March 7, 2016

David Bean
Director of Research
Project No. 3-13E
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Tennessee Department of Audit, we thank the GASB for the opportunity to comment on its proposed Exposure Draft (ED), Fiduciary Activities. We generally agree with the ED proposals. We agree that this proposed statement would enhance consistency in identifying and reporting fiduciary activities. We also agree with replacing the agency fund type with a custodial fund.

We do, however, believe an inconsistency could develop in practice related to the concept of control, specifically the criterion of “administer or direct the use” as presented in ¶10. Some governments could interpret that contracting with an external vendor to administer a fiduciary activity (e.g., 401k defined contribution plan) and requiring those vendors to change investment options (when not achieving established objectives) creates an ultimate fiduciary responsibility. On the other hand, other governments could view the same responsibilities as not at all creating a fiduciary responsibility requiring financial reporting. In other words, a clarification of ¶10 (b) could better define GASB’s intent.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit