

"Sunlight is said to be the best of disinfectants."

— Justice Louis D. Brandeis

A Guide to Online Financial Transparency

BY MARK MACK

GFOA'S FINANCIAL TRANSPARENCY INITIATIVE

Recognizing the crucial need for government financial transparency, GFOA has undertaken a major project to make that goal feasible for state and local governments. We have worked to define what transparency means in every area of government finance, in a report that's now available at gfoa.org/transparency. We also surveyed more than 400 municipal government organizations about their use of online platforms for financial transparency, resulting in two reports: a collection of case studies that highlight ways in which governments are incorporating financial transparency; and a summary of the survey data.

All three reports are available at gfoa.org/transparency.

Online transparency is an evolving practice that can be understood in different ways. Many states and larger local governments have adopted open data initiatives, posting large datasets online for use by other governments, non-profit organizations, private-sector firms, the press, and the public. Others focus on overall government transparency, posting documents such as budgets, audits, or contracts, granting online access to meetings, making it easier to provide comments and interact with government officials.

Fiscal transparency is particularly important because financial resources affect all other aspects of government administration. Financial transparency is not one or more individual actions but a framework that encompasses the information a government shares, the actions it takes, and the culture it adopts. Its key components are:

- Sharing data that tell a story.
- Sharing data proactively.
- Being honest and fair in the way data are shared.
- Taking a neutral stance rather than advocating any position or agenda.
- Fostering trust and financial sustainability.
- Providing current, timely data.

- Curating data.
- Making sure data are contextually accurate.
- Promoting accountability.
- Fostering a culture of openness.

THE PATH TO TRANSPARENCY

The most common catalyst for financial transparency is probably a general desire to demonstrate efficiency and effectiveness in government administration, and to build trust. Most governments want to show the public that government is both good and the best approach to managing shared resources. Many governments look to online financial transparency as a way to educate the public about what government does and how it arrives at the decisions it makes. Other motivations include the desire to improve public service and accountability, and to maintain or improve professional ethics. Governments that concentrate on financial transparency report improved legitimacy and support, and general improvements in their organization's reputation. General public sentiment is another strong catalyst for increased financial transparency — after studying what people wanted, a number of governments found that online financial transparency was the best way to achieve it.

The point of transparency is to make financial data — including revenues, expenses, budgets, debt, and investments, as well as strategic initiatives that may have financial implications — available in a manner that is both timely and relevant to users, helping them understand the government's allocation of finance resources. Governments share financial data in a

way that provides context and financial data that allow users to define the information they would like to discover and then interact with that information in different ways. In this way, the financial data are used to tell a story — stakeholders aren't left to sort through an enormous pile of undifferentiated data on their own.

Online financial transparency can also be understood as the actions that help governments share fiscal information such as revenues and expenses in ways that allow both

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finance professionals and average citizens to use them, improving overall confidence and trust in government.¹ Financial data that are shared online can also be supported offline via traditional budget hearings, citizen engagement meetings, town halls, and other in-person interactions. The finance department doesn't always have all the data needed (e.g., KPIs for the number of roads paved), so if information is stuck in silos, this will need to be addressed.

The best way to look at online financial transparency is through the lens of the audience. Governments need to think about what an interested resident or other stakeholder would want — and need — to know in order to understand the organization's financial condition, revenues, costs, budget, and future plans, in both the short term and long term, and let this understanding guide the effort. If the government doesn't have this knowledge, it should seek feedback from the target audiences (e.g., citizens, rating agencies, media outlets).

Many states and larger local governments have adopted open data initiatives that post large datasets online for use by other governments, non-profit organizations, private-sector firms, the press, and the public. Others focus on making existing documents and information available, including budgets, audits, and contracts. Still others have developed online portals that provide a public-oriented view, including information about government programs, their costs, and the services and benefits they provide, all in an easy-to-understand format that often includes interactive charts and graphs.

The data elements included in an online financial transparency platform and the design of the platform both have significant impacts on the user's experience. They have a direct effect on whether the platform informs, educates, and/or engages the users.

Communities often have existing channels of engagement with citizens, brokers, and other stakeholders, and engaging these partners is typically the best way to learn what potential external users want to learn from the government's transparency website. Partners can also be a great resource

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for complementary data that may be needed to provide context. In large governments, these partnerships may take the form of other government entities.

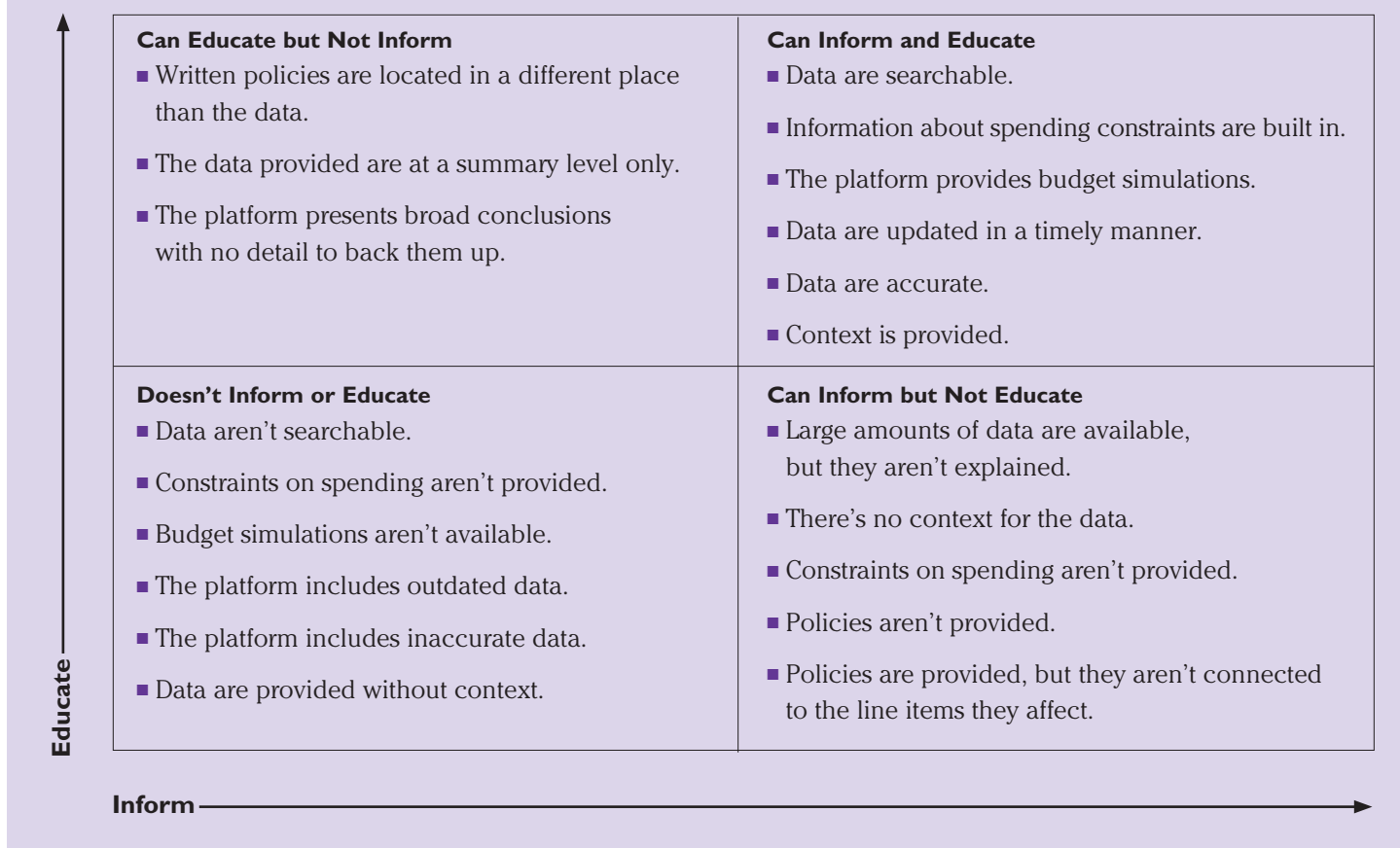
Users within the organization are also an important part of this effort. Governments should work to cultivate a culture of openness within the organization. This may require addressing the fears of some staff members of sharing their data throughout the organization and online. Even a brief, standard explanation about online financial transparency — an “elevator speech” — can help reduce this initial fear.

TRANSPARENCY AND CITIZEN ENGAGEMENT

Governments often think of transparency as being separate from citizen engagement — this is reflected in the fact that there are many norms and standards for financial reporting, disclosure, and fiscal openness, but none for ways in which stakeholders might engage with this information. Public reporting requirements such as comprehensive annual financial reports (CAFRs), audit requirements, and debt disclosures are well-established components of a government's responsibilities. In a GFOA survey of more than 400 municipal governments, 100 percent of respondents said they share their financial information with the public, and many of these entities probably don't even think of this as financial transparency; instead, it's probably considered a purchasing- or capital planning-related activity. And that's true, but at its core, reporting is about financial transparency. The difference between CAFRS, etc., and the latest budget transparency platform is simply the channel of communication.

Long-term, two-way communication that propagates citizen engagement is a critical aspect of sustainability. The systems governments establish to help exchange information with the public allow government to educate citizens, media, rating agencies, and other stakeholders, while also allowing them to provide direct feedback to government in ways other than voting. Two-way communication also provides much more specific feedback than election results because users can directly identify their areas of concern or interest. When both

Exhibit I: The Connection between a Government's Online Financial Transparency Platform and Its Value to Users



long-term and two-way communication are in place, trust and confidence in a government and its financial stewardship improve exponentially.

Many users of transparency platforms report frustration about the lack of context for data, which makes the information difficult to use and can even give the wrong impression. Users usually want to know why a government has done specific things (e.g., spent at least 5 percent of its budget on road construction each year). Transparency platforms are increasingly able to provide that kind of context and meaning. Governments can curate, or specifically tailor, data to the interest and needs of users,

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improving the ability of transparency platforms to educate stakeholders. This can be accomplished by listening to the users of the governments' platforms and refining offerings (e.g., data sets, capital projects plans) to reflect users' preferences.

For users who aren't accustomed to interpreting finance information, some data can appear to conflict with other data (e.g., cash versus the accrual basis of accounting). Clarity must be provided to avoid such misunderstandings. Governments should also explain complex topics such as the way pensions and other postemployment benefits obligations affect the current year's expenditures.

Tips for Making Data Easy to Understand

To engage citizens, governments need to make their data easy to understand. This includes making sure the information:

- **Is Easily Digestible.** Users should be able to understand and make use of the data, regardless of their understanding of government finance.
- **Can Be Translated.** Data should be translatable to be of use when users are trying to answer a specific question.
- **Includes Meaningful Analysis.** This requires the government to understand what kind of information users want.
- **Is Connected to Services.** Users may not always understand accounts, funds, and funding structures, but they do typically understand major services and services provided by the government. As much as possible, data should be tied back to major service categories. For example, data could be tied to a major CAFR program category such as public safety, economic development, or conservation.
- **Explains Policies in the Right Places.** If the government faces policy constraints, rules, earmarks, or mandates that limit the ways in which it can use funds, this information should be presented in a way that ties the constraint to the money. For example, if 20 percent of all general fund spending is earmarked for public safety, the government might embed a notice explaining the policy along with a hyperlink within the section of the platform that addresses public safety. This is clearer than a notice on the home page under a “policies” header.
- **Includes Actual and Projected Data.** Projections are educated guesses, but they can provide context about the government’s assumptions — what it expects will happen — and should therefore be included where possible.

INFORMATION AND EDUCATION

Online financial transparency is complicated, so it makes sense that governments sometimes want to start out by simply informing users via some limited set of financial data —

posting the current year’s operating budget, for example. But while the public will find this information useful, it’s merely a data dump if the platform doesn’t also provide budgets for the past 3 to 5 years, or if the additional information is housed in a different place on the website. Without context, it is difficult to evaluate the merits of the current year’s budget, and time-based analysis is not the only consideration. Data comparing the budget to actual spending throughout the year (at least quarterly) for the current year and prior budgets will give users a better understanding of the government’s resource allocation strategy in both approach and execution.

There are two primary components of online financial transparency platforms: the platform’s ability to inform users and to educate them. Nearly all local governments do some version of informing their citizens online, but few provide the depth of information (i.e., detailed data) or context needed to truly educate users. Most fell somewhere between static, high-level generic information and dynamic, drillable, searchable, up-to-date data with context embedded. Exhibit 1 illustrates this spectrum.

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SURVEY RESULTS

GFOA surveyed more than 400 municipal government organizations about their use of online platforms for financial transparency. The information provided below highlights some key takeaways.

- While approximately 75 percent of governments share their debt-related information on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system, only 50 percent post debt-related info to their own organization’s website. This speaks to the importance of data placement. Having to go to multiple places for data is often a barrier, and it can even make users think the organization has something to hide.

Tips for Improving Financial Transparency

The following recommendations are based on GFOA's transparency research.

- Online financial transparency platforms should be interactive, making use of simulations, surveys, and other feedback mechanisms that can enable two-way communication between users and the government.
- Governments should encourage stakeholders to participate because this feedback helps ensure that taxpayer money is allocated in ways that align with the community's needs and wishes. This can be accomplished by integrating online transparency with in-person interviews, public meetings, and other offline channels.
- Context is essential, but to promote ongoing engagement, it has to be presented in a way that's easily understood — users need additional information about the data to help provide meaning. For example, seeing the average salary of a fire chief in users' state may help them contextualize the salary of their city's fire chief.
- Details help tell the story. While summary-level data is ideal for most users, the details behind those summary-level conclusions will often be what provides

the context. To be effective, platforms should connect summary-level financial data (i.e. total capital budget for the year) to detailed data (i.e. capital budget for parks in neighborhoods where the median income is less than \$30,000 annually). This will provide some users a quick path to high-level information while giving others access to more granular, supporting detail.

- When building simulations and feedback mechanisms, governments should control the options that are available to users in a way that provides feedback the organization can use (e.g., if 20 percent of the operating budget must be spent on road construction, that should be built into all possible budgets within the simulation).
- Financial transparency websites should be designed as simply as possible. This can increase usage and users' understanding of the data.
- Financial transparency websites should be flexible. Given internal and external changes (e.g., social, economic, political, demographic), a flexible format allows a government to adapt information like data sets or rules in a budget simulation to the specific needs of the community.

Additionally, most non-finance professionals are not even aware of EMMA or how to access and use the website.

- Nearly 45 percent of respondents do not post salary-related information on their websites. Since 70 percent of all local government costs are related to personnel, these data are important to an understanding of government spending. Also, of governments that do share salary-related data, fewer than 10 percent provide any contextual information.
- Only 20 percent of respondents reported having enough flexibility, accuracy, and timely data on their online financial transparency sites to make the platform useful

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for internal staff and elected officials; it's easier to send an internal request form data (i.e., calling the finance office).

The full listing of survey questions and responses are available at gfoa.org/transparency, along with our report detailing financial transparency and a collection of case studies. ■

Note

1. Shayne Kavanagh, "Transparency: A Means to Improving Citizen Trust in Government," GFOA, 2017.

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