



COMMONWEALTH of VIRGINIA

Auditor of Public Accounts

WALTER J. KUCHARSKI
AUDITOR

POST OFFICE BOX 1295
RICHMOND, VIRGINIA 23218
(804) 225-3350

March 15, 2012

Director of Research and Technical Activities
Project No. 13-3
director@gasb.org

To Whom It May Concern,

We appreciate the opportunity to respond to the preliminary views of the Governmental Accounting Standards Board on major issues related to Economic Condition Reporting: Financial Projections. Overall, we have concerns with the Board's proposal for economic condition reporting and generally agree with the concerns expressed in the "Alternative View" section including the cost-benefit for governmental entities of providing the information and the impact on timeliness of financial reporting. We also believe that all of the information necessary to make an informed decision about a government unit's economic condition currently exists in the Comprehensive Annual Financial Report.

We have included below some additional concerns surrounding the underlying concepts and lack of an evaluation component in the preliminary views.

Conceptual Concerns

We believe that the preliminary views document contains two concept flaws. The first concept flaw occurs with the assumptions that appear to underlie "service commitment" or "current service commitment". This concept assumes some basic level of service, service delivery or agreement that today's services are the consensus of both the executive and legislative branches of government with the public. Further, it assumes that since this is the basic level of service, that no changes will occur over the period of the projections.

Current general economic conditions have shown that all services are subject to change. Services such as law enforcement, fire protection, and education have all undergone reductions in funding leading to fewer services. Additionally, governments have also changed the delivery of some services such as transportation, by transferring the service to the private sector without subsidies or allowing tolls or special charges to fund the service delivery.

Historical data projections without anticipated economic changes cannot deal with a government's willingness to change service commitment. Therefore, we believe that the preliminary views consideration of this being a fundamental assumption requires reconsideration by the Board.

Director of Research and Technical Activities
March 15, 2012
Page Two

The second conceptual flaw occurs within the Board's decision in paragraph 32 on page 15. Changes in the composition of the executive and legislative bodies can have a material outcome on the governmental unit's ability and willingness to move forward with meeting financial obligations and service commitments. While financial obligations with external third parties are unlikely to change, those internal financial obligations, such as pension and other obligations, are highly subject to change, including retroactive revisions.

Often changes in the composition of the executive and legislative bodies occurs during the fiscal period, allowing the new executive and legislative bodies the opportunity to alter the delivery of services and willingness to meet financial obligations, if not during the current period then within the next fiscal cycle. As an example, there are November elections that result in a new executive and legislative bodies. These individuals take office in January and can change the government's willingness to meet financial obligations and service commitments in the next fiscal cycle, which starts July 1.

Using historical information and projections would be misleading at best. We believe preparers and auditors would need to deal with these changes in making any type of economic condition forecasting in order for them to be of value to anyone.

Finally, state and local governments' economic condition is part of the overall economic condition of the country within which they reside. The current economic condition of the country will have a lasting effect on state and local governments; however, neither of these governmental units have the expertise to reasonably project their long term condition as proposed in the preliminary views document, without incurring significant costs.

Missing Evaluation Component

We believe the preliminary views document does not address how this information is useful to those in governance and how to measure whether the information is accurate and meaningful. Although we have serious reservations about the conceptual flaws with the preliminary view document, we believe the Board needs to address how the public and those in governance should measure the accuracy and meaningfulness of the information.

The preliminary views document ignores a fundamental measure of the economic conditions reporting usefulness to the government and public. That missing component is whether the government and those in charge of governing use the information.

Much of the information required in the preliminary views is fundamental to the preparation of any governmental unit's budget. If a governmental unit is going to prepare the cash flow projections and other data, we believe that the governmental unit should show how they use the information in the budgeting process.

Key to this disclosure is highlighting differences in amounts, assumptions, policies, and other economic projections used in developing the preliminary view's information and the budget. Even the timeliest issuance of financial statements will occur within the next fiscal year and therefore one would not expect differences within the budget data.

Director of Research and Technical Activities
March 15, 2012
Page Three

Further, a comparison of the projections with actual results will provide both those in governance and the public with a sense of the accuracy and meaningfulness of the information. In order to help achieve this accuracy and meaningfulness, if the Board moves ahead with this form of reporting, we believe that the Board should begin issuing standards of accountability for the preparation and presentation of the budget, in order to achieve comparability.

Conclusion

We believe that economic condition reporting, without evaluation criteria to determine accuracy and meaningfulness, such as a comparison with information used in developing the budget, provides users with data, but not information. Information is the assimilation of data into knowledge that one can use and receive benefit.

The preliminary views document has discussed the creation of data, but lacks the conversion of the data to information. We also believe that the two conceptual flaws are primary drivers for creating very expensive data without achieving meaningful information or knowledge.

Thank you for the opportunity to provide our comments. Should you have any questions or need additional information concerning our response, please contact Staci Henshaw at (804) 225-3350.

Sincerely,



Walter J. Kucharski
Auditor of Public Accounts