

Transparency—For What?

By Harold (Hal) I. Steinberg, CPA, CGFM

Transparency is one of the current buzzwords, which is not necessarily bad. A keystone of democracy is accountability and transparency, i.e., providing information is one way for the government to be accountable. Since no one wants to look bad, transparency can be a major impetus for program improvement.

The enormous push toward transparency risks the possibility of information overload. With the Federal Funding Accountability and Transparency Act of 2006, the federal government now posts to the Internet every award it makes, the amount of the award, and the recipient's name. The American Recovery and Reinvestment Act (Recovery Act) website—recovery.gov—links to pages that report dollars spent by each agency, in each state, for each recipient, etc. Unfortunately, this overwhelming volume of information does not necessarily translate into anything useful. In fact, the most important information associated with the Recovery Act is the number of jobs created or saved. The reliability of this information is questionable.

If transparency and accountability are going to translate into better government, the question is what the federal government and its scores of agencies should report, particularly for financial and program results.

A Little History

The government's financial reporting is not new. For 200 years, the government issued a *Monthly Statement of Receipts and Outlays of the U.S. Government*. The agencies reported the extent to which they expended budget resources. A major change occurred in 1990, however, with the realization that information regarding an agency's assets, liabilities, and especially, the costs of the services it was providing, is also important. Unfortunately, only three of the 10 agencies required, at that time, to provide this type of information could do so, despite having 11 months to issue the report. The auditors would attest to the information reliability for only one of the 10 agencies.

Nonetheless, Congress recognized the importance of having agencies report reliable financial information and legislated that agencies issue audited financial statements within five months rather than 11 months. The requirement applied first to the 24 largest executive branch agencies, and then to the remaining federal agencies. The Office of Management and Budget further shortened the time frame to 45 days. All agencies now provide the information within 45 days and, with but two or three exceptions, the auditors opine that the information can be relied on. Accompanying the financial information are reports on the performance results achieved by the agencies' programs. Performance information is included to meet the requirements of the Government Performance and Results Act of 1993.

Since 1997, the Treasury Department has been issuing an annual financial statement for the entire government. Unfortunately, the less-than-effective transmittal of financial information from the agencies to the Treasury, plus other issues, have hampered the quality of the data. Thus, auditors have been unable to attest to the reliability of the government-wide financial statements.

Is This the Best Approach to Transparency?

History notwithstanding, there is a question as to whether the process outlined above is the best way to obtain transparency and accountability. The requirement for audited agency financial statements places considerable emphasis on the exactitude of the amounts reported in each agency's statements. However, as long as an agency has accurate records of the existence, location, magnitude, etc. of its assets, liabilities, and costs, this information is not of particular interest to an agency's stakeholders. In fact, the agencies' year-end financial statements do not attract many readers.

The most effective way to access an agency's accountability is with information about the performance of its programs: whether and how the agency is managing its resources to avoid waste, fraud, and abuse; the important amounts in its



Harold (Hal) I. Steinberg was the first deputy controller/acting controller, Office of Federal Financial Management (OFFM) at the OMB. OFFM was established by the Chief Financial Officers Act of 1990 to design, organize, and oversee the implementation of programs to improve the federal government's financial management. He also was a partner in KPMG LLP. From 1983-1991, he led the firm's practice with the federal government.

financial statements, their significance to the agency's programs, whether and why these amounts have changed from the prior year; and conditions, trends, events, both existing today or likely in the future.

It is not that periodic audited financial statements are unimportant. They require the agencies to establish or at least improve the information systems needed to obtain and accumulate information, an essential element of accountability. They are vital for assuring the reliability of an organization's

financial systems and data. They typically enable agency personnel to gain insight into their financial and program operations.

The place at which financial statements are really important is at the government-wide level. Citizens care about the financial condition of the entire government, not individual agencies. Even at this high level, the financial statements are important not so much for disclosing the financial implications for where the government has been, or even where it is currently, but—most important—where it is going.

The federal government has already provided some of that information by presenting each year a *Statement of Social Insurance*. That statement discloses the amount of future budget resources needed to pay Social Security, Medicare, and other social insurance obligations. It does not, however, identify the resources that will be needed to sustain the myriad of other government programs, many of which are specified in the Constitution.

Some Suggestions

How should proper transparency and accountability be provided? Websites—usaspending.gov and recovery.gov—provide information at the “retail” level, information with which individuals can ascertain specific spending actions. The detail will be helpful for detecting potential improprieties and identifying opportunities. Unfortunately, these sources won't provide the “wholesale” level of information necessary to provide overall financial results or to help guide policy. For this level of accountability, one can look at the work of such groups as the Federal Accounting Standards Advisory Board,¹ the Association of Government Accountants, and the Mercatus Institute.

Agency-Level Transparency and Accountability

Audited financial statements have been the driving force behind getting the agencies to establish accounting systems capable of providing reliable financial information. This has been demonstrated by all but a few agencies receiving

A Citizen's Guide to the 2008 Financial Report of the U.S. Government

The Government's Financial Position and Condition

The Financial Report of the U.S. Government (Report) provides the President, Congress, and the American people a comprehensive view of how the Federal Government is managing taxpayer dollars. It discusses the Government's financial position and condition, its revenues and costs, assets and liabilities, and other responsibilities and commitments, as well as important financial issues that affect the Nation and its citizens both now and in the future.

The following table presents several key indicators of the Government's financial health, which are discussed in greater detail in the Report.

A Snapshot of The Government's Financial Position & Condition			
(Billions of dollars)			
	2008	2007	2006
Gross Costs	\$ (3,891.6)	\$ (3,157.3)	\$ (3,127.7)
Earned Revenues	\$ 280.9	\$ 247.8	\$ 226.4
Net Cost	\$ (3,610.7)	\$ (2,909.5)	\$ (2,901.3)
Total Taxes and Other Revenues	\$ 2,661.4	\$ 2,627.3	\$ 2,488.8
Other	\$ (29.3)	\$ 6.7	\$ 11.9
Net Operating Cost	\$ (1,069.1)	\$ (275.5)	\$ (409.5)
Assets	\$ 1,974.7	\$ 1,581.1	\$ 1,496.5
Less: Liabilities, comprised of:			
Debt Held by the Public	\$ (5,836.2)	\$ (5,072.7)	\$ (4,863.5)
Federal Employee & Veterans Benefits	\$ (5,318.3)	\$ (4,398.1)	\$ (4,679.0)
Other Liabilities	\$ (1,073.1)	\$ (960.1)	\$ (866.4)
Total Liabilities	\$ (12,227.6)	\$ (10,756.9)	\$ (10,415.9)
Net Position (Assets Minus Liabilities)	\$ (10,202.5)	\$ (9,205.8)	\$ (8,916.4)

Sustainability Measures:

The Statement of Social Insurance provides certain fiscal sustainability information concerning Social Security, Medicare, and other social insurance programs.

Statement of Social Insurance ¹			
Closed Group (current participants) ²	\$ (49,135)	\$ (43,062)	\$ (44,345)
Open Group (current + future participants) ³	\$ (42,970)	\$ (40,948)	\$ (39,831)

Budget Results

Unified Budget Deficit	\$ (454.8)	\$ (462.8)	\$ (247.7)
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1. Present value of projected benefits and expenditures for scheduled beneficiaries over the next 75 years of certain benefit programs that are administered by Social Security (e.g., Social Security, Medicare). Not included: liabilities on the balance sheet.

2. Includes current participants (i.e., existing and/or eligible to receive benefits) for the Social Security and Medicare programs aged 17 and over at the end of the 75-year projection period (except for the 2007 Medicare program for which future participants are assumed to be the entire 75-year age at the end of the 75-year projection period).

3. Includes all current and future program participants over the 75-year projection period.

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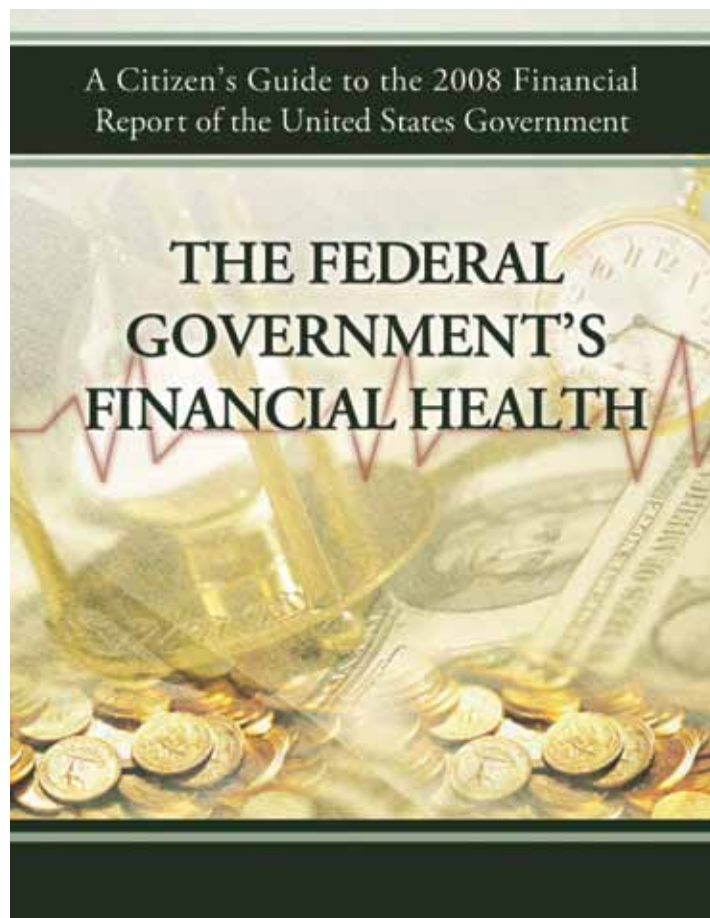
A page from *A Citizen's Guide to the 2008 Financial Report of the United States Government*.

unqualified auditors' opinions. Thus, the statements no longer need to be the centerpiece.

One approach could be to authorize agencies whose audited financial statements meet certain criteria. If agencies receive an unqualified opinion, with no material weaknesses or significant deficiencies, or instances of noncompliance over a specified number of years, then they may forgo the annual audit requirement. The auditor's time and effort could be devoted to examining and helping to assure the reliability of the data transmitted by the agencies to the Treasury for the government-wide financial statements. This would help move the government toward a clean opinion on the government-wide report.

So how would the individual agencies fulfill their responsibility to be transparent and accountable? They would issue a 25-page or so report that would:

- Focus on program results, the matter with which people are most concerned at the agency level. The information would include more than anecdotes. It would be explanations of strategic goals, so readers can appreciate how the agency's goals relate to its mission; the magnitude of performance goals met for each strategic goal and the trends in this performance; an identification of performance goals not met, as well as why, and how they and other diminishing performance will be addressed; the cost of pursuing strategic goals, so that readers can appreciate how much performance is costing; and the costs of outputs and outcomes, which disclose how much performance is received for the dollars expended. Also, the issue of the reliability of the reported performance results has to be addressed. This doesn't require an audit of the data, but an auditor's review of the controls underlying the data systems would be helpful.
- Identify the agency's significant assets, liabilities, revenue sources, and costs and explain their importance to the agency—plus, explain the reasons for significant changes in these amounts from prior years.
- Identify the agency's material weaknesses and significant deficiencies in internal control—and any noncompliance with the laws and regulations associated with accountability—and describe what is being done, and when, to address them. Accountability also suggests that, if there is slippage with the corrective actions, the reason for the slippage and how it will be addressed be presented. The weaknesses and deficiencies need not be limited to financial matters. The report should encompass weak-



Cover of *A Citizen's Guide to the 2008 Financial Report of the United States Government*.

nesses and deficiencies in program and administrative activities as well.

- Identify possible significant demands, events, conditions, and trends, both existing and anticipated, that fall within the agency's area of responsibility and that could affect the country and its citizens in the future, possibly adversely, and what the agency will do to offset their impact.

Some say this information has budget implications and cannot be presented by agencies outside the president's budget. Not so. The information is important in and of itself; there is no need to include budget needs. For example, it is likely that when readers read, in the Department of Agriculture report, that the increased international movement of people and goods provides the opportunity for crop and animal pests and diseases to move quickly across our borders, they do not need to know the specific impact on the budget to know that something should be done. The same would be

said for a Social Security Administration disclosure that, when projected disbursements exceed projected contributions in 2017, continuing the current level of benefits will require the government to increase taxes or borrowing and/or reduce the amounts spent for other programs.

The 25-page report would include numerous links to agency website pages that present additional detailed information about the matters presented in the report. More importantly, transparency and accountability require that the reports present not just positive matters, but that they also identify and discuss performance shortfalls, challenges, problems, or other issues requiring attention. Candor is required in the reports issued by publicly held corporations; why should government have a lower standard for transparency and accountability?

Finally, transparency requires that the reports be “readable.” It may require that the report drafters be provided training in report writing. That is a small price to pay for eliminating the redundancy, verbosity, and stilted language that too often mark current agency reports.

Government-Wide Transparency and Accountability

As stated, transparency and accountability at the government-wide level require that the public be provided not only information about assets, liabilities, and costs, but also some idea of where the government and the country is heading financially. The government has already started to do this. If you haven’t seen it, get a copy of *A Citizen’s Guide to the 2008 Financial Report of the United States Government: The Federal Government’s Financial Health*. It does an excellent job of presenting such information as the amount of debt held by the public as a percent of gross domestic product (GDP) from 1940 out to 2080 (it is not a pretty picture); and the past and projected revenues of the government and the extent to which these revenues have been or will be sufficient to pay for Social Security, Medicare, Medicaid, interest on the debt, and all other expenses (again, not a pretty picture).

The Treasury has presented this information voluntarily for the past couple of years, which means that it can stop if it wants to. Another step in the right direction is a recently issued standard of the Federal Accounting Standards Advisory Board. This organization defines how the federal government should report its financial position and operations. The standard states that starting in fiscal year 2010, the federal government should issue a financial statement that shows, among other things, the present value, for a specified number of years into the future (e.g., 75), the projected receipts and spending based on current policy without change, and the relationship of these amounts to projected GDP. This information represents a level of transparency, which heretofore has not been provided, for the manner in which the government is mortgaging the future to pay for the present. It remains to be seen whether it will move accountability in the proper direction.

The last effort toward government-wide accountability is for the federal government to obtain an unqualified opinion on the government-wide financial statements. The financial picture is bad enough. We do not need the added problem of not being able to rely on the numbers.

Conclusion

In short, transparency is necessary to achieve accountability—but that means more than simply dumping countless data on the Internet. Such actions would have the opposite effect. Transparency requires the thoughtful selection of information that best portrays the results of what has transpired and what is likely to move the government in a desired direction. ■

Endnotes

1. The author is a member of the Federal Accounting Standards Advisory Board. The above views are his own and do not necessarily reflect the views of the Board or of any of its members.