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Popular Financial Reports: Tools for Transparency, Accountability and Citizen Engagement

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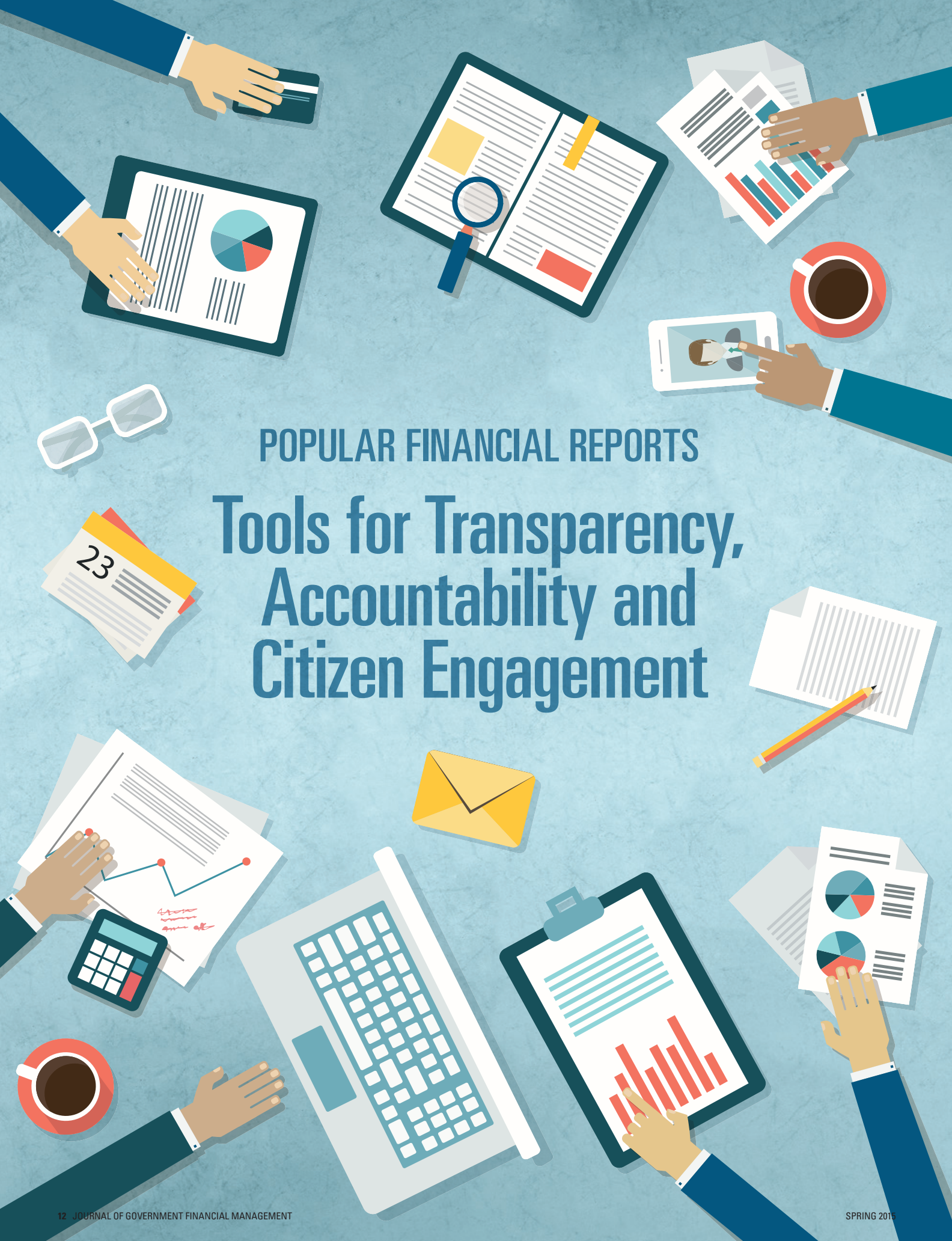


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POPULAR FINANCIAL REPORTS

Tools for Transparency, Accountability and Citizen Engagement

By: Juita-Elena (Wie) Yusuf, Ph.D. and Meagan M. Jordan, Ph.D.

Most governments issue annual financial reports; in the U.S, state and local governments issue the Comprehensive Annual Financial Report (CAFR), or its equivalent. However, these reports have been found to be neither readily accessible nor particularly informative to non-financial experts such as the general public. For example, in a 2012 report on e-Reporting, the Association of Government Accountants (AGA) noted that, "Typical government financial statements are too large and complicated for average citizens."¹ In response, professional associations such as AGA, the Governmental Accounting Standards Board (GASB), and the Government Financial Officers Association (GFOA), have promoted the use of different types of popular financial reports (PFRs) as an alternative reporting mechanism. For example, AGA encourages the issuance of citizen-centric reports, and the GFOA promotes the use of popular annual financial reports.² These organizations also provide guidelines and best practices for the development of these types of popular reports.

We suggest that the PFR, as a reporting mechanism targeted at the general public, can be an important government reporting mechanism for improving transparency of government budgetary and financial information, contributing to effective public participation through ensuring an informed citizenry, and enhancing government's accountability to citizens. We provide a broad overview of the role of popular financial reporting in this regard by presenting findings of surveys of state and local governments. We discuss (1) the use of different types of PFRs by governments; (2) the motivations for using PFRs; (3) the government-wide approach to developing PFRs; and (4) challenges of using PFRs.

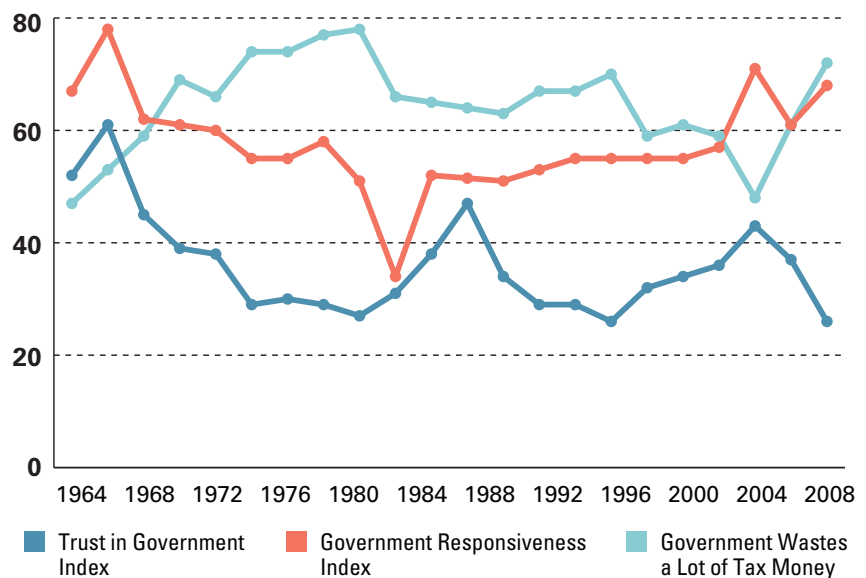
THE PUSH FOR TRANSPARENCY, ACCOUNTABILITY AND CITIZEN ENGAGEMENT

According to GASB, financial reporting plays a critical role as a tool for public accountability in a democratic society. Yet, various statistics point to citizens' general distrust of and dissatisfaction with financial reporting and the information provided by their governments. Surveys conducted by AGA have found that the majority of citizens believe that government needs to be responsible for providing financial and accounting information, but that government, at all levels, have failed to be transparent.³ AGA surveys also found high levels of dissatisfaction among citizens regarding the finan-

cial information they receive from their governments. In general, AGA's surveys point to a gap between what citizens want to know and what their governments are providing. It is not surprising, then, that Carol Lewis and Bartley Hildreth point out in their book *Budgeting Politics and Power*, that there is general belief among the public that government transparency "fails to meet their needs."⁴

This perceived lack of transparency comes at a time when there is also general lack of trust in government. The American National Election Studies (ANES) project found high percentages of Americans believe that government wastes a lot of tax money, and is not responsive to the public.⁵ In a similar vein, there has been a decline in the average score of the trust in government index.⁶ As shown in Figure 1, results of the

Figure 1. Declining Trends in Citizen Trust, and Perceptions of Government Receptiveness and Waste, 1964–2008



Source: American National Election Studies (www.electionstudies.org)



POPULAR FINANCIAL REPORTS (PFRs)

PFRs are financial reports prepared by governments to convey financial and performance information to a target audience typically consisting of citizens, businesses and community groups who want general information regarding the government's finances, with the explicit goal of increasing accountability.⁸ PFRs, such as popular annual financial reports, citizen-centric reports, or reports of efforts and accomplishments, are issued specifically for citizens and other interested parties who lack a background in public finance and who, therefore, need or desire a simpler, less detailed overview of the government's financial activities. These citizens may not be familiar with traditional budget documents or financial reports.

PFRs are at the top of the 'Accountability Pyramid' developed by AGA and Dan Murrin of Ernst & Young, LLP, providing information at the highest level of aggregation and refinement to contribute to public accountability.⁹ Rather than the traditional financial report format, PFRs are intended to provide information in a less technical, more simplified approach, while addressing those key issues of primary

interest to citizens. An effective PFR is "short, visually appealing and timely, providing financial information relevant to citizen interests and concerns including broad community issues and are widely distributed and made accessible to citizens."¹⁰

The PFR is one of the few tools available to government to communicate key information to the public regarding its finances. Providing such information is important to facilitate communication pathways between government and citizens, engage citizens in financial issues and fiscal policy decisions, and to fulfill the democratic goals of accountability and transparency in governance.¹¹ This information is key to educating the public about the budget and resource allocation, in addition to encouraging engagement in the budget deliberation process.¹² Therefore, PFRs can be important tools for increasing information accessibility and fiscal transparency, enabling citizen participation and enhancing government accountability for stewardship of public resources. These issues of accountability, transparency and citizen engagement have become increasingly important, as citizen dissatisfaction with government performance has grown.

ANES surveys show declining trends across the board in terms of measures of citizen trust, and government responsiveness and waste. The combination of these forces has resulted in a greater push for accountability.

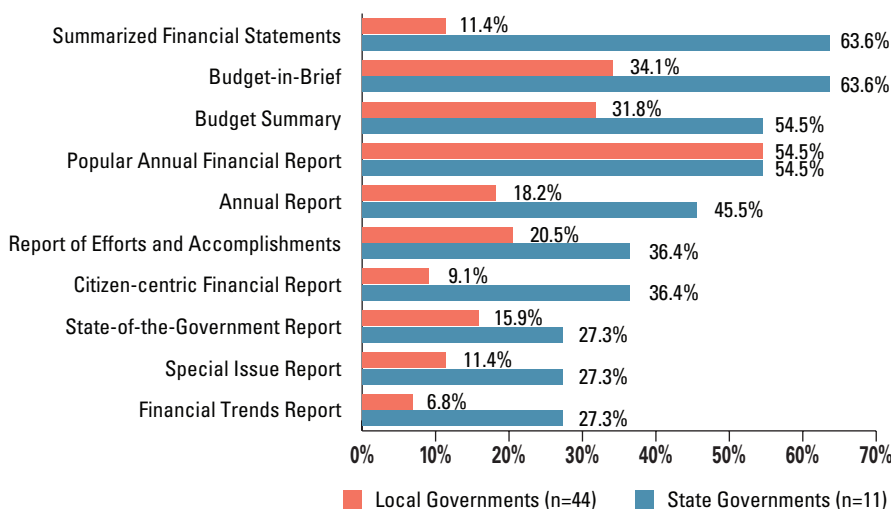
Greater pressure for accountability has, in turn, raised awareness of the need to engage the public. Citizen engagement efforts can serve to educate citizens on policy issues or problems, generate greater citizen support of government, build public trust, and enhance perceptions of government performance and accountability.⁷

STATE AND LOCAL GOVERNMENTS ISSUE DIFFERENT TYPES OF PFRs

To determine how state and local governments are using PFRs as tools for transparency, accountability and citizen engagement, we conducted two surveys asking government finance practitioners questions about their use of PFRs. The first is a survey of city and county governments¹³ and the second is a survey of state governments.¹⁴

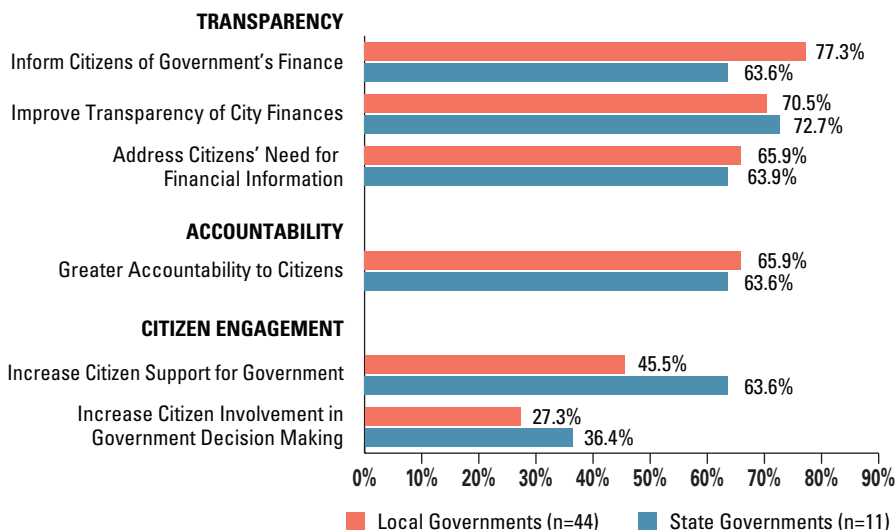
Results indicate that 75 percent of local governments and 85 percent of state governments that responded issue some type of PFR, such as budgets-in-brief, popular annual financial reports (PAFRs), citizen-centric reports (CCRs), and reports of efforts and accomplishments. The different types of reports issued by the responding governments are shown in Figure 2.

Figure 2. Types of Popular Financial Reports Issued



Source: Local government survey data from: Yusuf, J.-E., M.M. Jordan, K.A. Neill, & M. Hackbart. 2013. For the People: Popular Financial Reporting Practices of Local Governments. *Public Budgeting & Finance*, 33(1): 95-113.

Figure 3. Transparency, Accountability and Citizen Engagement Reasons for Issuing PFRs



Source: Local government survey data from: Yusuf, J.-E., M.M. Jordan, K.A. Neill, & M. Hackbart. 2013. For the People: Popular Financial Reporting Practices of Local Governments. *Public Budgeting & Finance*, 33(1): 95-113.

MOTIVATIONS FOR STATE AND LOCAL GOVERNMENT USE OF PFRs

When asked for the rationale behind the adoption of PFRs, most survey respondents stressed the importance of informing citizens of their government's finances (64 percent for state governments and 77 percent for local governments, see **Figure 3**). One state government respondent noted that PFRs "provide a mechanism for communicating the

status of state finances to the general public." Another motivation for using PFRs is to improve transparency of government finances (73 percent of state governments and 71 percent of local governments). One state government respondent commented on how PFRs "provide clear, concise, easy to understand overview of state financial condition." Another 66 percent of local governments and 64 percent of state governments responded that PFRs would increase accountability to citizens. However, fewer governments (36 percent of states and 27

percent of localities) issue PFRs for reasons associated with engaging citizens in government decision-making.

The surveys also asked about factors that would prompt governments to consider issuing PFRs. Most of the governments that were not currently issuing PFRs responded that if they were to introduce PFRs, they would do so for reasons related to accountability and transparency.

PFRs ARE GOVERNMENT-WIDE UNDERTAKINGS

As tools for transparency, accountability and citizen engagement, PFRs also benefit from being government-wide undertakings. State and local government respondents in the surveys indicated that the development of PFRs is not solely the responsibility of finance, budget, audit or comptroller functions. Instead, as shown in **Figure 4**, various other functions contribute to the development of the PFR. At the state level, for example, the Governor's Office (36 percent) and the legislature (9 percent) are involved, in addition to agencies related to public information, communications, and public relations (27 percent). At the local government level, these functions also include technology (6 percent) and management services (4 percent).

CHALLENGES TO EFFECTIVE POPULAR FINANCIAL REPORTING

While PFRs appear to be fairly prevalent among the state and local governments responding to the surveys, effective popular financial reporting is not without challenges. The key challenge to effectively using PFRs to improve transparency, accountability and citizen engagement is that it is resource intensive. In a previous study, we developed a definition of effective popular financial reports to be "short, visually appealing and timely, providing financial information relevant to citizen interests and concerns... and widely distributed and made accessible to citizens."¹⁵ Not only must the content of the PFR be developed to meet the needs of citizens, but the

Figure 4. Functions and Departments Involved in Developing PFRs

	Local Governments (n=44)	State Governments (n=11)
Finance	48.1%	54.6%
Budget	36.5%	36.4%
Audit	11.5%	36.4%
Treasurer/Comptroller		27.3%
Chief Executive	23.1%	36.4%
Legislature	17.3%	9.1%
Public Information, Communications, Public Relations	19.2%	27.3%
Technology	5.8%	
Management Services	3.8%	

Source: Local government survey data from: Yusuf, J.-E., M.M. Jordan, K.A. Neill, & M. Hackbart. 2013. For the People: Popular Financial Reporting Practices of Local Governments. *Public Budgeting & Finance*, 33(1): 95-113.

reports themselves need to be widely distributed. This can be extremely resource intensive.

The surveys asked how state and local governments distributed or published their PFRs. Participating governments cited a variety of PFR distribution methods, with the most common methods being to make the PFR available on the government's website (73 percent of state government respondents and 89 percent of local government respondents) and in public libraries (36 percent of state government respondents and 52 percent of local government respondents). These findings suggest that state and local governments have adopted more passive distribution methods for information dissemination to the general public. As a less passive method, PFRs are sometimes printed in the local newspaper but are more frequently distributed as press releases. In terms of active dissemination, hardcopies of PFRs are mailed to citizens but primarily to selected recipients or only upon request. Wider distribution of PFRs via active methods will likely increase the visibility of PFRs and its potential impact on transparency, accountability and engagement, but will require substantial resource commitments.

Not surprisingly, the most common response by state and local government representatives regarding why their governments do not issue PFRs

is the lack of resources. According to a local government representative, there is interest in popular reporting, but it is not a priority in terms of current tasks and resource demands.¹⁶ This suggests that while the large majority of state and local governments could see the benefits of popular reporting, most are limited in their ability to do so due to resource constraints. As one state budget director stated in the survey, "It is the lack of resources that is the obstacle." Another state government respondent succinctly attributed the lack of a PFR to "No funding. No staff. No time."

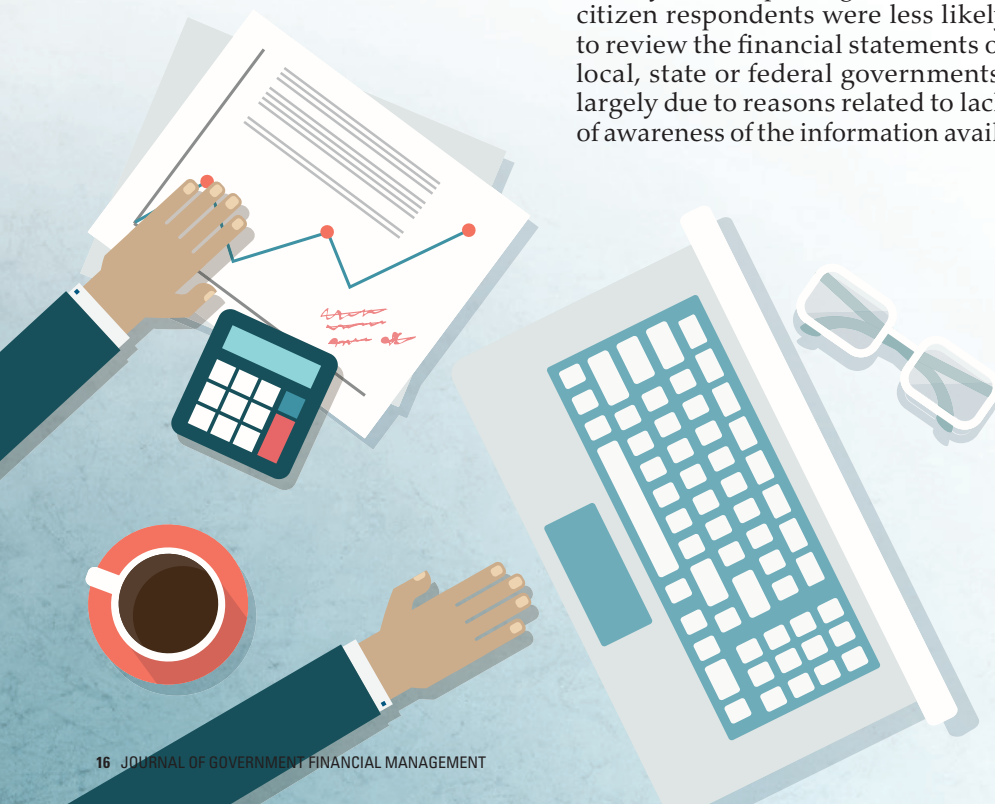
RECOMMENDATIONS

Overall, the research shows that state and local governments see PFRs mostly as tools for fiscal transparency and accountability, and less for enhancing citizen engagement. Additional research shows that, when effectively utilized, PFRs can be efficacious in achieving these goals.¹⁷ However, effective use of PFRs requires significant resources, both in terms of content development and report dissemination or distribution. Research has shown that PFRs are not actively disseminated to citizens, as they are often posted to government websites or made available in government repositories. However, results of a 2012 AGA survey on government financial statements (as part of a study on e-Reporting), shows that citizen respondents were less likely to review the financial statements of local, state or federal governments, largely due to reasons related to lack of awareness of the information avail-

ability, and lack of accessibility of such information.¹⁸ The average citizen is similarly unlikely to be aware of the PFR; its availability on the web or in a public library has limited reach. However, more active distribution, such as direct mailing to citizens or inclusion in the newspaper, is costly.

Not surprisingly, resource constraints appear to be the greatest hurdle preventing governments from issuing PFRs. The current economic and fiscal environment has further complicated efforts to move popular reporting forward. However, the same fiscal environment is contributing to greater need for transparency and accountability, creating a dilemma. Because of the current fiscal crisis, citizens are demanding more transparency from and accountability of their governments. But the lack of resources resulting from the fiscal crisis has posed significant challenges for governments to address this demand. In terms of practice and execution, the actual impact of PFRs will be limited if governments continue their current strategy of passive dissemination and do not invest resources in utilizing PFRs effectively.

We offer three recommendations for addressing these resource constraints. Since PFRs already appear to be a government-wide undertaking, the responsibility for developing and disseminating the PFR can be shouldered by other agencies/departments, such as communications and public relations, with technical assistance from finance or budget departments. Governments can also overcome the weakness of passive distribution methods by widely publicizing through public meetings, news outlets, and/or utility bill inserts, the existence of the PFR and how to access it via requests, the public libraries, or the government's website. Furthermore, reports on websites should be highly visible (i.e. on the homepage) and printable. Addressing resource challenges is essential for effective popular reporting.



MOVING FORWARD: QUESTIONING THE STATUS QUO

Our discussion has treated PFRs as a unified group of reports targeted at citizens. However, cities and states issue a variety of PFRs, some that build from the CAFR (e.g., PAFRs), are budget-focused (e.g., budget summaries), or that provide a bigger picture summary (e.g., CCRs or state-of-the-government report). These different types of PFRs contain different types of information. Previous research has identified the information citizens want included in the PFR¹⁹ and analyzed what information is provided in PFRs.²⁰ Combined, these studies show that (1) citizens have varied expectations of different PFRs; and (2) different types of PFRs meet citizen transparency needs to varying degrees. This suggests that no single PFR may be appropriate for all audiences and meet all transparency, accountability and public participation needs. Effectively using limited resources for popular reporting efforts may require governments to think about the reasons for pursuing popular reporting, the intended audience for the PFR, and the information that the audience needs.

We conclude with a final thought that challenges the status quo. States and localities in the U.S. currently produce CAFRs that comply with the GASB reporting framework. However, the current perceived lack of transparency and accountability bring into question the effectiveness of the extensive resources committed to producing GASB-compliant CAFRs as a transparency tool for the citizenry. Clearly, GASB compliance is necessary to insure generally accepted accounting standards and the communication of comprehensive financial information to finance professionals or those with high levels of financial literacy. However, given that PFRs have the primary purpose of providing the information needed to meet the transparency, accountability and public participation needs of citizens, government resources and/or strategies are needed to develop PFRs for wide distribution. ■

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14. The state survey was conducted in Summer 2011 in cooperation with the Council for State Governments. Thirteen states responded to the survey (response rate of 26%).

15. See Endnote 10.

16. See Endnote 8.

17. See Endnote 10.

18. See Endnote 1.

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