

TRAVIS COUNTY
AUDITOR'S OFFICE

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Letter of Comment No. 024

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February 15, 2019

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

Submitted via email to director@gasb.org

RE: Project No. 3-25 Financial Reporting Model Improvements and Project No. 3-20 Recognition of Elements of Financial Statements

Dear Mr. Bean:

This correspondence is in response to GASB's issuance of two Preliminary View ("PV") documents, *Recognition of Elements of Financial Statements* and *Financial Reporting Model Improvements*. Due to the interrelatedness of the PVs, we've chosen to comment on both in this single document. Thank you for the opportunity to respond.

Travis County supports GASB's intent to "improve the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability", however we remain unconvinced that the proposed changes are a significant improvement over the existing model. In order to improve the *effectiveness* of the financial reporting model, the financial statements must first be *understood* by the most important user groups, who are the government's management, governing officials and the general public. Travis County is a large county with significant resources and a relatively sophisticated workforce, including a large number of CPAs on staff. Even so, we struggle to keep up with the volume and complexity of recent standards and find it challenging to educate key decision makers of the changing financial reporting effects on operational activities that have not changed.

If you haven't already, we encourage the Board members to read the article, "Modified Accrual: Decision-Useful & Accountability-Centered", which was published in August 2010 and co-authored by former GASB member, Robert J. Freeman. We agree with the article's assessment that the link between modified accrual accounting and budgetary accounting and reporting "has been strained by recent standards-setting changes". In our view, modifying the form and substance of governmental fund financial statements in order to accommodate increased conceptual complexity and extended

recognition periods further weakens this link and reduces users' ability to effectively assess compliance with government's most important document, the legally adopted budget.

This article is available here: http://www.gfoa.org/sites/default/files/GFR_AUG_10_18.pdf

As noted in the article, the annual budget process has long been the primary decision-making context and process in which general government activities are directed, managed, and evaluated. As recent GASB activities continue to shift towards an economic resource focus more aligned with the for-profit business world, we grow increasingly concerned about the devaluation of relevant budget-based financial statements that closely mirror how governments actually operate. Because governments will continue to operate as they always have, we foresee increased costs and complexity related to the management of systems and data in an attempt to generate statements that are no longer reflective of those operations.

Recognition Concepts and Application for Governmental Standards

In evaluating the effectiveness of governmental fund financial statements for providing information essential for decision making and assessing a government's fiscal accountability, GASB expressed a concern that "if the information in governmental fund financial statements is relied on exclusively, decisions and assessments are made with incomplete information". Of course this statement is true, but given the extensive disclosures and other information that is reported in the CAFR, we find it extremely unlikely that anyone truly wishing to assess fiscal responsibility would only read the governmental statements. We support adequate disclosures and standards that address conceptually complex transactions, but again, we do not believe the existing model needs to be significantly altered in order to report the effects of these rare transactions.

We agree that the addition of an explanation at the top of the governmental fund financial statements emphasizing the short term nature of the statements might be beneficial in reminding readers as to the differences between those statements and the government-wide statements. However, we found the repeated use of "Short-Term" in the titles and presentation of the proposed statements to be redundant and cumbersome to format. We do not believe the proposed changes will add value to financial statement users and in fact will cause more confusion and hinder comparability to historical statements.

In theory we support efforts to set recognition guidelines that increase comparability among governments, yet we foresee difficulties in defining what is "normal" for everyone. GASB expressed concern that comparability is reduced when governments do not use the same period of availability for recognition. This is easily addressed by issuing guidance that requires all governments use a period of time defined by GASB (eg. 60 or 90 days). We request that GASB be mindful of the fact that changes geared towards improving comparability of governments for outside analysts will make it more difficult for users to compare current information with years of historical information that was prepared using different recognition concepts.

Conclusion

As noted above, we applaud GASB's desire to improve financial reporting in order to create more consistency and comparability among governments. It is our belief that consistency in recognition periods and transparency of conceptually complex transactions of a longer term nature is better achieved by issuing authoritative guidance that specifically addresses those concerns. We believe many of the new complex and longer-term issues are more appropriately reported in the Government-wide statements and other disclosures, as opposed to modifying existing governmental fund statements to the degree they are unrecognizable from historical reporting. Additionally, while we recognize the necessity for state and local government reporting to evolve, we reiterate our concerns that recent trends by GASB to shift away from more budget-based accountability reporting models threaten our ability to prepare and issue financial statements that accurately represent how governments actually operate.

Sincerely,



Kathryn Madden, CPA
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Travis County Auditor's Office