



eXtensible Business Reporting Language

Great eXpectations and eXpenses

By Michele Mark Levine

GFOA's new policy statement on mandating specific technologies for financial reporting and disclosure is needed because of several recent developments.

At its September meeting, GFOA's Executive Board approved a public policy statement titled *Mandating Specific Technologies for Financial Reporting and Disclosure Purposes*, which states that "GFOA opposes efforts to mandate the use of specific technologies by state and local governments for financial reporting and disclosure." The background information supporting the new policy goes on to say that:

The Government Finance Officers Association (GFOA) has long encouraged governments to demonstrate accountability and transparency by making financial information of the highest quality readily accessible to citizens and other interested parties. GFOA is aware of the developing technological advances toward the development of standardized financial information. However, GFOA is also aware of efforts to mandate the use of specific technologies for the purpose of reconciling and reporting financial information. Such a mandate imposes significant burdens on state and local governments including:

- **Unfunded mandate.**

Implementing a specific technology for the purposes of financial reporting would convey significant cost to state and local governments, including the costs required to equip the local governments with the technology, to

train the employees of the local government in order to effectively use the new technology and to protect the information housed in the new technology. Additionally, due to the iterative nature of new technologies, they will also carry a high likelihood of continued maintenance or updates.

- **No viable taxonomy.**¹ While numerous small-scale efforts have been made to develop a taxonomy that incorporates necessary elements of GASB GAAP financial statements, there currently exists no viable taxonomy. The very substantial differences between the private sector and government make existing private sector taxonomies substantially unusable. Moreover, the vast differences in structure and operations among and between general purpose and special purpose governmental entities makes the creation of a single, uniform taxonomy especially challenging. Efforts to limit the development of a taxonomy to only selected elements of financial statements will mean that only *incomplete data — rather than the level of detail deemed necessary for GAAP reporting — will be available.*

This policy statement is needed because of several recent developments. On March 23, 2018, Florida became the first state to legislate a study that would determine the efficacy

of mandating the use of XBRL² by local governments.³ Presently, Florida governments submit their audited financial reports in electronic form to the auditor general within a specified time period. Those governments that do not have an audit performed submit “balance sheet information” determined to be sufficient upon consultation with the auditor general. The new law calls for Florida’s chief financial officer to determine by December 31, 2021, whether a suitable XBRL taxonomy has been developed, and, if so, to require submission of local government financial statements for fiscal years ending on or after September 1, 2022, be submitted in XBRL format.⁴

Although Florida’s proposed mandate may conclude that condensed financial information is sufficient, numerous opinion pieces and articles have been written on the likely benefits of all state and local governments publishing complete comprehensive annual financial reports (CAFRs) using XBRL,⁵ encouraging the expansion of mandatory XBRL reporting.⁶

On July 26, 2018, an organization called XBRL US, a national consortium for the business-reporting standard, announced the formation of the State and Local Government Disclosure Modernization Working Group. The group is “focused on using standards to improve the efficiency of data collection and analysis concerning the financial performance of governmental entities,” and its “efforts will improve government financial transparency, enhance the efficiency of the municipal bond market, and aid efforts to streamline a variety of regulatory reporting including grant reporting.”⁷ The members of this working group are drawn

heavily from companies that create and sell software used to develop XBRL reports, as well as from academia and from think tanks such as the Reason Foundation and Truth in Accounting. A few organizations, including GFOA, have been asked to observe the working group, but they have not endorsed its activities, and few preparers of governmental financial statements have been involved.

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GFOA’s *Website Posting of Financial Documents* best practice (available at gfoa.org) recommends that “governments should monitor developments in standardized electronic financial reporting.”⁸ At some point in the future, many governments will almost undoubtedly find the benefits of machine-readable financial information publication well worth the time and expense required, especially since those costs generally diminish over time as the technology improves and becomes standardized and affordable. But given the complexity and variety of governmental financial statements, as well as the vastly differing levels of resources and access to in-house or contracted financial reporting and technical expertise of governmental entities, mandating the use of specific technologies — and undeveloped ones at that — could be a tremendous disservice to taxpayers,

who will bear the expense for benefits that appear to be prematurely and highly over-promised. ■

Notes

1. The term “taxonomy,” as used with regard to XBRL, refers to a collection of reusable, authoritative definitions that can be used to label or tag data so the exact content can be identified by a computer; see “An Introduction to XBRL: An Introduction to SBRL for Business and Accounting Professionals,” XBRL website (xbrl.org/the-standard/what/an-introduction-to-xbrl/). A taxonomy also permits the definition of relationships among one or more pieces of data (such as details to subtotals and totals) and, because it is standardized, permits automated calculations and comparisons of data within and between reporting entities.
2. See xbrl.org for a primer on XBRL.
3. Florida Statutes Title XIV, Chapter 218, Part III, section 218.32 (1) (h).
4. Ibid.
5. In fact, some articles have mistakenly reported that the legislation actually requires that Florida’s local governments prepare XBRL CAFRs; see Marc Joffe, “Why the Muni Market Should Embrace Florida’s Digital Data Revolution,” *Bond Buyer*, April 26, 2018; Guru Raj Singh, “Florida Leads the Way on Digital Data Reporting,” *DataTracks*, September 7, 2018; and Marc Joffe and Spence Purnell, “Florida Passes First in the Nation Data Reporting Standards to Improve Local Government Financial Transparency,” Reason Foundation, March 27, 2018 (reason.org).
6. Florida Statutes Title XIV; Marc Joffe, Spence Purnell and Sal Nuzzo, Another Viewpoint: Florida takes lead in local government financial transparency, *Herald-Tribune*, April 13, 2018, and Marc Joffe and William Glasgall, “Why the Muni Market Should Embrace Florida’s Digital Data Revolution,” *The Volker Alliance*, April 26, 2018 (www.volckeralliance.org).
7. “XBRL US Forms State and Local Government Disclosure Modernization Working Group,” XLRB US press release, July 26, 2018 (businesswire.com).
8. *Website Posting of Financial Documents*, GFOA best practices (gfoa.org).

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