the authority's objectives and no assessment of value for money is complete without regard to effectiveness. In order to assess effectiveness, it is necessary first, to determine and specify the objectives and second, to assess [measure] performance against those objectives so that appropriate adjustment or remedial action can be taken."[9]

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[7]*Economy* has been defined as essentially a resource-acquisition concept with a least-cost notion and is concerned with the acquisition of resources of appropriate quality and quantity at the lowest reasonable cost. *Efficiency* has been defined as essentially a resource-usage concept, also with a least-cost notion, that is concerned with the maximization of outputs at minimal cost or the use of minimum input resources. *Effectiveness* has been defined as an ends-oriented concept that measures the degree to which predetermined goals and objectives for a particular activity or program are achieved. Others have included both intended and unintended results of a program as part of the measurement of effectiveness. (Lee D. Parker, *Value-for-Money Auditing: Conceptual, Development and Operational Issues* [Caulfield, Victoria: Australian Accounting Research Foundation, 1986], p. 13.)

[8]The notion of equity is also used when discussing governmental goals and objectives. "Equity" is a concept that refers to the fairness, impartiality, or equality of service. Because of the complexity of determining what is equitable, for purposes of this Concepts Statement equity is included as a measurable outcome only when specific goals or objectives have been established for it.

[9]Cited in Parker, *Value-for-Money Auditing*, p. 22.

The Nature of Governmental Accountability

19. GASB Concepts Statement 1 describes accountability as a broad concept that forms the cornerstone of all financial reporting for state and local governmental entities. Although Concepts Statement 1 recognizes that financial reporting should provide information to assist users both in assessing accountability and in making economic, social, and political decisions, it states that accountability is the paramount objective from which all other objectives flow (para. 76). Accountability is a relationship between those who control or manage an entity and those who possess formal power over them. It requires the accountable party to provide an explanation or a satisfactory reason for his or her activities and the results of efforts to achieve the specified tasks or objectives.[10] Consistent with this notion, Concepts Statement 1 states that "accountability requires governments to answer to the citizenry—to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a 'right to know,' a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives" (para. 56).

20. Governmental accountability is similar to private-sector accountability in that it includes a requirement to render an account or explain one's actions to someone else who has the authority or power to assess performance and to make a judgment and take action. The process includes (a) the requirement to render the elements of accounts, (b) the analysis of that information and the making of a judgment by those to whom one is accountable, and (c) the exercise of power in the form of allocating praise or censure.[11]

21. Governmental accountability can be viewed from several perspectives. For example, from an accounting perspective, in 1970 the American Accounting Association's (AAA) Committee on Concepts of Accounting Applicable to the Public Sector divided what entities are accountable for into four parts:

a. Financial resources.
b. Faithful compliance or adherence to legal requirements and administrative policies.
c. Efficiency and economy in operations.

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[10] Lesley Browder, *Who's Afraid of Educational Accountability?* (Denver: Cooperative Accountability Project, 1975).

[11] J. D. Stewart, "The Role of Information in Public Accountability," in Anthony Hopwood and Cyril R. Tomkins, eds., *Issues in Public Sector Accounting* (Oxford, Eng.: Philip Allan, 1984), pp. 14 and 15; Andrew Dunsire, *Control in a Bureaucracy* (New York: St. Martin's Press, 1979); George W. Jones, *Responsibility in Government* (London: London School of Economics and Political Science, 1977).

d. The results of government programs and activities, as reflected in accomplishments, benefits, and effectiveness.

22. From a functional perspective, accountability has been presented in the form of a ladder comprising five distinct levels.[12] The levels move from more objectively measured aspects (legal compliance) to aspects requiring more subjective measures (policies pursued and rejected). The ladder is generally consistent with the analysis of the AAA's committee.

Level 1: Policy accountability—selection of policies pursued and rejected (value)
Level 2: Program accountability—establishment and achievement of goals (outcomes and effectiveness)
Level 3: Performance accountability—efficient operation (efficiency and economy)
Level 4: Process accountability—using adequate processes, procedures, or measures in performing the actions called for (planning, allocating, and managing)
Level 5: Probity and legality accountability—spending funds in accordance with the approved budget or being in compliance with laws and regulations (compliance)

23. Each of these levels is a necessary part of accountability. Basic financial statements (BFS), which aid in assessing probity and legality accountability, provide the foundation upon which other bases of accountability can be developed. The information provided in BFS is essential for assessing whether the entity has exercised adequate fiscal stewardship over the resources provided to it. Although level 1, policy accountability, represents an important part of accountability, the assessment of performance at that level requires the analysis of competing values among different services. Information on the value of services needed for assessing policy accountability requires determining the relative value of a service to society or recipients, or the comparative value of two or more distinct services, and is beyond the scope of GPEFR. Therefore, this information has been excluded from the elements of SEA reporting.

24. In discussing the ladder, Stewart warns (see footnote 12) that there are no universal solutions to accountability. He states that analysis and assessment of what is needed for accountability may be different for each level, each service, and each entity in terms of the right to information, the duty to report, the power to impose sanctions, and the relevant information to provide.

[12]Stewart, "The Role of Information," pp. 13–34.

25. A third view of accountability is from the perspective of the key characteristics of an accountability system, for example: (a) focuses on outcomes, (b) uses a few selected indicators to measure performance, (c) provides information for both policy and program management decisions, (d) generates data consistently over time, and (e) reports outcomes regularly and publicly.[13]

26. These three views highlight the need to develop and communicate information that encompasses both the financial and nonfinancial aspects of performance to those to whom the entity is accountable.

Evolution of Governmental Accountability

27. Governmental accountability in a representative democracy has its roots deep in history and is based on the underlying principle that the ultimate power to decide is vested in the people. Under a democratic system of government, the making of laws and the taking and use of public resources carry with them the responsibility to answer to the people as a whole. Although the essence of accountability is firmly embedded in the basic principles of democracy, the details of what is required to demonstrate accountability have evolved and continue to do so as the nature and scope of government and the needs of the people change.

28. Before the Industrial Revolution, accountability normally was enforced through personal contact and direct participation in the public processes of governance. Industrialization modified that process as society found that there was a need for more services to be provided by the public sector. State and local governments increasingly became active in the regulation of commerce and industry, the protection of life and property, and the provision of social services.

29. As a result, state and local governments grew in size and complexity and became more distant from the citizens they served. The public administration reform movements of the early 1900s grew out of the realization that the traditional methods of enforcing accountability no longer were sufficient. Out of these efforts came the balanced-budget laws, debt and tax restrictions, the civil service system, professional city management, and improved accounting and financial reporting practices.

[13] Jack A. Brizius and Michael D. Campbell, *Getting Results* (Washington, DC: Council of Governors' Policy Advisors, 1991), pp. 17–21.

30. The modification and expansion of the accountability systems associated with the reform movements and later developments were not sufficient, however, to provide the information needed to assess accountability for the increasingly complex programs of large governmental entities. Despite the improvements in the public administration process that resulted from those reform movements, concerns continued to mount about whether governmental entities were operating in an economical, efficient, and effective manner. As an outgrowth of these concerns and through the efforts of elected and appointed officials, external auditors, citizen groups, and others, new methods of assessing accountability and providing information for decision making have developed.

31. Techniques such as management by objectives, performance budgeting, operations research, compliance and performance auditing, program evaluation, cost accounting, financial analysis, and citizen surveys have provided tools for enhancing performance measurement and reporting and for improving the quality and effectiveness of services. These methods in turn have contributed to improving the information available for decision making and to strengthening the accountability system. For example, management has been using goals, objectives, and measures of results to plan, direct, evaluate, and modify operations and improve performance. Performance auditing has expanded the scope of traditional auditing to encompass audits designed to assess the economy, efficiency, and effectiveness of services. Budget professionals have been developing methods of gathering and using information on the performance of agencies, departments, programs, and services as part of the analysis of resource needs.[14] The increased use of citizen surveys has improved governments' understanding of how citizens perceive the performance of the agencies, departments, programs, and services of their government.[15]

32. The increasing need for, and the expanding scope of, governmental accountability is highlighted in the *Guide to Productivity Improvement Projects* prepared for the National Center for Productivity and Quality of Working Life by the International City Management Association (1976). It concludes with the following points: (a) The need to establish accountability for the operations of government programs generally is recognized; (b) establishing accountability for government programs is directly analogous

[14]Raymond K. Suutari, "Rethinking Budgeting," *CA Magazine,* October 1991, pp. 53–55; National Association of State Budget Officers (NASBO), Performance Measures Special Study Group, "The Use of Performance Measures by the States," NASBO spring meeting, Chicago, April 6, 1991.

[15]Thomas I. Miller and Michelle A. Miller, *Citizen Surveys: How to Do Them, How to Use Them, What They Mean* (Washington, DC: International City Management Association, 1991).

to the postaudit function presently used in the area of financial accounting; (c) methods for conducting the evaluations necessary to establish accountability have been developed to the point that they may be generally applied; and (d) the next logical step is to develop a comprehensive model for the application of these methods to governments and their programs.

33. Responsibility to provide performance information as part of a system of public administration is based on a fundamental tenet of a democratic society that holds that ". . . governments and agencies entrusted with public resources and the authority for applying them have a responsibility to render a full accounting of their activities. . . . Thus governmental accountability should identify not only the objects for which the public resources have been devoted but also the manner and effect of their application."[16]

34. Based on the foregoing, it is evident that there is a clear link between the needs of public administrators in making decisions and the needs of the citizenry in assessing the accountability of those administrators. The information needed by public administrators to allocate resources to services and to assess the effectiveness of those services is the same type of information needed (although not necessarily at the same level of detail or analysis) by the citizenry to hold elected and appointed officials to account.

Accountability and the Link to External Financial Reporting

35. Underlying the need for information to use in assessing accountability and for decision making is the basic nature of democratic government and its relationship to its resource providers and service consumers. The relationship between resource providers, especially taxpayers, and services often is indirect. In a pluralistic society, where different individuals or groups often have different needs and values, there are competing demands for services. These competing demands may result in multiple goals and objectives that may be in conflict between programs and even within a program.

36. The relationship between resource providers and services is highlighted in GASB Concepts Statement 1 (paragraph 17), which discusses the following characteristics of government:

a. Taxpayers generally are involuntary resource providers.

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[16]Comptroller General of the United States, *Standards for Audit of Governmental Organizations, Programs, Activities & Functions* (Washington, DC: U.S. General Accounting Office, 1972), pp. 1 and 2.

b. The amount of taxes individuals pay often seems to bear little relationship to the services they receive.
c. Often no "exchange" relationship exists between resources provided and services received.
d. Governments often have a monopoly on the goods and services they provide to the public.
e. It is extremely difficult to measure the optimal quantity or quality for many of the services provided by state and local governments.

37. These characteristics affect the information that is necessary for making decisions and assessing accountability. For example, because services normally are financed in the form of a budgetary appropriation, there often is no market mechanism operating to regulate the amount of a service provided. Therefore, the primary constraints affecting the allocation of resources are political in nature and are based on individual or group values (including limits on the ability to raise revenues). It is therefore difficult to determine if the quantity or quality of the service being provided is appropriate to accomplish the purpose intended or if the appropriate mix of services is being provided.

38. Because the goal of an agency, department, program, or service is to affect the well-being of those receiving the service and the general public, the performance of the agency, department, program, or service cannot be measured satisfactorily by financial measurements such as return on investment, amounts of resources used, or the amount of revenue raised per dollar of resources used. There is no "net profit" measure of performance for governments. The accountability obligation therefore also requires that relevant information about the outcomes of the entity's programs be communicated to elected officials and the citizenry to assist them in assessing the entity's performance and exercising their power. This would require accountability information for level 5 up through level 2 on the "ladder of accountability" (paragraph 22).

39. Traditional governmental financial reporting has attempted to provide accountability and decision-making information primarily about fiscal stewardship. Consistent with this objective, governmental financial reports provide information that assists users in assessing whether financial resources were expended in compliance with the budget and other legal mandates. Financial reporting presently requires information about where resources were obtained, how they were expended, and the financial position of the entity. This means that financial reporting is primarily providing information that addresses probity (compliance)—level 5 on the "ladder of accountability." Fiscal stewardship, as reported by the financial report, is an important element of accountability. Reporting on

fiscal stewardship, however, does not provide users all of the information about performance that is necessary to analyze the results of the entity's operations and to assess accountability.

40. In the past, financial reports for state and local governmental entities have not been intended to communicate information about what the citizens received for the public resources used or how economically, efficiently, and effectively the resources were used. Concepts Statement 1 established parameters of GPEFR that are beyond traditional accounting measures. Those parameters were based on the need for financial reporting to provide information to assist users in assessing accountability and making decisions. To assist in accomplishing this, another dimension to financial reporting was added in Concepts Statement 1: "to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity" (para. 77c).

The Focus of Private-Sector Financial Reporting on Measures of Performance

41. Before further exploring the role of financial reporting in state and local government, it is useful to examine the objectives of financial reporting for private-sector business enterprises and for private-sector not-for-profit organizations. The Financial Accounting Standards Board (FASB) Concepts Statements that set forth the financial reporting objectives for both business enterprises and not-for-profit organizations discuss the need for information about an organization's performance and how that need can be fulfilled. The paragraphs that follow are excerpted from FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations,* Appendix B (item c(2)), with emphasis added.

Objectives:

> *Business Enterprises*—Financial reporting should provide information about an enterprise's *financial performance* during a period. The primary focus of financial reporting is information about an enterprise's *performance provided by measures of earnings [comprehensive income] and its components.*
>
> *Not-for-Profit (Nonbusiness) Organizations*—Financial reporting should provide information about the *performance* of an organization during a period. Periodic measurement of the changes in the amount and the nature of the net resources of a nonbusiness organization and *information about the service efforts and accomplishments* of an

> organization together represent the information most useful in assessing its *performance.*

Comparison of Objectives:

> *Comparison of Objectives*—The goals of the two objectives are the same but, because of the distinguishing characteristics of nonbusiness organizations, somewhat different information is required to satisfy those goals. Both seek to measure the *efforts and accomplishments* of the entity but assessment of *performance* in nonbusiness lacks earnings [comprehensive income] as a focal measure. This creates the need for information on *service efforts and accomplishments.*

42. FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, addresses the measurement of performance by business enterprises from an accountability perspective: "Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. Management of an enterprise is periodically accountable to the owners not only for the custody and safekeeping of enterprise resources but also for their efficient and profitable use and for protecting them to the extent possible from unfavorable economic impacts of factors in the economy such as inflation or deflation and technological and social changes. . . . Earnings [comprehensive income] information is commonly the focus for assessing management's stewardship or accountability. Management, owners, and others emphasize enterprise performance or profitability in describing how management has discharged its stewardship accountability" (paras. 50 and 51). The American Institute of Certified Public Accountants' (AICPA's) *Objectives of Financial Statements* states that because the principal goal of a business enterprise is to maximize monetary wealth so that over time it can return the maximum amount of cash to its owners, management is accountable for progress toward that goal, and the assessment of accountability requires information that measures performance in achieving that goal.[17]

43. Comprehensive income (and its components) and other information in the financial report provide an indication of many—but not all—aspects of a business enterprise's performance. For example, the information may provide some indication of factors such as the organization's efficiency, its share of market, and consumer satisfaction. But it does not provide all that a user may wish to know about an enterprise's performance—for

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[17]The AICPA Study Group on the Objectives of Financial Statements, *Objectives of Financial Statements* (New York: AICPA, October 1973). (This is also referred to as the Trueblood Committee report.)

example, whether the quality of the organization's products is sufficient to ensure maintenance of the existing market share. More recently, some have expressed the opinion that there is a need for reporting other indicators of performance for business enterprises—indicators of factors that help produce long-term earnings and value. They cite measures such as market standing, customer satisfaction, product quality, cost and productivity, management and worker productivity, and management and worker performance as examples of indicators that help in assessing the potential for future performance.[18]

44. For private not-for-profit organizations, the measurement of performance takes on a different character. As noted earlier, the FASB concluded that measurement of performance for not-for-profit organizations requires information of a different type from that required to measure the performance of business-type organizations: specifically, information about the service efforts and accomplishments of the not-for-profit organization together with information about changes in the amount and nature of net resources. Thus, FASB Concepts Statement 4 recognizes the need for types of information beyond that provided by the traditional financial statements for assessing performance of not-for-profit organizations.

45. Paragraphs 52 and 53 of FASB Concepts Statement 4 state that financial reporting should provide information about service efforts (how resources are used to provide different services) in the financial statements. That Statement recognizes that, ideally, if a not-for-profit organization reports on performance, information about service accomplishments should be provided as part of financial reporting. The Statement notes, however, that at the time it was issued (December 1980), the ability to measure accomplishments (particularly program results) was generally undeveloped. It indicated that research was needed to determine whether or not measures with the requisite characteristics of relevance, reliability, comparability, verifiability, and neutrality could be developed. If measures are developed and meet the requisite characteristics, the FASB believes that they should then be included in financial reports.

46. In developing its Concepts Statement on financial reporting objectives, the FASB had the benefit of the work of the Trueblood Committee. The 1973 report of that

[18]Ernest J. Pavlock, Frank S. Sato, and James A. Yardley, "Accountability Standards for Corporate Reporting," *Journal of Accountancy* (May 1990), pp. 94–104; Robert Mednick, "Reinventing the Audit," *Journal of Accountancy* (August 1991), pp. 71–78; Robert G. Eccles, "The Performance Measurement Manifesto," *Harvard Business Review* (January–February 1991), pp. 131–137.

committee discusses financial reporting objectives not only of business enterprises but also of governmental and not-for-profit institutions. The report states:

> Since the goals of governmental and not-for-profit institutions are primarily nonmonetary, the indicators of earning power in commercial enterprises have limited value for assessing their performance. More useful indicators are those based upon the not-for-profit organization's principal goal, such as its ability to achieve national security, to reduce poverty, or to encourage research. But these are more difficult to measure and communicate in monetary terms, because the goals themselves are qualitative, not monetary. Goals vary widely and, when identified, are frequently difficult to measure. Useful measures of performance for one organization may be meaningless for another. Still, performance for each must be measured.
>
> An objective of financial statements for governmental and not-for-profit organizations is to provide information for evaluating the effectiveness of the management of resources in achieving the organization's goals. Performance measures should be quantified in terms of identified goals.[19]

SEA Reporting by State and Local Governmental Entities

47. The GASB also had the benefit of the Trueblood Committee report as well as the National Council on Governmental Accounting's (NCGA) 1982 Concepts Statement 1, *Objectives of Accounting and Financial Reporting for Governmental Units*. One of the objectives set forth in that Statement was "to provide information useful for evaluating managerial and organizational performance." The Statement noted that such information is needed for evaluating the efficiency and economy of operations, and for evaluating the results of programs, activities, and functions and their effectiveness in achieving their goals and objectives.

48. GPEFR should provide information that will assist users in assessing performance—that is, communicate performance information to those to whom the entity is accountable so they can assess that accountability and make informed decisions. This is not fundamentally different for the private for-profit, private not-for-profit, and public sectors. Although the focus of GPEFR for private for-profit organizations, private not-for-profit organizations, and governmental entities is on performance in achieving an entity's purpose(s), the information needed to measure that performance for a governmental entity

[19]Trueblood Committee report, pp. 50 and 51.

and a private not-for-profit organization is inherently different from that needed for a private for-profit organization.

49. The primary purpose of governmental entities is to help maintain or improve the well-being of their citizens. To achieve that purpose, governmental entities are responsible for providing a wide variety of services. The entity's efficiency and effectiveness in providing those services is an essential part of its performance. To provide information about essential aspects of governmental performance, measures that include information about both (a) the acquisition and use of financial and nonfinancial resources and (b) service efforts and accomplishments are needed as part of GPEFR.

50. Therefore, for GPEFR to provide information that will assist financial report users to assess performance for accountability and decision-making purposes, it is necessary to broaden its scope to keep pace with the evolving information needs of those users. Because those users now recognize that information about SEA (in terms of inputs, outputs, outcomes, and efficiency) is an essential part of the measurement of performance, financial reporting needs to be expanded to include those measures. Having considered the information users need for assessing accountability and making decisions, and the role of financial reporting in providing information to assess performance, the GASB believes that SEA performance information is an important part of GPEFR.

THE ELEMENTS OF SEA REPORTING AND RELATED INFORMATION

51. As discussed in this section, the elements of SEA performance measures and the related information that provides a context for understanding and assessing results are important aspects of SEA reporting. SEA performance measurement and reporting should occur for services that the governmental entity is responsible for providing, regardless of whether the services are provided by the governmental entity itself or by another party such as volunteers or contractors.

Elements of SEA Performance Measures

52. There are three elements of SEA performance measures for reporting purposes: those that measure service efforts, those that measure service accomplishments, and those that relate service efforts to service accomplishments. These elements, which complement each other, will provide more useful information if linked to one another. The elements

also may be used to identify and classify SEA performance measures for reporting purposes.

a. *Measures of service efforts:* Efforts are the amount of financial and nonfinancial resources that are applied to a service. Measures of service efforts also include ratios that compare financial and nonfinancial resources with other information, such as general population, service population, or lane-miles of road.
   (1) *Financial measures:* These measures include the cost of providing a service.[20] For example, financial measures of service efforts may include the cost of road maintenance. The development of cost information for programs and services is a critical part of the reporting of SEA performance information.
   (2) *Nonfinancial measures:* These measures include other forms of resources that are used to provide services but that are not financial in nature, such as personnel or capital assets.
      (a) *Number of personnel:* These measures may include the number of full-time-equivalent employees or employee-hours used in providing a service. Personnel measures have the effect of removing wage, benefit, and cost-of-living differences from the resource inputs and may facilitate comparisons over time and with other organizations.
      (b) *Capital asset and other measures:* These measures may include the amount of equipment (such as number of vehicles) or other capital assets (such as lane-miles of road or acres of park land) used in providing a service.

b. *Measures of service accomplishments:* Accomplishment measures report what was provided and achieved with the resources used. There are two types of measures of accomplishments—outputs and outcomes. Outputs measure the quantity of services provided; outcomes measure the results associated with the provision of services.
   (1) *Output measures:*
      (a) *Quantity of a service provided:* These measures quantify the physical amount of a service provided. For example, measures may include the number of lane-miles of road repaired.
      (b) *Quantity of a service provided that meets a certain quality requirement:* These measures quantify the physical amount of a service provided that meets a test of quality. For example, measures may include the percentage of lane-miles of road repaired to a certain minimum satisfactory condition. In some cases, meeting a quality requirement may turn an "output" measure into an "outcome" measure.
   (2) *Outcome measures:*

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[20]*Cost* has yet to be defined for purposes of SEA reporting. Appropriate measures of cost may vary based on specific SEA performance measures and the purpose or the context of the measurement. Certain components of cost such as overhead and capital asset use charges (for example, depreciation) might be appropriately included or excluded in different circumstances.

(a) These measures gauge the accomplishments or results that occur (at least partially) because of services provided.[21] Accomplishments also may include measures of public perceptions of results. For example, outcome measures may include the percentage of roads in good or excellent condition, or the residents' rating of the smoothness of the roads.

(b) Outcome measures may be divided into several types, such as:

  (i) Measures of results that occur soon after a service is provided versus those that occur later

  (ii) Measures of results that indicate progress toward desired end results but are not themselves final outcomes

  (iii) Measures of the level of the achievement of desired end results.

c. *Measures that relate service efforts to service accomplishments:*

(1) *Efficiency measures that relate service efforts to outputs of services:* These measure the resources used per unit of output or the cost per unit of output. They provide information about the production of an output at a given level of resource use and demonstrate an entity's relative efficiency when compared with previous results, internally established goals and objectives, generally accepted norms or standards, or results achieved by similar jurisdictions. For example, efficiency measures may include the cost per lane-mile of road maintained (or more specifically, resurfaced or seal-coated).

(2) *Efficiency measures that relate service efforts to the outcomes or results of services:* These measures report the resources used per unit of outcome or result, or the cost per unit of outcome or result. They relate costs and results so that management, elected officials, and the public can begin to assess the value of the services provided by an entity. For example, efficiency measures may include the cost per lane-mile of road maintained in good or excellent condition.

Related Information That Provides Context for Understanding and Assessing Results

53. In addition to the preceding elements of SEA performance measures, the reporting of SEA performance information also includes related quantitative and narrative information that can help provide context for users to understand reported SEA performance measures, assess the entity's SEA performance, and evaluate the significance of underlying factors that may have affected the reported SEA performance.

Comparisons

54. SEA performance information is particularly useful when comparisons are included, such as those with results from previous years, entity-established targets, progress towards

[21]For many outcomes, a definite cause-and-effect relationship between the output and the outcome cannot be established because of their complex nature and factors beyond the control of the entity that affect the outcome being measured.

the achievement of goals or objectives, generally accepted norms and standards, other parts of the entity, or other comparable jurisdictions (both public and private). For example, an output comparison for road maintenance may be that 125 lane-miles of road were maintained during the year, when the target was for at least 145 lane-miles of road to be maintained. An outcome comparison might be that 90 percent of the lane-miles of road were in good or excellent condition, when the target was for 85 percent to be in good or excellent condition. For efficiency of road maintenance, the cost per lane-mile maintained may be $2,450, whereas the target was $2,300.

Unintended Effects

55. Unintended effects of a service on the recipients, state, or community sometimes can be identified. These effects represent significant indirect consequences (positive or negative) that occur, at least partially, as a result of providing a service. For example, unintended effects may include a change in the number of traffic accidents because of an improvement in the condition of roads. These unintended effects often are difficult to identify and to relate to the actual service being provided. This occurs because of an inability to establish a definite cause-and-effect relationship between the unintended effects and the service, and because other extraneous factors also may affect the results.

Demand for Services

56. Services are provided to address the needs of certain stakeholders. These needs, when recognized and expressed by stakeholders, create a demand for a service. The level of resources committed to providing such a service may reflect what is required to satisfy that need and to achieve the desired results. The level of service provided, however, may be more or less than necessary to satisfy the need addressed or the results desired. In certain instances, information about the level of need or demand for a service may help users to understand the SEA performance achieved and whether the level of services provided meets the perceived need for a particular level of service. For example, a community has 1,000 lane-miles of road, and of those lane-miles, 400 are in fair or poor condition. The government has set as an objective to have less than 20 percent or 200 lane-miles in fair or poor condition and 80 percent or 800 lane-miles in good or excellent condition. However, due to competing demands for resources, the community provides resources sufficient to repair or bring only 250 of those lane-miles in fair or poor condition to good or excellent condition. The information about demand in this case, when

considered with resources provided, is helpful in understanding why the desired objective was not achieved.

Factors That Influence Results

57. Other than the program or service delivery itself, there may be external and internal factors that influence SEA performance. Including information about these factors may help users to understand how both external and internal influences can affect results. External factors are substantially outside the control of the entity and may include economic, social, environmental, and demographic characteristics. For example, external factors that might affect highway maintenance cost and condition may include the weather conditions in the area where the highway is located. Other external factors include actions or services provided by other governmental entities, not-for-profit organizations, and business enterprises. Internal factors may include complementary services provided by other agencies, departments, or programs, staffing levels, contracting for services, delays in acquiring materials, or limitations in overall resources.

Narrative Information

58. Narrative information provided with SEA performance measures can provide explanations of what the level of SEA performance reported by the measure means, the possible effects that the factors that influence results might have on SEA performance, and actions that have been (or are being) taken to change reported SEA performance. Explanations are particularly important when reporting comparisons with other jurisdictions or among similar components within the same jurisdiction. They are also important in conjunction with reporting unintended effects of a service.

OBJECTIVE AND CHARACTERISTICS OF SEA PEFORMANCE INFORMATION

Objective

59. The objective of SEA reporting as stated in GASB Concepts Statement 1 is founded on the belief that SEA performance information is an essential aspect of the measurement of governmental performance, and is necessary for assessing accountability and in making informed decisions. Therefore, to be more complete, GPEFR needs to include SEA performance information.

60. The objective of SEA reporting is to provide more complete information about a governmental entity's performance than can be provided by the operating statement, balance sheet, and budgetary comparison statements and schedules to assist users in assessing the economy, efficiency, and effectiveness of services provided. The measurement of a governmental entity's performance requires information not only on the acquisition and use of resources, but also on the outputs and outcomes of the services provided and the relationship between the use of resources and outputs and outcomes. By focusing on a variety of financial and nonfinancial measures of inputs, outputs and outcomes, and measures that relate efforts to accomplishments, SEA reporting provides additional information needed to provide a basis for users of general purpose external financial reports to more fully assess governmental performance.

61. To meet this objective, SEA performance information should focus primarily on measures of service accomplishments (outputs and outcomes) and measures of the relationships between service efforts and service accomplishments (efficiency). Because the reporting of SEA performance information is directed at providing users with information about the results of the governmental entity's services, the measures reported should emphasize SEA performance. The SEA performance of governmental entities is primarily measured by output, outcome, and efficiency measures. These measures report what services the entity has provided, whether those services have achieved the objectives established, and what effects they have had upon the recipients and others. This information when compared to service efforts (inputs) also provides a basis for assessing the efficiency with which the entity operated.

Characteristics

62. SEA performance information should meet the characteristics of relevance, understandability, comparability, timeliness, consistency, and reliability. The application of these characteristics to SEA performance information is discussed in the following paragraphs.

Relevance

63. SEA performance information should include data that are essential to provide a basis for understanding the accomplishment of goals and objectives of the entity that have potentially significant decision-making or accountability implications. As with any other information provided in GPEFR, SEA performance information should be management's

representations of performance. Because the purpose of governmental entities is to establish and enforce laws, regulate activities, and provide services economically, effectively, and efficiently—not to earn profits—no single measure of performance is readily available to assist users in assessing accountability and in making economic, political, and social decisions. A broad variety of SEA performance measures may therefore be required to meet the diverse needs of the different users; report on the many goals and objectives of different agencies, departments, programs, and services;[22] and address the issues being considered for different decisions and levels of accountability.

Understandability

64. SEA performance information should be communicated in a readily understandable manner. It should communicate the SEA performance of the agency, department, program, or service to any reasonably informed interested party. To enhance user understanding, different forms of reporting such as tables, charts, and graphs may be needed by different state and local governmental entities and for different services.

65. SEA performance information should be concise yet comprehensive with regard to which (and how many) measures of SEA performance are reported. Both conciseness and comprehensiveness in reporting SEA performance measures are important because of the number, diversity, and complexity of state and local governmental agencies, departments, programs, and services. SEA performance information should be provided at the most appropriate level of aggregation or disaggregation. A balance should be achieved among the number of services reported, the SEA performance measures reported, and the capability of users to understand and act on the information.

66. SEA performance information should include explanations about important underlying factors and existing conditions that may have affected SEA performance. Explanatory information (including narrative explanations) should be reported with the measures of SEA performance both for important factors that are substantially outside the control of the entity and for factors over which the entity has some control, which could affect SEA performance. Narrative explanations about SEA performance measures and any important factors that are known to have affected the reported results should be presented.

[22]This applies to services the entity is responsible for providing regardless of whether the governmental entity provides the service itself or contracts for it.

67. SEA performance information may be accompanied by a description of the way in which the SEA performance measures should be used. This could include comments on the need to consider SEA performance measures in conjunction with explanatory information, the need to consider the multiple aspects of SEA performance when assessing results, instances where surrogate measures (see paragraph 72e) are being reported because of an inability to measure an outcome of a service, and the difficulty of using SEA performance information to assess policy accountability. The descriptions could also contain additional information about SEA performance measures that could assist users in understanding the reasons for the reported level of SEA performance and actions planned or being taken to change results.

Comparability

68. SEA performance information should provide a clear frame of reference for assessing the SEA performance of the entity and its agencies, departments, programs, and services. SEA performance measures, when presented alone, do not provide a basis for assessing or understanding the level of SEA performance. Therefore, SEA performance information should include comparative information. This information may take various forms; for example, reported measures of SEA performance could include comparisons with (a) several earlier fiscal years, (b) targets established by the entity such as targets established as part of the budgetary process, (c) externally established norms or standards of SEA performance, (d) other parts or subunits of the same entity, or (e) other, comparable entities.

Timeliness

69. SEA performance information should be reported in a timely manner so that it will be available to users before it loses its capacity to be of value in assessing accountability and making decisions.

Consistency

70. SEA performance information should be reported consistently from period to period to allow users to have a basis for comparing SEA performance over time and to gain an understanding of the measures being used and their meaning. However, SEA performance measures also need to be reviewed regularly and modified or replaced as needed to reflect changing circumstances.

Reliability

71. For SEA performance information to be of value to users, it is essential that the information be reliable. To be reliable, the information should be verifiable and free from bias and should faithfully represent what it purports to represent. Therefore, SEA performance information should be derived from systems that produce controlled and verifiable data. The value of a strong internal control structure has long been recognized when dealing with financial information. If SEA performance information is to be considered for inclusion as part of the information required for GPEFR, it is important that the systems and methods used to gather and verify the information be subjected to analysis similar to that used for financial information systems.

LIMITATIONS OF SEA PERFORMANCE INFORMATION

72. SEA performance measures are but one component of the information used to assess accountability and make decisions. As with any reported measures of performance, there are limitations associated with using SEA performance information. Users of SEA performance information need to be aware of those limitations so that the information can be used appropriately. The following list is not meant to be all-inclusive but is intended to provide a general understanding of the types of limitations that need to be considered:

a. Generally, a single measure or a composite of measures cannot adequately communicate the results of providing a service or group of services. Often, several results are desired or may occur because of a service. Therefore, users need to consider using several, perhaps widely disparate, measures to assess the performance of a service, especially for an entity or its agencies, departments, and programs because they each may be providing several services aimed at achieving different results.
b. SEA performance measures do not, by themselves, explain why SEA performance is at the level reported, how to improve SEA performance, or the degree to which a service or a factor contributed to the outcome reported. Users may require additional information, such as the factors that influence results, to fully understand the relationship between an outcome and the many factors affecting that outcome. For many outcomes, there may be a number of factors that affect the level of results. In some cases, the entity providing the service may not even be aware of all of the factors that influence results.
c. The elements of SEA performance measures set forth by this Concepts Statement do not include measures of the processes or activities being used to provide services. Nor do SEA performance measures provide all of the information needed to determine the relationship between results and (1) processes or (2) activities. However, processes

and activities undertaken represent important information for understanding why outputs or outcomes are at the level reported. Measures of processes and activities normally do not provide information about the outputs or outcomes of an entity's operations; therefore, they have not been included as an element of SEA performance measures. However, these measures may be useful if reported as related information that provides a context for understanding and assessing results.

d. Determining whether the reported SEA performance measures are the most relevant measures of the achievement of desired results may be difficult.

e. For some services, measuring the most important outcome may not be possible, so a reported SEA performance measure may actually be a surrogate measure that is in some way related to the desired results. For example, directly measuring traffic accident prevention may not be possible. Instead, measures such as the percentage of roads in poor condition or the number of speeding incidents may be used as reasonable (though not fully satisfactory) surrogates.

f. For many services that are provided, other organizations (governmental, not-for-profit, or business enterprise) are concurrently providing similar or complementary services. These services have an influence on the desired results, but often the organizations providing the services are not accountable to the entity providing the primary service and do not provide information about their services.

g. SEA performance information does not provide all of the data needed to determine the value of a service to society or recipients, or the comparative value of two or more distinct services. For example, a governmental entity may be faced with a situation in which it is required to allocate scarce resources to either road maintenance or preventive healthcare. Deciding which service should receive additional funds could depend on how decision makers value the results that are expected to be achieved in the future by each service, rather than the results that have been achieved in the past. Determining the value of a service to society or recipients, or the comparative value of two or more distinct services, is beyond the scope of any GASB guidance for reporting SEA performance information.

ENHANCING THE USEFULNESS OF REPORTED SEA PERFORMANCE INFORMATION

73. The Board recognizes that there are limitations associated with SEA performance information. The Board believes, however, that some of the limitations can be mitigated, and that, even with the limitations, SEA reporting provides essential information to assist users in assessing accountability and making decisions. Consideration of the following information can help to enhance the usefulness of reported SEA performance information:

a. The uses of SEA performance information and the potential difficulties associated with its use should be clearly communicated to intended users. This communication could include a description of how reported SEA performance information is part, but not necessarily all, of the data needed to measure the SEA performance of governmental agencies, departments, programs, and services. Descriptions also could explain that this information is intended to assist users in determining the degree to which desired results are being achieved in terms of efforts, outputs, outcomes, and the efficiency of operations, but related information and narrative explanations are usually needed to obtain a more complete understanding of results.

b. Descriptive information also could be used to communicate that SEA performance information should be considered in conjunction with narrative explanations and factors that influence results. The inclusion of descriptive information may help users understand why SEA performance is at the reported level, the degree to which the items reported as factors may have influenced results, and related information that may have affected the reported results. When surrogate measures are used, an explanation of how to interpret the surrogate measure, and what would be considered an ideal measure and why it was not used would be helpful.

c. Numerous factors beyond the control of the governmental entity can significantly affect results. Moreover, cause-and-effect relationships between services and outcomes are often unclear. An explanation of how these factors might have influenced the entity's results can provide valuable context when reporting SEA performance information.

d. Even with comparisons, narrative explanations, and factors that influence results, SEA performance information may not include sufficient information about why a service is performing at the reported level. Therefore, additional information gathered through program evaluations, performance audits, or other means would help users to understand the reasons for a given level of SEA performance. Such information, when available, could be provided or referenced with the reported SEA performance information.

e. Disaggregation of reported SEA performance information by geographical location within a jurisdiction, by operating division or facility within a department, and so forth, may be particularly helpful in enhancing users' ability to understand SEA performance. Disaggregation helps communicate information at a more meaningful level by separating variations in SEA performance that may be hidden by the aggregation of information.

f. SEA performance information should focus on those key measures that are essential to providing a basis for assessing the accomplishment of desired results or that have potentially significant decision-making or accountability implications. However, this need for conciseness should be balanced with the concern for completeness. If reported SEA performance information does not include key measures for major programs, the user may be left with gaps in understanding about the results of the service, or with an incomplete picture of results. Reporting of SEA performance information that balances conciseness with completeness can address concerns that could arise regarding selective reporting of only those measures that provide a positive indication of results. At the same time, the inclusion of too many measures may confuse and overwhelm users. Providing different levels of reported SEA performance information with a greater focus on key measures at higher (more selective) levels, and more detail and additional measures provided at lower (more comprehensive) levels also may assist users.