Government Form Matters – A Study of Louisiana Parishes

Roderick Burl Posey
Alabama A&M University

Research has shown that county governments have a greater level of audit findings than municipal governments. A prevailing theory is that the organization of county governments is one of the causes of the lower implementation of accounting standards. To date, the literature does not include a study of the implementation of accounting standards by diversely organized county governments within the same state. This study looks at extent of the implementation of accounting standards by Louisiana parish governments. We find that a parish's governing form does have an influence on the level of implementation of accounting standards.

INTRODUCTION AND LITERATURE REVIEW

Martens and Stevens (1994) have shown that standards are often 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) noted that county governments have significantly more material internal control weaknesses than municipal governments. Jakubowski theorized that the organization of county governments made 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 implementing the change. As per agency theory (Jensen and Meckling, 1976), government managers 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.

While the GASB (2014) establishes accounting standards for governmental entities, it does not have enforcement authority. Compliance with GASB's standards is enforced through the laws of individual states and the opinions of auditors. Posey and Thompson (2014) examined county governments in Florida, Mississippi, and Tennessee. They found that county government managers were more likely to correctly implement a standard when the laws of the state made a single elected governmental officer responsible for the financial statements. However, laws and governmental norms vary across states. For example, the environment a supervisor in Mississippi operates under differs from that of a government officer in Florida. As yet, the literature does not include a study of the implementation of an accounting standard by county governments within a single state that allows for diverse county governing types. The current study fills that void in the literature by examining the implementation of an accounting standard within the various parishes of Louisiana.

When a parish-wide decision was made by a board, responsibility for that decision was shared. Having shared responsibility for a decision may have mitigated the personal cost a commission member had for the decision. When a single government manager could be held responsible for decisions on financial reporting, the decision was not shared and the costs of that decision were not shared. For example, a decision not to incur the cost to include all capital assets in the financial statements may have resulted in a negative opinion from the auditor. However, when a group of government managers were jointly responsible for the decision, it was more difficult for voters and others to hold any one individual responsible for the decision that resulted in a negative opinion. When one officer could be held responsible for the decision, the single parish manager must bear the complete cost of the decision that resulted in a negative opinion, including the cost that a potential future political opponent may use the negative opinion to gain votes in a future election.

DATA COLLECTION AND ANALYSIS

The 2011 CAFRs of the 64 parish governments of Louisiana were collected from the Louisiana Office of Legislative Auditor website (http://www.lla.la.gov). The breakdown of parish governing-types is in Table 1 below. Forty-one (41) parishes were governed by an elected board (called Police Jury). Eighteen (18) parishes were governed by council-president. One (1) parish had a council-manager form of government, and the remaining four (4) parishes had a consolidated city-parish form of government.

TABLE 1
GOVERNING-TYPE

Form of Government	Number of Parishes
Police Jury	41
Council-President	18
Council-Manager	1
Consolidated City-Parish	4
Total	64

We examined the audit reports of the 64 parishes. Opinion types were divided into clean (unqualified opinion) and nonclean (qualified or adverse opinions). The primary reason for a nonclean opinion was a failure to implement one or more GASB standards. Because of the small number of Council-Manager (1) and Consolidated City-Parish (4) form of governments, these types are combined in the Table 2 below, which shows the opinion received for the different types of government form:

TABLE 2
PARISH GOVERNMENT AND AUDIT RESULTS

	Clean	Nonclean	Total
Police Jury	4	37	41
Council-President	11	7	18
Other	5	0	5
Total	20	44	64

Table 2 indicates that the majority of the parish managers in the Police Jury governmental forms were not completely implementing GASB standards. The majority of the parish managers in the other government forms were correctly following GASB. Tables 3 and 4 are a horizontal and vertical analysis of the audit results by parish.

TABLE 3
RESULTS ACROSS GOVERNING-TYPES

	Clean	Nonclean
Police Jury	20%	84%
Council-President	55%	16%
Other	25%	0%
Total	100%	100%

Table 3 shows that 84% of the nonclean opinions issued to parishes in Louisiana were to parishes with a Police Jury (board) form of government. The remaining 16% were issued to parishes with a Council-President form of government. The parishes with Police Jury form of government had 20% of the clean opinions issued while making up 64% of the parishes in the state.

TABLE 4
RESULTS ACROSS TYPE OF AUDIT OPINION

	Clean	Nonclean	Total
Police Jury	10%	90%	100%
Council-President	61%	39%	100%
Other	100%	0%	100%

Table 4 shows that only 10% of the parishes with a Police Jury government had an unqualified (clean) opinion. In contrast, 61% of parishes with a Council-President government had a clean opinion and 100% of the Other governing forms had a clean opinion.

TABLE 5
TEST OF SIGNIFICANCE

Test	Level of Significance
Chi-square	.0001
Fisher Exact	.0001

For these 2011 results, both the chi-square and the Fisher Exact test of significance showed that there is a statistically significant difference (.01-level) between the forms of government relative to the type of audit opinion received.

Examining the results in greater detail revealed that all but one of the nonclean opinions was an adverse opinion because the parish failed to include component units in the CAFR. One parish had a qualified opinion because component units were included but the information was not audited. The inclusion of component units in the CAFR is an additional cost on governments imposed by GASB 34. It seems that several governments with a governing board determined that the additional benefits of implementing this portion of the standard were not worth the additional costs. However, the majority of government managers with a chief executive officer made a different decision. These managers apparently concluded that the benefits (including the benefit of not giving a potential opposing candidate an issue because the parish had a negative opinion) of including components units in the financial statements was worth the additional costs.

CONCLUSIONS

This study examined the implementation of accounting standards by parishes in Louisiana. We found that governments organized as a commission were significantly more likely to have negative opinions on their financial statements because of failure to implement accounting standards than governments with a chief executive-board form of government. This study contributes to the literature by demonstrating that the governing form of a parish had an influence on the implementation of accounting standards. A form of government that allows several individuals to share the cost of non-implementation was more likely to result in a parish that did not fully follow the standards. When the governing form allowed voters to hold one individual responsible for the non-implementation of GAAP, parishes were more likely to fully implement accounting standards.

REFERENCES

Baber, W. R. and Gore, A. K. (2008). Consequences of GAAP Disclosure Regulation: Evidence from Municipal Debt Issues. *The Accounting Review,* Vol. 83, No. 3, pp. 565-591.

GASB (2014). GASB at a Glance, http://www.gasb.org accessed July 18, 2014.

Jakubowski, S. T. (1995). Reporting on the Internal Control Structures of Local Government under the Single Audit Act of 1984. *Public Budgeting & Finance*, Vol. 15 (1), pp. 58-71.

Jensen, M. C. and Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, Vol. 3(4), pp. 305-360.

Martens, S. C. and Stevens, K. T. (1994). The FASB’s Cost/Benefit Constraint in Theory and Practice. *Journal of Business Ethics,* Vol. 13, pp.171-179.

Posey, R. B. & Thompson, F. (2014). Ignoring the Standards: A Study of County Governments. *Journal of Business, Industry and Economics*. Vol. 19 (Spring). Retrieved from http://www.buildingthepride.com/jobie/ .