



**Office of the Washington State Auditor
Pat McCarthy**

March 31, 2017

Via Electronic Mail

Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Response to GASB Invitation to Comment – *Financial Reporting Model Improvements—
Governmental Funds*

The Office of the Washington State Auditor appreciates the opportunity to respond to the GASB’s Invitation to Comment (Project No. 3-25I). In our constitutional role as the auditor of public accounts, our Office performs the financial audit of the State of Washington and annually performs or reviews over 850 financial audits of all types of local governments and state agencies, along with their component units.

The current reporting model needs to change

The goal of public accountability requires that citizens, legislators and other users have timely, accessible financial statements for their state and local governments.

However, the current reporting model results in financial statements for state and local governments that take longer to prepare, at a higher cost, and are more lengthy and complicated than those of any other organization. These results, while unintended, undermine the goal of public accountability and the objectives and characteristics of financial reporting described in GASB Concept Statement 1.

The Comprehensive Annual Financial Report (CAFR) is the longest financial report in the world, commonly exceeding the length of reports for sovereign nations and the world’s largest multi-national corporations or non-profit entities as shown in Exhibit 1. Moreover, the current reporting model requires US state and local governments to report more basic statements and supplementary information than any other type of organization as shown in Exhibit 2. To the degree it increases costs and reduces the accessibility of the reports, this outcome does not serve the public interest.



Moreover, due to the unique government-wide and major fund presentation, materiality for accounting and reporting purposes can be up to 20 times lower for a US state or local government than for another entity of similar overall size, leading to higher preparation and audit costs than otherwise necessary.

Exhibit 2: Current model requires too many statements and schedules

	US Not-for-Profit (FASB)	US Companies (FASB)	International Companies (IASB)	International Gov't (IPSASB - accrual)	US Federal Gov't (FASAB)	US State & Local Gov't (GASB)
<i>Basic statements</i>	3	4	4-5	4-5	8	10-15
<i>Required supplementary information</i>	0-1	0-1	-	-	12	5-15
<i>Additional schedules</i>	-	-	-	-	10	25-50

Over the long term, the lack of convergence with other standard setting bodies puts governments and their auditors at a disadvantage for recruiting, training and retaining staff with sufficient understanding of this unique reporting model. More importantly, it creates a barrier to understanding for citizens, policy-makers and other users, possibly undermining public trust in government and impairing public discourse and decision-making.

Reporting model suggestions to reduce cost and complexity

Our Office favors changes that reduce the cost and complexity of the reporting model. The cost and complexity arise, to a large degree, from the lack of alignment of accounting methods within the current reporting model, as summarized in Exhibit 3. We believe that alignment of government-wide, governmental fund and proprietary fund statements is necessary. Further, we believe that greater consideration of convergence with other standard setting bodies is needed.

The Board has invited comment on three approaches to governmental funds. All three approaches continue the lack of alignment within the reporting model. We continue to advocate for a common approach and presentation for all fund types, as shown in Exhibit 4. Specifically, we urge the Board to consider:

- A full-accrual basis of accounting for governmental funds, consistent with that used for government-wide and proprietary fund statements.
- Providing shorter-term information consistently within the reporting model by choosing to require either budget-to-actual statements, cash flow statements or a near-term basis of accounting (rather than all three as in the current model).
- Choosing a presentation of shorter-term information at either the government-wide level or the fund level, rather than both as is being considered.
- A consistent presentation layout for the statement of resource flows at government-wide and fund levels (rather than three different layouts, as in the current model). We would suggest moving to a traditional operating and non-operating format for the government-wide statement of activities and governmental fund statements, consistent with current proprietary fund statements.

- Providing consistent classification structures for:
 - Revenues by source or by function (rather than both as in the current model), and
 - Expenses by character or by function (rather than a mix of both as in the current model).

Exhibit 3: Current Model

	Government-wide Statements	Governmental Fund Statements	Proprietary Fund Statements	Fiduciary Fund Statements
Full-accrual	A		B	C
Modified-Accrual		D		
Budgetary		E		
Cash Flows			F	

(long-term) ← *all use different formats*

(shorter-term)

Exhibit 4: Suggested Model

	Government-wide Statements	Governmental Fund Statements	Proprietary Fund Statements	Fiduciary Fund Statements
Full-accrual	X	X	X	X
Budgetary				
Cash Flows				

Pick one shorter-term approach

Pick one level to provide it at

Same format

Further, budgetary practices vary among governments and some budget on a cash basis. For those situations, the Board may wish to provide an option allowing the budgetary statements to be an acceptable substitute for a statement of cash flows to avoid duplication of effort.

Additional suggestions to reduce cost and complexity

We also encourage consideration of further simplifications in connection with the re-examination project, such as:

- Choosing whether details should be provided as major fund reporting, classification by function, combining fund reporting or segment reporting, rather than all four as in the current model.
- Moving fund-level statements to required supplementary information to eliminate the opinion unit concept. Audit requirements for required supplementary information in AU-C §730 include comparing the information for consistency with the basic financial statements. This would be appropriate if fund level statements are derivatives of government-wide statements, similar to segment information.
- Eliminating the additional requirement to present a reconciliation to operating income in the statement of cash flows (that is, the indirect method), because the direct method is already required for presentation.
- Reducing the amount of required supplementary information, re-classifying required supplementary information as CAFR schedules, and reducing the amount of CAFR schedules. For example, this could be achieved by requiring Management’s Discussion and Analysis only for CAFRs and combining it with transmittal letter (NCGAS 1 par 138) and financial trend information (GASB 44 par 8) requirements.

Consideration of cost and benefit

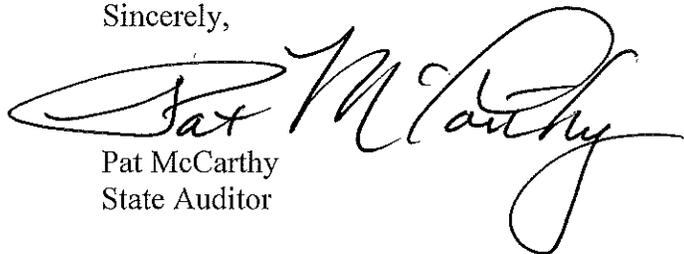
Finally, we urge greater consideration of the costs and benefits, as discussed in GASB Concept Statement 1, par 73. At the Office of the Washington State Auditor, we are committed to providing

meaningful assurance in our financial audits while containing audit costs, which are ultimately paid by taxpayers.

We believe the length and complexity of the current reporting model not only contribute to higher costs, but also impede the timeliness, accessibility and comprehensibility of this information for most users. Accordingly, we urge the Board to prioritize changes that reduce the cost and complexity of the reporting model as part of their re-examination.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at 360-902-0360.

Sincerely,

A handwritten signature in black ink, appearing to read "Pat McCarthy". The signature is fluid and cursive, with a large, sweeping initial "P" and "M".

Pat McCarthy
State Auditor

cc.

Ms. Kim O’Ryan, NASC Association Director
National Association of State Auditors, Comptrollers and Treasurers