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For the People: Popular Financial Reporting Practices of Local Governments

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ABSTRACT

Popular financial reports are reports distributed to citizens and other interested parties who lack a background in formal government financial reporting but who desire an overview of the government's financial status and activities. This paper examines the current state of local government popular financial reporting in the U.S. The results of a survey of large cities and counties indicate that 75 percent of these local governments have issued popular financial reports and that the types of reports and methods of distribution vary. Many of the reasons for providing popular reports relate to providing information and improving transparency and accountability by providing more user friendly financial reports. This paper concludes with a discussion on popular financial reporting in the context of government transparency and accountability, and offers a research agenda for continued study of the topic.

INTRODUCTION

Citizens have been demanding more public accountability of their governments and governmental programs, particularly in regard to stewardship of public resources. This pressure for more accountability has been driven, in part, by decreasing citizen trust in government and increasing citizen dissatisfaction with government performance. As governments have grown in size and complexity, citizens increasingly view government as inefficient and wasteful in the delivery of public services. Statistics from the American National Election Studies (American National Election Studies, 2010a) found that in 2008, 72 percent of respondents thought that people in the government waste a lot of money paid in taxes, compared to 61 percent in 2004 and 48 percent in 2002. Similarly, the average score on the trust in government index has been declining since 2002 (American National Election Studies, 2010b). This growing citizen distrust and dissatisfaction, coupled with the perception of government inefficiency and waste, has resulted in a greater demand for transparency and accountability.

Popular financial reports (PFRs), a reporting mechanism that has seen recent popularity, is one approach or tool available to governments to meet this demand for transparency and accountability. “The purpose of popular reporting is to provide financial data in a form that is not confusing or discouraging to those unfamiliar with accounting and financial reporting” (Groff & Pitman, 2004, p. 29). We believe that the provision of such information is important for facilitating communication pathways between government and citizens, and fulfilling the democratic goals of accountability and transparency in governance.

Popular financial reporting is a general term describing the separate reporting of financial and performance information to a citizen audience in a manner which is more understandable by the general public. PFRs have emerged in response to concerns that traditional government financial reports, while accurate and detailed, fail to provide the general public with an overall understanding

of the governments' uses of public funds. Without such a perspective, public suspicion and distrust of government can grow. Consequently PFRs have emerged to deal with this growing concern and lack of confidence in how public funds are managed and used.

Almost all government entities in the U.S. issue budget and financial documents that contain information about government finances. However, "having information available does not necessarily mean being able to make heads or tails of what is actually going (Lewis & Hildreth, 2011, p. 281). Most government budget and financial documents are unintelligible for the majority of the citizenry. Sharp et al. (Sharp, Carpenter, & Sharp, 1998) noted that most citizens find the Comprehensive Annual Financial Report (CAFR) - the primary financial report issued by governmental entities – overwhelming and unreadable.

Given the emergence of popular financial reporting nationwide, this paper assesses the current state of popular financial reporting by local governments and seeks to answer a series of questions about those initiatives including: (1) reasons for adopting PFRs, (2) the extent of popular financial reporting, (3) approaches to developing and distributing PFRs, (4) challenges to implementation, and (5) variability of reporting practices across cities and counties. We use a sample of large, more prominent cities and counties to gather preliminary information about local government popular reporting practices. Therefore, while we are able to develop an understanding of how these larger cities and counties approach popular reporting, our findings do not necessarily generalize to the larger population of local governments in the U.S.

The contribution of this research is two-fold. First, it addresses a void in the academic literature regarding the role of local government popular financing reporting in meeting public demands for greater government transparency and accountability. Second, it updates the research on PFRs by Carpenter and Sharp (1992) that examined local government practices with regard to popular financial reporting. Public concern about government waste and inefficiency has continued

to increase since the early 1990s when Carpenter and Sharp conducted their study. Assessing popular financial reporting practices two decades after Carpenter and Sharp's study provides interesting information about how local governments are currently responding to the greater need to be more transparent.

In reporting on this inquiry, this paper is organized into five sections, beginning with a discussion of the ideals behind popular reporting. This is followed by an overview of popular financial reports, including relevant definitions and scope of PFRs and current trends in popular financial reporting. This is followed by a reporting of the results of a survey of local government popular financial reporting which provides a preliminary assessment of the current state of the practice. The results describe the extent to which different types of popular reports are issued by local governments in our sample, the processing involved in the preparation and distribution of these reports, as well as the reasons for creating popular reports. We conclude with a call for research on popular financial reporting and outline a research agenda for the future.

THE IDEALS BEHIND POPULAR REPORTING

Commenting on the issue of transparency and financial reporting, Lewis and Hildreth (2011) concluded that “[t]he public believes that transparency fails to meet their needs” (p. 33). While there have been recent efforts to improve accountability by focusing on enhanced fiscal transparency, Justice et al. (2006) suggested that such transparency enhancement efforts have tended to involve more detailed financial reporting which has enhanced the complexity of financial reporting and may have, ironically, negatively impacted accountability to citizens. PFRs, properly designed, can serve an important function in disseminating information as “making information publicly available is a good way to educate citizens about the budget and can spur interested individuals into becoming involved in budget deliberations” (Franklin & Ebdon, 2007, p. 95). PFRs

also contribute to the development of informed citizens who want to and are able to provide public input regarding current and emerging policy issues. In addition, PFRs provide a conduit in the feedback loop of the public policy decision-making process. By having better informed citizens, elected officials can have a more effective dialogue with citizens regarding impending policy issues and the democratic ideal of citizen participation in public decisions has a greater chance of being realized.

The essence of transparency, especially as it relates to public finance, is for information to be readily available and understandable. “It is not enough that reports are written. People must be able to get them, read them, and understand them if democracy is to have meaning... Thomas Jefferson believed ‘Particulars on government expenditures and taxation should be plain and available to all if oversight by the people is to be effective’” (Lewis & Hildreth, 2011, p. 19). Fiscal transparency can be defined to involve ready access to reliable, comprehensive, timely, understandable, and comparable information on government activities (Kopits & Craig, 1998) and to represent the extent to which the public can observe the government’s strategies, actions, and resulting outcomes (Alt, Lassen, & Rose, 2006).

Informing citizens about budgeting and finance issues requires transparency of government finances and accessibility of financial information. Normanton (1971) stated that “public accountability means reporting to persons other than to one’s own superiors who have the power to make open criticism.” Thus information transparency is necessary for public participation.

However, the contributions to accountability of public participation in budgeting and finance may be limited, as citizens often come to the decision making table with relatively little information on the topics or issues to be addressed. As Crosby et al. (1986) noted, “average citizens are not capable of making decisions on complex public policy issues” (p. 171). Furthermore, citizens “may need background education before they can participate intelligently” (Thomas, 1995, p. 141). The

principle of governmental accountability can only be truly operationalized when there is an informed public (Brown, 1996). According to Lee, an informed public is “the essential foundation of democracy” (Lee, 2002, p. 33). Effective public participation, therefore, requires an informed citizenry, but developing informed citizens as it pertains to budgeting and financial issues can be challenging.

King et al. (1998) argued that a decision making process that lacks citizen participation is less likely to be effective and to contribute to accountability. Citizen participation is a way to persuade citizens to support a particular policy, legitimize policy decisions, build public trust, and create alliances with citizens and interest groups that can help to solve community problems (Irvin & Stansbury, 2004; Lewis & Hildreth, 2011). Successful public participation can result in substantive benefits, including enhanced public decision making and a more satisfied and supportive public (Thomas, 1995). Involving citizens in the budget and financial decision making process can enhance democracy and contribute to more effective and accountable government. Three often cited reasons for involving citizens in the budget process include helping people understand how public funds are allocated and spent, providing citizens with an outlet to voice their opinions and preferences, and increasing citizens’ ability to evaluate how public officials are acting in the public interest (Franklin & Ebdon, 2007).

POPULAR FINANCIAL REPORTING AND POPULAR REPORTS

Popular financial reports (PFRs) are financial reports which state and local governments distribute to citizens and other interested parties who may lack a background regarding government budgeting, accounting and financial reporting but who need or desire an overview of the government’s financial activities and condition. The targeted audience for such reports typically consists of citizens, businesses, the media and community groups who want general information

regarding the government's finances. As this audience may not be knowledgeable of formal governmental accounting and financial reporting requirements and procedures, the main objective of the PFR is to assist these individuals in understanding the government's financial activities (Clay, 2008). PFRs can come in a variety of forms, such as popular annual financial reports (PAFR), citizen's guide to the budget, reports of service efforts and accomplishments, corporate-style annual reports, and state-of-the-government reports. For our analysis we focus specifically on the following types of PFRs: citizen-centric financial report, PAFR, budget summary, budget-in-brief, report of efforts and accomplishments, corporate-style annual report, state-of-the-government report, summarized financial statement, and financial trends report.

Popular reporting has been promoted by several government finance professional associations, including the Government Finance Officers Association (GFOA), the Governmental Accounting Standards Board (GASB), and the Association for Governmental Accountants (AGA). Each organization is a proponent of a specific approach to popular reporting and has even established reporting guidelines and awards (Harris, McKenzie, & Rentfro, 2008).

Part of the mission of the GFOA is to promote sound financial policies and practices. Given this mission, the GFOA started an awards program in 1991 to promote development and implementation of the Popular Annual Financial Report (PAFR). The purpose of the PAFR is to simplify information from the Comprehensive Annual Financial Report (CAFR). The GFOA states that the PAFR is "specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance" (Government Finance Officers Association). This suggests that the organization recognizes that the average citizen may find the CAFR too challenging.

GASB, on the other hand, promotes the voluntary service effort and accomplishment (SEA) report, which can be considered a PFR. SEA reports focus on the performance reporting of

financial and nonfinancial information. The AGA, whose goals include promoting accountability of government finance officers, established an awards program for the SEA reports based on GASB guidelines. Therefore, the SEA has two professional finance associations that promote its publication. The AGA also promotes the citizen-centric report, which provides details regarding a government's finances in the form of a short, concise, understandable, and visually attractive report that only has the citizen as the target audience.

The advocacy of popular reporting (in the form of PAFRs, SEA reports and citizen-centric reports) by these professional associations is significant because each organization plays an important role in the field of government financial management. Such advocacy is in line with their missions as each promotes professional standards that include accountability. The PFRs mentioned here have the added support of these professional organizations; however, there are other reports offered by local governments with the intended purpose of informing their citizenry and some jurisdictions choose to publish multiple reports. The specific type and number of popular reports issued vary by jurisdiction. The different types of popular reports and the extent to which they have been implemented by localities are examined in this study.

Popular Reporting Literature

In 1992, GASB published a report that provided an overview of the different types of PFRs provided by local governments (Carpenter & Sharp, 1992). Beyond this report, very little research specifically addressing PFRs has been published in academic journals and outlets. This dearth of research is not due to lack of knowledge about popular reporting. We have found that PFRs are often mentioned in the context of performance measurement, assessment of financial condition, public relations strategies, and provision of information to citizens, but without significant elaboration or explanation. McMillan (1955) noted that while reporting should allow citizens to

examine and understand their government, state governments have not demonstrated interest in popular reporting which is more palatable to citizens unfamiliar with government finances. More recent scholars have similarly made cursory reference to popular financial reporting.

For example, Marlowe and Smith (2010) simply stated that “public financial management [as a field] has strongly emphasized ‘plain language’ or ‘popular’ financial reports designed to make financial information about public organizations accessible to citizens. Students concerned with how to disseminate performance information have much to learn from the experiences thus far with popular financial reporting” (p. 230). Honadle and Lloyd-Jones (1998) noted how the GFOA “encourages governments to prepare ‘popular’ reports to help people who need or want a less detailed overview of government finances” (p. 70). Lee (1999) cited popular financial reporting as a public relations counter-strategy that involves reformatting government accounting reports to make them more comprehensible to citizens. Justice et al. (2006), in studying e-government as an instrument of fiscal accountability, created a transparency index that included two popular reporting elements, namely the availability of the PAFR and other special-issue reports provided separately from the CAFR, PAFR, and budget documents. While there have been some articles authored by AGA, GFOA, and GASB in their publication outlets¹, we are not aware of any studies on popular financial reporting in other peer-reviewed, academic journals. As the next section describes, recent and emerging trends point to greater citizen expectations of government transparency and increased attention by some governments to such expectations. Yet, there is a lack of basic understanding about how widespread government adoption of popular reporting is, particularly with regard to the types of reports adopted and disseminated, the content of such reports, and the reasons for adoption of popular financial reporting. Our study does not provide a definitive answer that addresses the

¹ These publication outlets include research reports produced by the different professional organizations, reporting guidelines and examples of reports published on the organization’s websites, or short articles published in magazines and journals such as *Government Finance Review*, *The CPA Journal*, *Journal of Government Financial Management* (see for example Carpenter & Sharp, 1992; Harris, et al., 2008; Hermann, 2011; Sharp, et al., 1998; Steinberg, 2007).

gaps we identify. What we do offer is a preliminary assessment of the state of popular reporting practices based on a sample of large cities and counties in the U.S.

Recent and Emerging Trends in Transparency and Popular Financial Reporting

A study conducted by the Association of Governmental Accountants (Association of Government Accountants, 2008) found that while the majority of citizens believe government has a responsibility to provide financial and accounting information to the public, they also feel that government has failed to be transparent regarding spending practices and has not been responsible in its use of public funds. The AGA also found strong dissatisfaction among citizens regarding the financial information they receive from the government. Nearly three-fourths of citizens regard financial information as important, but only 13 percent report satisfaction with information provided by their local governments. This could be because local governments are not distributing enough information to meet citizen needs, or because the information they do distribute is not readily accessible to individuals unfamiliar with financial information. Several recent and emerging trends highlight governments' efforts to address citizen demands for financial information and to be more responsive in providing such information.

One trend is the recent emphasis on websites geared at addressing transparency by providing information on government expenditures (also called spending transparency websites or portals). The Federal Funding Accountability and Transparency Act, passed in 2006, mandated the creation of a searchable online database for all federal grants and contracts over the amount of \$25,000. This legislation resulted in the creation of www.USAspending.gov. In a similar effort to increase federal government transparency, the American Recovery and Reinvestment Act of 2009 required recipients of federal recovery/stimulus funding to provide quarterly reports on how they use the funds. All of the data is posted to the website www.Recovery.gov, so that the public can track the

use of these funds. Following the lead of the federal government, at least 28 states have also passed legislation mandating the creation of searchable websites for government expenditures (Fabry, 2010).

The federal and state governments have also moved beyond spending transparency portals. Beginning in 2007, the *Financial Report of the United States Government* (U.S. Department of the Treasury, 2008) included a citizen's guide designed to provide a summary of the fiscal year's financial report. The most recent report for FY 2010 "presents the Nation's financial position and condition of the U.S. Government and discusses key financial topics, including continuing economic recovery efforts and fiscal sustainability" (U.S. Department of the Treasury, 2011, p. 1). In a similar move, in 2002, the state of Tennessee introduced an innovative approach to transparency, with its State Taxpayers' Budget. This document was designed to provide an overview of the amount of revenues raised by the different taxes and how they are spent, in addition to providing examples of the services provided by the various state agencies (Tennessee Advisory Commission on Intergovernmental Relations, 2002).

States have also placed more emphasis on the development of performance indicators and performance portals (dashboards). For example, in January 2011, Governor Rick Snyder of Michigan unveiled a *Citizen's Guide to Michigan's Financial Health*, which he touted as "an easy to understand, comprehensive look at the current state of finances in Michigan ... We put the facts in plain terms and made them easy to understand. A person shouldn't have to be a CPA or an economist to understand how taxpayer dollars flow in and out of government."

(<http://www.michigan.gov/snyder/0,1607,7-277-57577-250519--,00.html>). Governor Snyder also linked citizen guides and government performance dashboards to state funding for local governments. He established an Economic Vitality Incentive Program (EVIP) to replace the existing statutory revenue sharing system. To qualify for the Accountability and Transparency part

of the EVIP, eligible local governments must produce and make readily available to the public a citizen's guide and performance dashboard of their local finances.

All these trends highlight how federal, state, and local governments have been taking measures to be more responsive to citizen demands for greater transparency and accountability. Tools such as spending transparency portals, performance dashboards, taxpayer budgets and citizen's guides have been useful for making information available and accessible to citizens. The latter two tools – taxpayer budgets and citizen's guides – are examples of popular financial reports, which are the focus of our study.

SURVEY OF LOCAL GOVERNMENTS

This study uses a national survey of large cities and counties and state capitals in the U.S. to obtain preliminary insights into the popular reporting practices of local governments. This survey included questions regarding types of PFRs issued, the logistics of developing and issuing PFRs, and reasons for popular reporting. The survey was administered in 2010 to a sample of 145 cities and counties. Responses to this survey are analyzed and reported in this study to develop an understanding of how local governments have been implementing popular reporting, and the drivers and challenges behind such adoption.

This sample includes the largest U.S. localities (50 cities and 50 counties) identified by *Governing Magazine* for inclusion in its State and Local Sourcebook (<http://www.governing.com/sourcebook/>). State capitals were also included in the sample to ensure that every state was represented in the sampling frame. The survey was first administered as a web survey with invitations to participate sent to the City Manager/County Executive (if applicable), Mayor, Budget Director and Finance Director. Therefore, multiple invitations were sent to each city or county to enhance the response rate. Two follow-up e-mail reminders were sent and a mail

survey was sent to those cities that had not responded. Fifty-seven cities and counties responded to the survey for a response rate of 39 percent (40 percent for cities and 38 percent for counties).

Some cities and counties provided multiple survey responses; these were consolidated into a single response for each locality.² Five surveys had significant missing values, thus the final sample for analysis was 52. Table 1 summarizes the characteristics of the cities and counties included in the sample.

Given the sampling frame, larger localities (in terms of population) dominate the sample, although some smaller cities are included by virtue of being state capitals. The sample includes a wide range of localities in terms of racial make-up, with cities and counties ranging from having a white population of less than 20 percent to having a white population of over 95 percent. They also vary widely in terms of levels of affluence and education levels. More than two-thirds of the sample is comprised of local governments in the Southern and Western regions of the country, with the Northeast region being somewhat under-represented. All three forms of local government are represented in the sample.

The low survey response rate makes non-response bias a possible concern. However, comparison of respondents to non-respondents on the characteristics presented in Table 1 shows no statistically significant differences between the two groups. While non-response bias may remain an issue since local governments that do not practice popular reporting may be less likely to respond to the survey, we feel that this does not significantly affect our analysis and results given our focus on the practices of those local governments in our sample that do prepare PFRs for their citizens. In

² The overall response for the local governments with multiple respondents are developed by combining all the responses. For example, the budget director for City A may note that the city issues budget-in-briefs, while the finance director may respond that the city issues citizen-centric reports. Combined, the overall response will indicate that the city issues both types of PFRs. Similarly, the budget director may cite greater accountability to citizens and increasing citizen support for government as the reasons for issuing PFRs. The finance director may cite improving transparency and greater accountability to citizens as reasons for issuing PFRs. When the responses are compiled into one response for City A, all three reasons will be included. There were no major discrepancies between responses from multiple representatives of the same local government.

addition, analysis of the survey responses also show that most of the local governments that had not issued PFRs were among the earlier to respond to the survey, suggesting that these governments were not averse or less likely to complete the survey simply because they had not adopted popular reporting.

Table 1 Characteristics of the sample (n=52)

Variable	Mean	Std. Dev.	Min	Max
Population (2006)	602,704	818,829	7,504	3,984,349
% of Population that is over age 65	11.6	3.3	5.8	26.5
% of population that is white	68.8	18.7	19.7	96.5
% of population that graduated high school	82.4	8.2	52.7	95.2
% of population that graduated college	30.0	12.6	12.2	57.1
% of population that own a home	60.7	11.6	34.9	88.2
% of population below poverty level	13.4	6.8	1.7	38.1
Population density (per square mile)	2,798.0	2,374.3	3.5	11,233.6
Median household income (\$)	48,324	16,632	17,206	107,075
Cities	67.3%			
Counties	32.7%			
Form of government				
- Mayor-Council	39.2%			
- Council-Manager	35.3%			
- Commission	25.5%			
Census region				
- Midwest	21.2%			
- Northeast	7.7%			
- South	38.5%			
- West	32.7%			

It is important to note that the small sample of primarily larger localities does limit the generalizability of our study's results. However, we believe that this does not significantly detract from the contributions of our study, particularly given the dearth of empirical studies on popular reporting, coupled with the exploratory nature of this study.

Results and Analysis

Types of Popular Financial Reports Issued by Local Governments

The survey asked respondents to indicate whether they provide different types of PFRs (the list of PFR options are shown in Figure 1 and Table 2), and if so, for how long they have provided the reports. Survey results indicate that 75 percent of the responding local governments issue some type of PFR.³ Note that this percentage may over-estimate the percentage of local governments that have adopted popular reporting, given the sample's focus on large cities and counties. The number of different types of reports issued ranges between one and seven. About 57 percent only issue one type of report while 25 percent issue four or more types of PFRs. Figure 1 shows the percentages for different types of reports issued. Popular annual financial reports (PAFRs) are by far the most common; 61.5 percent of respondents who issue popular reports publish PAFRs. Budgets-in-brief and budget summaries are also common, with 38.5 percent and 35.9 percent of respondents citing usage of each of these reports, respectively. Financial trends reports are the least popular type of report with a usage rate of 7.7 percent among respondents.

PFRs vary in terms of the duration for which they have been used by local governments. Table 2 summarizes the length of time that local governments in the survey have issued different types of PFRs. Some of these reports have been around for a substantial amount of time. For example, 25 percent of survey respondents who issue budget summaries have done so for more than 20 years. Fifty-eight percent report that budgets summaries have been around for more than ten years. In contrast, none of the respondents reported using special issue reports more than ten years ago. Citizen-centric financial reports, a new reporting effort promoted by the AGA, are not older

³ Survey respondents were asked if their respective governments issued popular reports and then asked about the different types of PFRs. Respondents were given a broad definition of popular reports and a list of PFRs, but were not given specific definitions regarding the various types of reports.

than five years, and have been used two years or less in 75 percent of the localities that issue these reports.

Figure 1 Types of Popular Financial Reports Issued (n=44)

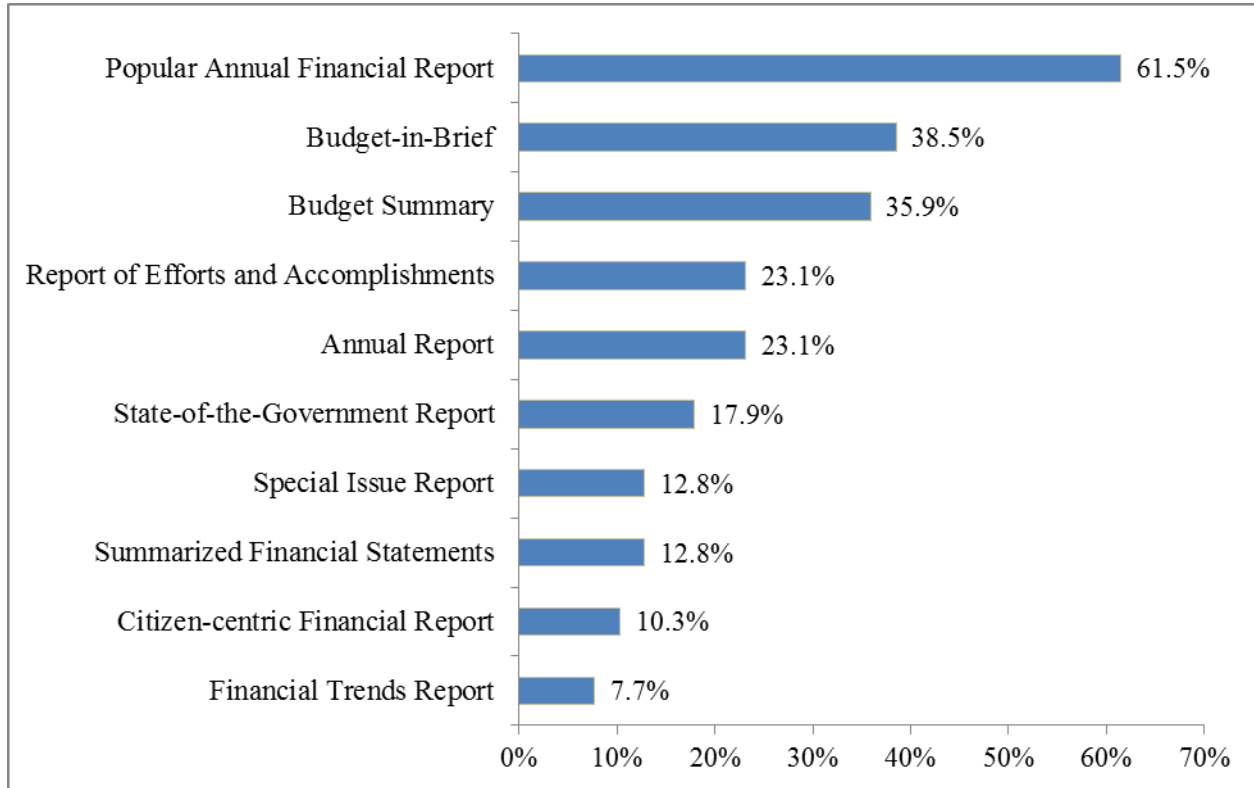


Table 2 Number of Years that Popular Reports Have Been Issued

Report Type	2 yrs and less	Between 2 and 5 yrs	Between 5 and 10 yrs	Between 10 and 20 yrs	More than 20 yrs
Popular Annual Financial Report (n=19)	10.53%	42.11%	21.05%	26.31%	0.00%
Budget-in-brief (n=10)	10.00%	20.00%	50.00%	10.00%	10.00%
Budget summary (n=12)	8.33%	0.00%	33.33%	33.33%	25.00%
Report of efforts and accomplishments (n=7)	0.00%	57.14%	28.57%	14.29%	0.00%
Annual report (n=6)	16.67%	33.33%	33.33%	16.67%	0.00%
State-of-the-government report (n=6)	0.00%	50.00%	33.33%	16.67%	0.00%
Summarized financial statements (n=3)	0.00%	0.00%	33.33%	33.33%	33.33%
Special issue report (n=3)	0.00%	33.33%	66.67%	0.00%	0.00%
Citizen-centric financial report (n=4)	75.00%	25.00%	0.00%	0.00%	0.00%
Financial trends report (n=3)	0.00%	33.33%	33.33%	33.33%	0.00%

Preparation and Distribution of Popular Financial Reports

Survey respondents were asked to identify, from a list of types of government actors and agencies, the different government functions that are involved in developing PFRs. Finance and budget departments are the most frequently cited agencies or departments involved in developing PFRs, with 69.2 percent and 56.4 percent of respondents reporting their involvement, respectively.

However, other actors also contribute to the process, such as city/county managers (33.3 percent), communications and public relations (30.8 percent), executive officers such as the mayor or council members (23.1 percent), and the auditing department (30.8 percent). The technology department (7.7 percent) and department of management services (7.7 percent) also contribute to the development of PFRs. In ten percent of the responding local governments, other individual departments, such as public works and health services, are also involved in the process. Given that departments other than finance and budgeting departments are involved in PFR development, the survey results suggest that local governments are concerned with more than just disseminating financial and budgetary information in designing PFR systems, and are mindful of other considerations as well, such as the “big picture” conveyed by the numerical data.

As a report targeted at the general public, the way by which local governments disseminate their popular financial information is also an important policy and procedural issue. Sharp et al. (1998) suggested that popular reports can be disseminated by having local officials speak to citizen groups (e.g. the Rotary Club or League of Women Voters), by mailing reports to all citizens, including popular reports as newspaper inserts or supplements, placing reports in public libraries and in locations where citizens typically have idle time (e.g. car wash, hospital waiting areas, government offices), including them on the government’s webpage, and featuring the reports on the government or local access television station.

In the survey, local governments were asked how they distribute or publish their popular reports. Survey respondents cited a variety of distribution methods used to issue PFRs (see Table 3). The most common methods include publishing the report on the local government’s website and making it available in city hall or another administrative building, with 100 percent and 76.1 percent of respondents reporting that they use these methods, respectively. Another 58.1 percent also said that the reports are made available in the public library. Less common methods include mailing the reports to all citizens and distributing the reports at selected public events. That it is more common for localities to adopt more passive distribution methods such as making the reports available online or in administrative buildings and libraries rather than to actively distribute the information to citizens suggests these localities are assuming that citizens are informed enough to know where to look for these reports. It could also indicate that local governments prefer to not spend money on mailing and printing costs and feel that making the reports publicly available through the government website is a sufficient enough effort to reach their constituents.

Table 3 Means of Distributing and Making Available Popular Financial Reports (n=44)

Distribution and Availability	% of Respondents
Published on city’s website	100.0
Available in City Hall or other administrative building	76.1
Available in public libraries	58.1
Mailed to citizens upon request	30.7
Mailed to selected recipients	23.1
Printed in local newspaper	23.1
Mailed to citizens	20.1
Printed in other city publication	15.3
Distributed at selected events	15.3
Distributed as press release	12.2

Note: Percentages do not add to 100% because respondents may identify more than one distribution method.

Reasons for Adoption of Popular Reports

Why have local governments committed resources to producing and distributing PFRs? To answer this question, the survey asked respondents to indicate the primary reasons why their governments issue PFRs. A similar question was posed to the governments that currently do not offer PFRs; they were asked to indicate the factors that might encourage them to offer such reports. Responses to these questions are summarized in Table 4.

Eighty-seven percent of the survey respondents indicated that the major reason for providing such reports is to inform citizens of their government's finances. As one respondent explained, popular financial reports provide citizens "with a user friendly, less technical discussion of County finances." Respondents also expressed the sentiment that the reports are useful in providing citizens with information on how money is spent. According to one local government official, "The report is our way of showing them the value of their tax dollar and what we accomplish or do not accomplish on their behalf." While 79 percent of respondents felt that the PFRs enhanced government finance transparency, 51 percent responded that they felt that the reports increased accountability to citizens. About 51 percent of respondents cited increased citizen support for government as a factor driving popular reporting, and 31 percent said the reports are intended as a way to increase citizen involvement in government decision making.

While the majority of respondents affirmed that their localities do publish PFRs, 25 percent of local governments captured by the survey do not. Respondents were asked to identify the factors which would prompt them to consider implementing popular reports. Most answered they would introduce PFRs for reasons related to transparency and citizen information needs. According to survey respondents representing local governments that have not yet adopted popular financial reporting, the potential to improve transparency of government finances is the most important reason for considering future issuance of popular reports (see the last column in Table 4). A related

reason, informing citizens of the government’s finances, is another major driver behind the possible adoption of PFRs. Increasing citizen support for and involvement in government were cited by 31 percent and 23 percent of the respondents, respectively.

**Table 4 Reasons for Adopting Issuance of Popular Financial Reports
(% of Local Government)**

	Reasons for Having Issued PFRs (n=39) (percent of respondents)	Reasons for Considering Issuing PFRs (n=13) (percent of respondents)
Transparency and Information Needs		
Inform Citizens of Government’s Finance	87.1	69.2
Improve Transparency of City Finances	79.4	84.6
Address Citizens’ Need for Financial Information	69.2	46.2
Accountability		
Greater Accountability to Citizens	51.3	23.1
Citizen Support and Involvement		
Increase Citizen Support for Government	51.3	30.8
Increase Citizen Involvement in Government Decision Making	30.8	23.1

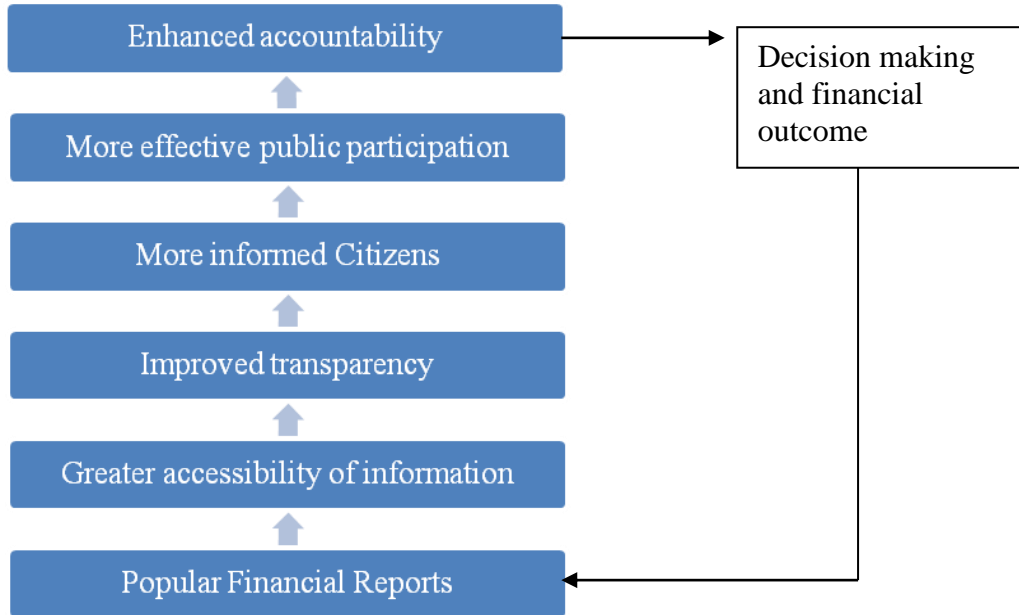
Note: Percentages do not add to 100% because respondents may identify more than one reason.

These responses suggest that while most local governments view popular reports as a valuable tool for meeting citizens’ information needs and maintaining transparency and accountability, fewer of them view the reports as an avenue for gaining active citizen involvement (30.8 percent). Whether this is because the majority of local governments simply are not interested in or concerned with involving citizens in the decision making process or because they believe there are better avenues than popular reporting for gaining this involvement is not clear.

Based on the results of our survey and assessment of the current state of PFR practices, we determined that local governments are utilizing PFRs to provide citizens with information about government finances and to improve transparency and enhance accountability. To a lesser degree, popular reporting is also driven by the desire to increase citizen support for government and

increase citizen involvement in government decision making. This leads us to wonder about the specific role that PFRs play in addressing issues of encouraging an informed citizenry, transparency, accountability, citizen support, and public participation. While we do not claim to know the definitive answer to this question, we offer a preliminary attempt at elucidating the linkages between popular reporting, financial information, transparency, accountability, citizen support, and public participation (see Figure 2). Popular reporting provides citizens with accessibility to information that then improves government transparency. This enhanced transparency results in citizens being more informed about their government, leading to more effective public participation and resulting in citizens holding government officials accountable. All of these interactions influence decision making and financial outcomes which are then communication through the popular report.

Figure 2 Accountability, Public Participation, Transparency and Popular Financial Reports



However, this raises the question of why, if popular reporting is driven by the ever important concerns of transparency and accountability, some local governments have not adopted popular

reporting. The 13 respondents who stated that their localities have not implemented popular reporting were asked why their local governments have not adopted these practices. While only one respondent (7.7 percent) stated not having any knowledge of popular reporting, another 30.8 percent of respondents stated that their localities already provide citizens with sufficient information. One respondent explained, “We found that these reports were rarely used by the public. There is substantially more interest in the annual budget.” Thus it seems that some localities hold the view that PFRs are not the optimum method for communicating with the public.

However, the more common responses regarding why popular financial reporting was not implemented were related to resources. More than half (53.8 percent) of respondents representing localities that have not issued PFRs cited a lack of financial resources as the main factor preventing them from adopting popular reporting and 38.5 percent explained that they lack the necessary personnel. Another 38.5 percent cited time constraints and that developing a popular report is too time consuming. According to one respondent, “While [popular reports] have been something we’ve wanted to develop, they have not been a priority in terms of our other tasks and demands on our resources.” This suggests that while the large majority of local governments would like to adopt popular reporting practices, most are limited in their ability to do so due to resource constraints.

Differences in Popular Reporting Practices

One of the purposes of this research, beyond examining the current state of local government popular financial reporting practices, was to explore differences across the localities in terms of their adoption of PFRs. The data on popular reporting practices was analyzed to determine whether certain PFR reporting practices are more common among particular government types and forms, regions, or political cultures. The following comparisons were made: (a) by type of local government (city vs. county); (b) by geographic region; (c) by form of government (Mayor-Council,

Council-Manager, Commission); (d) by political culture (Elazar, 1984); and (e) by other socio-economic factors such as educational level, affluence, race, population size, and population density. None of the comparisons produced statistically significant differences in terms of adoption of popular reports. We also performed logistic regression to predict PFR adoption as a function of the above variables. The only variable that was statistically significant and positively related to issuing PFRs was the percent of the population that is white ($p=0.052$).

A second analysis was then performed to analyze differences in popular financial reporting practices across those localities that issue popular reports. Note, however, that very limited analysis could be conducted due to the small sample size. We were particularly interested in examining the reasons for implementing PFRs. We modeled the three categories of adoption reasons – transparency/information, accountability, and citizen support/involvement – using logistic regression with the following independent variables: government type, population and population characteristics (percent of population over age 65, percent population that is white, percent of population with college degree, and population density), median income, homeownership rates, political culture, and form of government. In all three regression models, neither the overall model nor any of the variables were statistically significant.

We were also interested in differences in PFR distribution methods, specifically active versus passive distribution approaches used by the local governments. However, our logistic regression model predicting the adoption of active distribution methods resulted in only one variable (political culture) being a statistically significant determinant, albeit at a $p<0.10$ level. Combined, the results discussed in this section suggest that local governments' decisions regarding the adoption and practicing of popular reporting may be driven by specific management and local constituency factors not measured (e.g. responding to government scandals, citizen trust concerns, performance management emphasis, etc.) instead of socio-demographic and political factors.

This lack of explanatory findings regarding differences in adoption of popular reporting and in popular reporting practices suggests that further research is needed. Our analysis relied on standard factors such as locality type, form of government, geographic region, political culture and socio-economic variables. That adoption and practices do not vary across these factors indicate that a more comprehensive explanatory model should be developed. Given the reported reasons for developing PFRs, any successful model of popular reporting will likely need to explore measures of transparency and accountability. Therefore, a more comprehensive model could be anchored in the transparency and accountability literature. Furthermore, given the role of popular reporting as a financial management tool, an explanatory model could also be based on the management literature.

SUMMARY AND CONCLUSION

This paper examined why and how local governments are using PFRs to enhance transparency and accountability. Seventy-five percent of local governments in this study have issued PFRs, with PAFRs, budget summaries and budgets-in-brief, and reports of efforts and accomplishments being the most widely utilized. Citizen-centric reports, which have only recently been introduced by the AGA, have also gained popularity.

Popular reporting appears to be driven by the need to provide citizens with information and to improve transparency and accountability. These were the primary reasons cited by respondents for why their localities issue popular reports and also for why they might consider PFRs if they are not already in place. Yet, these same jurisdictions mostly utilize passive methods for disseminating their popular reports, relying primarily on citizens obtaining these reports by visiting the government's website, administrative buildings, or public library. PFRs, as documents targeted specifically at the lay audience, are not actively disseminated to this audience. In a few cases the

reports are more actively distributed via mechanisms such as press releases, the local newspaper, or direct mail to citizens.

There appears to be a disconnect between adopting popular reporting as a mechanism for improving transparency and actually distributing these reports to citizens so the information can be used for effective public participation and enhanced accountability. If indeed the cities and counties are committed to using popular reports to enhance the transparency of their finances and to become more accountable for public resources, they should put more effort into educating citizens of the availability of these reports and ensuring the reports are put into the hands of citizens.

More active approaches to disseminating PFRs, such as direct mailings to citizens or publishing the report as an insert in the local newspaper, may ensure that more citizens become aware of and receive the report. These approaches place popular reports directly into the hands of citizens, regardless of their previous knowledge of such reports. However, these methods are more expensive. On the other hand, passive methods such as displaying the report on the website require citizens to be aware of and request or search for the report. These passive methods, however, have several advantages. First, they may have wider dissemination and therefore reach more citizens who would not normally be engaged with their government. Second, the reports are often available to citizens when citizens want the information, instead of when the reports are being actively disseminated.

Local governments could adopt distribution methods that take advantage of the immediate education and direct connection with citizens of active methods and the lower cost and wider distribution of passive methods. Greater reliance on passive methods to disseminate the popular report will lower distribution costs, but active methods will need to be used to educate citizens of PFR availability and how and where to obtain the report. The combination of the two approaches

will contribute to achieving the benefits of popular reporting in terms of transparency, public participation, and accountability.

For those cities and counties that are considering popular reporting but face resource constraints, one way to move forward may be to work with other departments, such as communications and public relations, to minimize the resource strain placed on a single agency. Our findings show that an organization-wide initiative is often utilized by the jurisdictions that currently develop PFRs. These departments, while not dealing directly with budget and financial issues, may have the capacity to champion, execute, and develop a PFR.

Finally, our research focuses only on the supply side or how governments are providing budget and financial information to citizens. An equally important element of the study of popular reporting is the demand side. Future research is needed to better understand what citizens expect of their governments in terms of such information. More specifically, we need to answer the following questions: What financial information do citizens want? How frequently do they want this information? In what format and through what media do citizens want the information? Only once we answer these questions can we determine the efficacy of PFRs.

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