March 6, 2015

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Project No. 3-13P: Proposed Statement of the GASB Financial Reporting for Fiduciary Responsibilities

Dear Mr. Bean:

On behalf of the State of Washington Office of Financial Management (OFM), I am pleased to offer the following comments on the Governmental Accounting Standards Board’s (GASB) Preliminary Views (PV) on Financial Reporting for Fiduciary Responsibilities, Project No. 3-13P. 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).

Washington supports reporting that provides complete and accurate disclosure of financial data. As such, we already include a combining statement of changes in assets and liabilities for our Agency Fund type activities. While we view this information as important in demonstrating accountability and transparency, the balances involved are not state resources and are immaterial to the state. For these and other reasons outlined below, we disagree with some of the basic proposals in this PV document.

Fiduciary funds by definition are not government resources. While we feel that reporting the activity of collecting and disbursing funds held by the state under trust agreements is key to demonstrating our accountability under the agreements, we do not feel that similar reporting under a custodial arrangement adds any value. While under trust agreements we typically hold assets and invest them, under custodial arrangements, we usually collect the monies and turn around and disburse them within a short period of time. The increased workload to collect and report the additional activity for custodial arrangements is far greater than the benefit it would provide. Further, this additional workload would diminish our ability to continuously analyze and improve our reporting of actual state funds as our staffing level is already very lean.
We propose an alternative approach for custodial funds that includes providing more narrative information. For example, the divider page for Agency Funds in our CAFR provides information about each fund reported. These descriptions could be expanded to provide general information on investment earnings and administrative costs. We believe adding too much more information to note disclosures would clutter the notes with data unrelated to state resources and make it difficult for users to locate the information they actually need.

Within the PV, there are several premises to which we take exception:

1. Repeatedly, the PV states that one of the benefits of the proposed changes is comparability between governments. There are so many different types of governments and each one should reflect the needs and priorities of its citizenry. The focus on comparing governments should not be the primary motivation for any accounting standard.

2. The PV indicates that some governments are not including a combining statement of changes in assets and liabilities for their agency funds (Chapter 1, paragraph 5). We believe that this reporting requirement already exists and, if some governments are failing to report at that level, it should be called out by their auditors. Perhaps emphasizing and/or clarifying the standards would be a better approach.

3. In the ‘GASB Pre-Agenda Research’ section (Chapter 1, paragraphs 7-8), the users identified by the GASB (municipal bond analysts, governmental research analysts, and legislative fiscal staff), “expressed little interest in requirements for reporting additional types of fiduciary activities.” As these are the key users of the state’s CAFR, we are in total agreement with their lack of interest. However, it appears the Board was looking for a different response, so they sought out an entirely different set of users (but only 23) to interview. How familiar was this second group with what current GASB standards already require? What type of information do they normally seek? Have they ever read a CAFR and, if so, were they able to find what they needed? Should additional reporting and this expanded level of effort be required because 23 users think it would be a good idea? Lots of things look like good ideas when there is no associated cost or consequence.

One area we agree with is renaming “Agency” funds as “Custodial” funds. We agree this would be clearer. On the subject of clarity, we find that some terminology in the PV is not clear. In fact, our staff was divided on what several sections of the PV actually mean. This means that, as written, we would have great difficulty in implementing this. Below are some of the areas that we are unclear about:
a. We are unclear as to what constitutes an “equivalent arrangement.” Without a definition and some examples, we do not believe this PV will lead to consistent application. For example, we have identified some accounts that were created by our Legislature and labeled in state statute as a “trust” fund. Does the law serve as the trust agreement? When we hold monies for institutional residents, does that create an equivalent arrangement? (Chapter 4, para. 7) Is the Board of the opinion that without a trust or equivalent arrangement assets cannot be legally protected from creditors of the state?

b. We are unclear as to what activities would be included in custodial funds (Chapter 4, para. 14) and would like to see a broader list of examples. Currently, we use agency funds for taxes collected and distributed to local governments (as described in the PV), but we also have a number of suspense accounts categorized as agency funds. These are used to hold receipts pending determination for proper reporting. We are unclear if this type of activity would still be allowed in an agency/custodial fund. If not, how would suspense funds be classified? Depending on the answer, this has the potential of requiring a considerable amount of work and possibly system changes.

c. Another area of confusion is how the obligations in a custodial fund should be reported (Chapter 4, para. 19) if “the event that compels the government to disburse the fiduciary resources” has not occurred. The PV indicates that a liability would not be recognized in this situation. We have never recorded net position in agency/custodial funds, but it appears that is what is now expected in this situation although it is not specifically stated. If we are interpreting this correctly, this is a significant change. It also appears to require two distinct reporting formats for custodial funds – one for cases where an event is required for the state to disburse funds and the second for cases where no event is required.

d. We are unclear as to the intended amount of detail that should be reported for agency/custodial funds. The PV specifically calls out the requirement to report net investment income and administrative expenses (Chapter 4, para. 22), but beyond those we are unclear what other categories of additions and deductions would be expected. After all, the additions are not revenue to the government and the deductions are not expenses of the government, so it is not clear what categories are expected for sources of additions and types of deductions.

In addition to being unclear as to the level of detail (item d above), the requirement to include additional detail would be a significant cost to the state. There are multiple accounts used by multiple agencies that fall into this fund type category. Since we don’t currently categorize activity (additions and deductions) beyond using different asset and liability general ledger accounts, we would need to do a significant amount of research. We believe this would impact the agencies that collect the majority of taxes and fees for the state and local governments, and it would likely require a number of costly system changes. We do not believe that the cost of these changes would produce any useful information to financial statement users.
As we have stated in previous responses to various GASB documents, when considering additional reporting and disclosure standards, we ask the Board to bear in mind the continued pressures on governments to produce increasingly earlier financial statements and the ongoing constraints caused by reductions to staffing. We also ask the Board to seriously take into consideration the adage that “less is more.” Bombarding users with more and more information does not always result in better reporting. Rather, focusing on the areas of highest importance and presenting that information in a concise manner would serve the users far better in our opinion.

Sincerely,

Wendy Jarrett, Assistant Director
Accounting Division