Responsibility and Standard Implementation: A Case Study of County Governments

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ABSTRACT

Extant research has shown that county governments have a greater level of audit findings than municipal governments. It is theorized that the organization of county governments is one of the main causes of the lower level of implementation of accounting reporting standards. To date, however, the literature does not include a study of the implementation of an accounting standard by diversely organized county governments.

This study reviews the implementation of GASB 34 by county governments in three states, Florida, Mississippi and Tennessee. We find that laws altering county government officers' responsibility can influence the county managers' decision on the level of implementation of an accounting standard regardless of the organization of the government.

INTRODUCTION AND LITERATURE REVIEW

Martens and Stevens (1994) have shown that often standards are issued in which the cost of information to all stakeholders exceeds the benefit of the information disclosed. In contrast, Barber and Gore (2008) demonstrated that following Generally Accepted Accounting Principles (GAAP) lowered the cost of debt to municipals by 14 to 25 basis points.

Jakubowski (1995) notes that county governments have significantly more material internal control weaknesses than municipal governments. Jakubowski theorizes that the organization of county governments makes improvements in accounting reporting difficult to implement. County governments lacked a chief executive with the direct responsibility to implement accounting changes. Since city governments had a single chief executive, municipals were more likely to implement suggested audit improvements.

Jakubowski further noted that in order for financial management systems to improve, local government managers must perceive that the benefits of corrective action exceed the cost of implementation of the change. As per agency theory (Jensen and Meckling, 1976), government managers will consider not only the cost and benefits to the government entity, but also their perception of the costs and benefits of implementation to themselves personally (including the costs of votes against the government managers because of the information disclosed or because of the failure to disclose the information). When a government official perceives that the cost of implementation is greater than the benefits, the manager is unlikely to implement the accounting standard.

However, Jakubowski was comparing municipals and county governments. As yet, the literature does not include a study of the implementation of an accounting standard by diversely organized county governments. This study contributes to the literature by making such a comparison. The implementation of GASB 34 by county governments in three states (Florida, Mississippi and Tennessee) was reviewed.

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement no. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This statement required that government entities implement a completely new reporting model. Prior to the adoption of GASB 34, governments were required to report financial information on a fund-by-fund basis. With the adoption of GASB 34, governments now should include a set of government-wide financial statements in their Comprehensive Annual Financial Reports (CAFR's). These statements should include not only the primary government, but all component units of the government entity as well. Additionally, the standard required governments report the government-wide information on the accrual basis of accounting instead of the traditionally used modified accrual basis of accounting. One major effect of this change was that governments were now required to report capital assets and long-term debt on their financial statements. Implementation of this standard required governments to collect additional accounting data, learn new accounting techniques, and present new financial statements.

Because of the radical change in the reporting model, the GASB gave governmental entities several years to complete GASB 34 implementation (Chase and Triggs, 2001). The implementation of GASB 34 imposed significant costs on local governments. With these increased costs, government managers needed to determine whether the benefit of implementing GASB 34 exceeded these additional costs.

Accountability

GASB Concepts Statement No. 1 states that "accountability" is the cornerstone of all financial reporting for state and local governments and that the citizenry has the "right to know" how public officials are using public resources for operational and fiscal accountability. Operational accountability focuses on the use of resources efficiently and effectively. Fiscal accountability focuses on whether the used resources are in compliance with laws and regulations.

In this study, we found that some county governments were organized as a board and other governments were organized with a chief executive for implementing GASB 34. When a county-wide decision is made by a board, responsibility for that decision is shared. Having shared responsibility for a decision may mitigate the personal cost a board member has for the decision. When a county chief executive was responsible for decisions on financial reporting, the decision was not shared and the costs of that decision were not shared. For example, GASB 34 requires that the cost of capital assets be included in the financial statements. A decision not to incur the cost to include all capital assets in the financial statements may result in a negative (other than an unqualified, i.e. clean) opinion from the auditor. However, when a group of county managers are jointly responsible for the decision, it is more difficult for voters and others to hold any one individual responsible for the decision that resulted in a negative opinion.

However, when one executive is held as responsible for that decision, that county executive must bear the complete cost of the decision that resulted in a negative opinion.

Data Collection

The 2007 CAFRs of 192 county governments in Florida (67), Mississippi (60), and Tennessee (65) were collected from various governmental web sites. There are 67 counties in Florida, 82 counties in Mississippi, and 95 counties in Tennessee; therefore, the study's data covers 100% of Florida counties, 73% of Mississippi counties, and 68% of Tennessee counties. Both Florida and Tennessee have various structures of county governments – board, mayor-board with mayor elected by citizens, mayor-board with mayor elected by the board. Mississippi counties are governed by a board of five elected officers. Our study finds that within a given state, the implementation of GASB 34 was so small that the form of county government had little impact. As the results below indicate, implementation of the standard depended more heavily on the state in which the county was located.

Level of Qualifications

Table 1 – Percentage of Audit Qualifications

	Actual Level of Qualifications
Florida	3.0%
Mississippi	88.3%
Tennessee	72.3%

Table 1 indicates that the majority of the county managers in Mississippi and Tennessee are not completely implementing GASB 34. Almost 90% (88.3%) of the Mississippi counties received a negative opinion. Counties from the state of Tennessee were slightly better; however, 72.3% received a negative opinion from their auditors. In contrast, ninety-seven (97%) of Florida county managers are following the standards. Table 2 explores in greater detail the type of problems experienced by the counties under study.

Table 2 Details of Problems Identified in the Audit Reports

	Florida	Mississippi	Tennessee
Government-Wide Statements not included or all components not included		98%	89%
Records of Assets or Liabilities missing		2%	11%
Lack of Records supporting amounts reported	100%		
Lack of Procedures for Recording certain fees			
	100%	100%	100%

By far, the greatest problems came in preparing the government-wide financial statements. These statements should include financial information for the primary government and the component units of the county. In this study, a strong majority of the county governments in Mississippi and Tennessee ignored this requirement. In Florida, all county governments included the government-wide financial statements.

With the exception of one county, all of the Mississippi counties receiving negative opinions did not implement the government-wide statements. In Mississippi, counties are governed by a legislative board of five supervisors elected form five county districts. Thus, accountabiity of the public officials is diluted. In particular, it can be argued that Mississippi county managers determined that the costs of producing government-wide statements were less than the benefit of including this information.

In Tennessee, 89% of the counties had negative opinions because of failure to implement the government-wide provision of GASB 34. Tennessee counties are govern by a major and boards consisting of 9 to 25 members. However, county government managers in Tennessee included in their CAFR's that the decision not to implement the government-wide provision of GASB 34 came from the Comptroller of the Treasury of the State of Tennessee. The Comptroller adopted standards by which counties were required to follow GASB 34 as it related to fund reporting but that the full implementation of GASB 34 would not be required by the Comptroller. The majority of the Tennessee counties that received negative opinions did implement the fund standard requirements of the Comptroller. Hence, the Tennessee county managers determined that the benefits (personally and perhaps for the county) of following the Comptroller's recommendations exceeded the costs of receiving a negative opinion.

However, Florida county managers have made the opposite decision. In Florida all counties had a "clean" opinion except for two (2) counties. The Florida law requiring a certain county official to take responsibility for the accuracy of the annual financial report is probably part of the cost and benefit considerations of the county officials. Florida statute Section 218.32 (1)(a) is given below:

> **218.32 Annual financial reports; local governmental entities.**
>
> (1)(a) Each local governmental entity that is determined to be a reporting entity, as defined by generally accepted accounting principles, and each independent special district as defined in s. 189.403, shall submit to the department a copy of its annual financial report for the previous fiscal year in a format prescribed by the department. The annual financial report must include a list of each local governmental entity included in the report and each local governmental entity that failed to provide financial information as required by paragraph (b). The chair of the governing body and the chief financial officer of each local governmental entity shall sign the annual financial report submitted pursuant to this subsection attesting to the accuracy of the information included in the report. The county annual financial report must be a single document that covers each county agency.

The above law makes a specific Florida county government official (Clerk of Circuit Court) responsible for "attesting to the accuracy" of the financial information. These officers can reduce any personal costs of providing the state government with inaccurate reports by having a "clean" audit opinion. Thus accountability has been enhanced.

Conclusions

This study looks at the implementation of GASB 34 by counties in three southeastern states, Florida, Mississippi and Tennessee. This study contributes to the literature showing that standard implementation is greater when one county government official is responsible for financial reporting issues than when several officers are responsible.

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