



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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April 30, 2013

Financial Accounting Foundation
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Subject: GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process

To Whom It May Concern:

On behalf of the Washington State Office of Financial Management (OFM), I am pleased to offer the following comments on the Financial Accounting Foundation's (FAF) request for comment on *GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process*. OFM serves as the state's controller, issuing all state accounting and reporting policies as well as the state's Comprehensive Annual Financial Report (CAFR), for which we have received the GFOA Certificate of Excellence every year since 1987.

OFM acknowledges the GASB as the appropriate organization to set standards for state and local government basic financial reporting. We wholeheartedly agree that the GASB has contributed to the quality of financial reporting and been a leader in promoting financial management, transparency and accountability. We also agree that the proposed changes to the agenda-setting process are needed. We believe now is a good time to pause and consider the dimensions of accountability and come to a shared understanding of the GASB's scope of authority in accountability reporting. And that shared understanding of GASB's scope of authority should also extend to other issues including the sheer number and complexity of new standards, the cost versus benefit of each new standard, and the effect of each new standard on the size and timeliness of the CAFR.

Over the past 12 years, the GASB has been very active setting reporting standards. Over 30 new standards have been issued, a number of which have required significant resources to implement including Statements 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. We are currently addressing the implementation of the new pension standards and with 13 defined benefit and 4 defined contribution plans that have nearly 5,000 employer participants, we are facing a major work effort. While our high number of plans and employers is not the fault of the GASB, it is our reality and does create implementation challenges just as our 200 plus special revenue funds made implementation of Statement 54 a heavy lift.

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Increased governmental financial reporting requirements have caused our CAFR to grow from 202 pages in fiscal year 2001 to 290 pages in fiscal year 2012, including 98 pages of note disclosures. In comparison, the annual financial report of the Boeing Company, a multinational corporation was 144 pages in length including 55 pages of notes. We understand the fundamental differences between governmental and private sector reporting objectives, but considering that Boeing reported assets of \$89 billion compared to the state's government-wide assets of \$76 billion, we question whether twice as many pages doubles the value of our CAFR to readers. In addition to the size of the CAFR, its growing complexity is also of concern to us. One of the basic reasons that fund statement reporting was supplemented with government-wide reporting was so that readers of government financial reports would find "annual reports more comprehensive and easier to understand and use" (Preface to Statement 34). But recently the GASB elected to examine and refine the definitions of basic financial statement elements including assets and liabilities. That effort resulted in the new financial statement elements of deferred inflows and outflows. We weren't alone in our disagreement that this fundamental departure from the reporting structure generally accepted everywhere else in the world would make the CAFR easier to understand and use. Nevertheless, we are now required to report deferred inflows and outflows and are not looking forward to explaining them.

In light of shrinking resources, we have been urging the GASB to consider the cost/benefit of proposed new standards and make this work transparent. While we note that one of the GASB's potential project assessment criteria is cost/benefit, we do not have any insight into how benefits and "perceived" costs are identified, assessed and weighted. Resource constraints are very real for most governments as demonstrated through budget reductions and staffing cuts. Funding priorities are programmatic in nature, i.e. social services, education, rather than administrative. It is not that we do not agree that the intent of new standards is to promote accountability and transparency or argue that accountability and transparency are not admirable goals, the issue is that there is a limit as to how much we can afford. We feel this very real constraint and our perception is that the GASB is focused on the benefits and downplaying the costs.

Finally, we are among those questioning if the bulk and complexity of the CAFR has decreased its timeliness and limited its usefulness to only the most sophisticated user. The CAFR cannot be expected to be all things to all people and the more we try to make it be, the longer it takes to produce. One of the main criticisms of governmental financial reporting is its lack of timeliness. The Municipal Securities Rulemaking Board has set a voluntary guideline that financial reports be available 120 days after year end. The recent Securities and Exchange Commission (SEC) report on the municipal securities market recommended that the SEC set requirements for content and timing of governmental financial reporting. The financial community is clearly interested in more timely reporting and most governments will not be able to meet earlier reporting deadlines in the ever increasing reporting standards environment. Governments need standards that create a framework for both meaningful and timely financial reporting.

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We value the role that the GASB plays in setting reporting standards and appreciate the FAF's interest in clarifying the GASB's scope of authority. As pointed out by the *Independent Academic Study of the Scope of the GASB*, there is a wide spectrum in how accountability is defined and the degree to which financial reporting plays a role. The GASB's current position is just one view. We would like to see a dialog that leads to the development of a shared understanding of GASB's scope of authority in accountability reporting. Defining groups 1, 2, and 3 and modifying the agenda-setting process based on the groups will also go a long way in clarifying the GASB's scope of authority. However, we reiterate our view that issues within group 1, namely the number and complexity of new standards, cost versus benefit of each new standard, and the size, timeliness, and usefulness of the CAFR are also critical and need to be addressed.

Sincerely,

/s/ Wendy Jarrett, Assistant Director
Accounting Division