March 28, 2016

To Whom It May Concern,

We appreciate the opportunity to respond to the exposure draft of the Proposed Statement of the Governmental Accounting Standards Board (GASB) on Fiduciary Activities. In general, we agree with the Board’s efforts to enhance the consistency and comparability of fiduciary activity reported by state and local governments. We have some comments and suggestions as noted below.

In paragraphs seven and ten of “Identifying Fiduciary Activities,” the Board states a government controls the assets of an activity that are used by the government if the government has the ability to administer or direct the use, exchange, or employment of present service capacity of assets. However, the Board has not specifically defined or explained the term “administer” within the proposed statement. We are specifically concerned about assets where the Commonwealth has limited responsibility. For example, there are assets that the Commonwealth does not have in its custody, nor are they available for its use. The Commonwealth’s only responsibilities include contracting with a custodian and, in some circumstances, limited involvement with selecting investment options. We do not believe the Commonwealth’s responsibilities in these instances constitute manifestations of control. However, depending on the interpretation of the Board’s application of “administer”, this could result in a significant dollar volume of assets, which were previously excluded, being included in the Commonwealth’s financial statements. We anticipate that if this scenario qualifies as “administering” the assets, it may increase our fiduciary net position by at least $52 billion as of June 30, 2015, resulting in a nearly 78 percent increase in the Commonwealth’s fiduciary net position.
Paragraphs B37 through B44 of “Considerations Related to Benefits and Costs” state that the overall objective of financial reporting by state and local governments is to provide information to assist users in assessing the accountability of governments. The inclusion of assets that significantly increase the Commonwealth’s fiduciary net position may be misleading to financial statement users when the assets are not in the government’s custody or available for its use and the government is not responsible for the success or failure of investments chosen by plan participants. Further, because a government may report assets for which it has minimal control and interaction along with assets for which it has significant control and interaction, we believe it would be difficult for financial statement users to understand the nature of the amounts represented.

We agree with your conclusion in paragraph B44 indicating extensive analysis will be necessary in the implementation year to analyze and evaluate numerous fiduciary activities. In the scenario outlined above, we believe there would be substantial costs and efforts involved in obtaining sufficient appropriate audit evidence from service providers and in auditing the resulting required GASB 40 disclosures associated with investments which may be added to the Commonwealth’s statements.

Based on the significant increase to the Commonwealth’s fiduciary net position as outlined above, we believe the proposed statement may mislead users of the financial statements rather than provide a benefit. We believe the Board should further clarify the definition of “administer.” When defining the term, the Board should also consider the related costs if the definition results in additional asset recognition for governments.

We appreciate the efforts of the Governmental Accounting Standards Board and the opportunity to provide our comments. Should you have any questions or need additional information concerning our response, please contact Zach Borgerding or me at (804) 225-3350.

Sincerely,

[Signature]

Martha S. Mavredes
Auditor of Public Accounts