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CONTACT INFORMATION

Headquarters Office
449 Lewis Hargett Circle
Suite 290
Lexington, KY 40503-3590
(859) 276-1147
Fax (859) 278-0507

Washington Office
444 N. Capitol Street, NW
Suite 234
Washington, DC 20001
(202) 624-5451
Fax (202) 624-5473

www.nasact.org

May 7, 2013

Terri S. Polley
President and Chief Executive Officer
Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856

RE: GASB Agenda Setting

Dear Ms. Polley:

We appreciate the Financial Accounting Foundation's request for input on *GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process*. We also appreciate the FAF's commitment to seeking stakeholder input on the standard-setting process of the Governmental Accounting Standards Board. The result of this process should be the development of generally accepted accounting principles which meet with "general acceptance" by the governmental financial community. We acknowledge and agree that the FAF has oversight responsibilities over both the Financial Accounting Standards Board and the GASB.

We have long supported GASB's role as the governmental financial accounting and reporting standards setter. Since GASB's inception in 1984, there is little doubt that GASB has added great value to the quality of financial reporting for state and local governments and has been a leader in promoting effective financial management, transparency, and accountability. We also believe that GASB's due process is rigorous and deliberative, and we hold the due process in high regard.

In our opinion, there have been very few projects where scope has been called into question during GASB's existence. Most would agree that there have been two projects that some constituent groups believe were outside of GASB's scope: Service Efforts and Accomplishments and Economic Condition Reporting: Financial Projections. After issuing approximately 70 standards since 1984, this is a good track record and represents a minor level of dissatisfaction with GASB's due process.

Based on this solid track record, there was not clear consensus among NASACT's members for the need to change the GASB's agenda-setting process. The trustees are respected individuals in their fields, and they select GASB members with strong backgrounds in government as well as the needed skills, temperament and commitment to deliberate and establish standards through an extensive due process. We believe the recent decision by the FAF to include all members of the GASB in the agenda-setting process was a significant improvement. In addition, we believe the GASAC continues to play an important role in the agenda-setting process by providing an opportunity for interactive dialogue with the GASB members and its key constituent groups.

However, should the FAF decide to move forward with its proposed change to the GASB standard-setting process, we believe one **significant** modification should be made. We believe

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the three FAF government trustees should play a more prominent role since GASB's agenda is the subject of this proposed process. We urge that the FAF adopt a process similar to that used by the Appointments and Evaluations Committee when selecting a GASB board member. That is, we believe that all three government trustees should either serve on the Standard Setting Oversight Committee or serve ex-officio in those cases where a GASB agenda item is under consideration. Additionally, similar to chapter A, article I-A, section 8 of the FAF bylaws, the Standard Setting Oversight Committee should not make a recommendation to the trustees about a GASB scope issue unless at least two of the three government trustees agree with the recommendation. This important modification will ensure that the decision is reached by individuals having the requisite experience and knowledge of governmental accounting issues to ensure a judicious review of whether potential projects are categorized in their appropriate groups.

In the section that follows, we offer additional suggestions for consideration should the FAF decide to move forward with the proposal. We hope that our comments assist the FAF in its efforts to ensure an effective GASB agenda-setting process. Should you have any questions, please contact me at (617) 973-2315 or Kinney Poynter, NASACT's executive director, at (859) 276-1147.

Respectfully,

A handwritten signature in cursive script that reads "Martin J. Benison". The signature is written in black ink and is positioned to the right of the word "Respectfully,".

Martin J. Benison
President

GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process

Additional Comments

Oversight Committee review and the trustee approval process should be better defined and more transparent.

We believe one of the keys to whether these proposed process changes will be successful is for the final decisions to be transparent, reflecting whether stakeholder input supported the decision, the process undertaken, and the basis or reasons for the decision that was made. Especially for broader financial information projects, there can be disagreements among various stakeholders—from preparers to the various user types. A transparent and judicious process can ensure that even if all stakeholders are not happy with the outcome, those stakeholders know that a fair decision was reached.

To help achieve a transparent and judicious project approval process, we recommend more explicit requirements for certain points in the proposed process concerning the Oversight Committee's involvement and decisions, and certain points in the process concerning the trustees' final determinations about whether projects are within GASB's jurisdiction.

We believe that the Oversight Committee's process during its "normal" review of changes to the GASB's research and technical agenda should be more explicit. The proposal states that this normal review will include a review of group classifications. To make this more explicit, we recommend, for example, that the Oversight Committee have the explicit authority to recommend that a project be moved from Group 1 to Group 2, or Group 2 to Group 3, if a majority of its members (including a minimum of two government trustees) determine it to be better defined at a different group level and a majority of the trustees agree. This would help accomplish the goal of having the committee assess a project to be in scope early in the agenda-setting process. In addition, during the expanded steps for Group 2 projects, we recommend that the Oversight Committee be able to determine and make specific recommendations to the trustees and communicate their recommendations and basis for them to stakeholders on a timely basis. Likewise, we recommend the process clearly indicate that a majority vote of trustees is necessary to make a final determination about whether projects are within GASB's jurisdiction, and information supporting those decisions should be made publicly available to stakeholders.

Also, on page 7 under Group 2 (#2) and page 8 under Group 2 (step 3 #2ai), we believe the proposal needs to clarify whether the "additional stakeholder input" is to be obtained from original respondents or parties outside the original responding group.

Financial information included within the scope of the GASB's project groups should be better defined.

We believe it is important for the Oversight Committee members to have clear guidelines and criteria to help determine whether a project is inside or outside GASB's jurisdiction. The descriptions and example guidelines within the Group 2 project spectrum, including items 4 through 7 in the table on page 4 of the proposal, provide only short descriptions and very brief issued guideline examples. In some cases, the examples given for some categories only make this spectrum of financial information more confusing. Indeed, one of the categories includes an example, "financial projections," under required supplementary information. It isn't clear whether this may be referencing the proposed Economic Condition Reporting: Financial Projections standard, or some other financial projections. If it is the controversial current proposed economic condition project, which is currently only through the preliminary views phase, it is the

most notable example of a project that we believe should not move forward, and the group in which it belongs is subject to much debate. We are concerned that the proposed process descriptions would include such a controversial project. We believe that if these categories of financial information are to provide clear and transparent guidelines and examples to help the Oversight Committee and stakeholders evaluate whether a potential project is within GASB's jurisdiction, these categories should be revised and expanded to clearly define and provide appropriate examples.

We believe that for Group 2 information, covered in items 4 through 7 on page 4, GASB must demonstrate how the information to be included in the notes to basic financial statements and Required Supplementary Information (RSI) are essential for understanding or placing into context the amounts presented in the basic financial statements. If this cannot be demonstrated, we believe the information falls within Group 3 and thus outside of GASB's jurisdiction. Therefore, GASB would have to document why/how items not clearly in Group 1 are within its scope, mission, and/or jurisdiction.

We are also concerned that the table on page 4 of the proposal titled "Information Within the Scope of the GASB Standards (and Guidelines) Issued to Date" does not accurately reflect the nature of current governmental financial reporting. For example, items 4 through 7 in that table are referenced in the "Proposed Changes" on page 6 as residing in Group 2, tentatively subject to FAF approval. While the individual examples in two of these four categories may be perceived as outside GASB's scope (SEA and financial projections), the two other examples – capital asset condition information and service capacity information – have been clearly accepted without significant dissent as generally accepted presentations in RSI (modified method for infrastructure reporting) and in the Statistical Section (GASB No. 44 – Economic Condition Reporting). We believe it would be an inefficient and potentially ineffective use of the FAF's resources to assess matters that may successfully be adopted as generally accepted without controversy.

In addition, the table intends to indicate a range from narrow to broad scope, but the header categories in items 4 through 7 (Notes, RSI, Supplementary Information, and Other General Purpose Financial Reports) do not align with that continuum. For example, combining statements and schedules are included in supplementary information (which is shown near the broad scope end of the continuum) in governments' CAFRs. Even those who believe GASB has on occasion exceeded its scope would not consider these combining statements and schedules in any way beyond GASB's scope of authority.

We believe this to be at the heart of the issues creating the need for these process revisions, and we continue to strongly believe GASB's efforts should primarily focus on important financial accounting and reporting projects that will help preparers and auditors of financial reports issue useful, complete, and transparent financial reports within a time frame that allows users to receive current information. We also continue to believe that GASB should not extend its scope into other nonfinancial accounting and reporting areas that are appropriate for purposes outside of GASB's purview, such as those regulated by state and local laws, regulations, and the action of managing a government's financial affairs, including fiscal sustainability and future financial projection activities. It is imperative that the process and categories related to determining project status have clear, descriptive, and appropriate guidelines.

Proposed process should be streamlined and redundancies eliminated.

The proposed changes to GASB's agenda-setting process appear to contain some duplications or redundancy. Namely, step 4b (Appendix A) calls for outreach with stakeholders. Step 4e states the Oversight Committee may obtain additional input. Step 11b states the Oversight Committee decides whether to repeat Steps 4e through 4h. We question the need to solicit input from stakeholders three

times to determine whether an issue is within GASB's scope. This could result in significant time for stakeholders in providing input to the Oversight Committee on a single issue.

Cost/benefit of proposed standards should be emphasized.

On page 7 under Group 2 (#1a), we are concerned that "need" ("...need for issuing guidance on the issue.") is too low of a threshold and too subjective for developing a project proposal. We suggest that the project proposal explicitly demonstrate how the financial accounting and reporting objectives of Concept Statement 1 are met (including cost/benefit) as a way to add some objectivity to the "need" attribute.

In light of shrinking resources, consideration of the cost/benefit of proposed new standards should be emphasized, and this analysis should be more 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 actual or 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, etc.) rather than administrative. While we agree that new standards should promote accountability and transparency, there is a limit to how much state and local governments can afford when the effort outweighs any benefit. This is a very real constraint, and we believe it must be weighed heavily in placing new items on the GASB's agenda.