



February 10, 2008

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Advancing  
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Accountability

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Dear Ms. Polley:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Financial Accounting Foundation's (FAF) various proposals to restructure the FAF, the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). The FMSB, comprising 23 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members.

The FMSB has the following comments on the structure of the FAF itself, FASB and GASB:

**Proposal 1** - *Expand the breadth of individuals and organizations that are invited to submit nominations for the FAF Board of Trustees with the understanding that final authority for all appointments rests solely with the Board of Trustees.*

In determining the makeup of the FAF there are six FNOs that nominate 8 trustees. Three governmental trustees are nominated by nine Governmental Nominating Organizations (GNOs), with the National Association of State Auditors, Comptrollers and Treasurers (NASACT) and the Government Finance Officers Association (GFOA) "electing" the governmental members to the FAF. Unlike the eight trustees nominated by the for-profit related organizations, the FAF cannot reject the nominees from the governmental – related entities. Five additional trustees are selected by the Trustees.

We partially agree with the Board's proposal to expand the breadth of individuals and organizations invited to submit nominations to the Board. In fact, for the governmental nominees, we suggest expanding the GNOs to include organizations such as the Association of Government Accountants (AGA), whose membership includes thousands of financial professionals from state and local governments. We would additionally agree that additional nominations should be solicited from other individuals and organizations.

However, we suggest that any additional nominations be received by the GNOs and that governmental organizations continue to "elect" the governmental members of the FAF. We also suggest that the GNOs who actually elect the governmental nominees be rotated every 3 or 5 years (depending on whether Proposal 2 is implemented) so that a broader mix of governmental organizations may have the opportunity to participate in the actual election process.



**Proposal 2** - *Change the term of service of the Trustees from two three-year terms to one five-year term.*

We agree with this change. This will engage a continuous mix of professional, conscientious, activist trustees. It will also limit their time commitment if they are employed.

**Proposal 3** - *Change the size of the Board of Trustees from sixteen members to a range of fourteen to eighteen members.*

We disagree with this change, even though the governmental membership will not be altered. Boards should have a finite membership so that constituent organizations and other interested parties can structure their interaction with the FAF properly. If a proposal is up for a vote and the Board changes its size, these organizations will not know whether a majority is achievable. However, a compromise can be achieved by having the first act of every new session of trustees to elect how many board members will fill the next set of trustees five years hence. This will allow constituents five years to plan for this change.

**Proposal 4** - *Strengthen and enhance the governance and oversight activities of the Trustees as to the efficiency and effectiveness of the standard-setting process.*

We wonder what problem the Trustees are trying to solve, especially with regard to GASB. The standard-setting process is independent, open, deliberative and all inclusive. If the Board believes that FASB and GASB are not accomplishing the mission that they are entrusted to do, then no amount of oversight will change the current efficacy of either. However, we are not aware of any such concerns. We are concerned with the SEC's influence on FASB through the Public Company Accounting Oversight Board (PCAOB) and we are concerned that perhaps the PCAOB will eventually assume FASB's role for public companies, although we think this will not happen in the immediate future.

**Proposal 5** - *Reduce the size of the FASB from seven members to five.*

We do not approve of reducing the size of the FASB from seven to five. As long as FASB exists, that will put too much 'power' in a simple majority of three.

**Proposal 6** - *Retain the FASB simple majority voting requirement.*

As members with governmental expertise, we have no opinion on this proposal.

**Proposal 7** - *Realign the FASB composition.*

As members with governmental expertise, we have no opinion on this proposal.

**Proposal 8** - *Provide FASB's Chair with decision-making authority to set the FASB technical agenda.*

As members with governmental expertise, we have no opinion on this proposal.

**Proposal 9** - *Secure a stable mandatory funding source for the GASB.*

We think that this is the most important proposal. For GASB to accomplish its mission, it should have a stable funding source. Indeed, the proposal to secure funding solely from the states is interesting and should be pursued. While other potential funding sources may be available, only through state funding

will there be a predictable, stable source of funds. There are a number of other possibilities for the funding of the GASB, none of which provides that stable, predictable source of funds:

- **Make the current bond fee mandatory instead of voluntary**, and have it applied to all state and local debt issuances whether they be by a negotiated or competitive arrangement. An additional ‘takedown’ is probably the least painful fee for a government as it would be analogous to a piece of underwriter’s discount or issuance cost. This fee would be proportional to the size of the par amount of bonds issued. As the parties to the issuance cost are also major users of GAAP financial information, this seems natural. However, it also relies on governments that issue debt and not all governments will be represented. It also relies on investment banks to collect the fee and remit it to the GASB.
- **Attach a filing fee for single audit filings**. This would expand the fee to potentially more governments. However, collection would rely on governments remitting the fee at the same time their data collection form is filed. As this is a federal filing, this may open the collection of the fee to some undue federal scrutiny. Also, there is no GAAP for schedules of expenditures of federal awards, which makes the attachment of a fee for a GAAP-setting entity problematic.
- **As reporting is becoming more and more electronic and XBRL is in the future, charge a graduated fee to all governments who post electronically based on revenue collections, but allow those governments to post their CAFR’s on a server repository at GASB without storage charges**. By this posting, even when XBRL becomes a universally used language, GASB will be the central library for research and analysis.
- **Use a combination of all, or other choices**. It may lessen the burden on one class or another.

**Proposal 10** - *Retain the current size, term length, and composition of the GASB.*

We agree with this proposal. The GASB is effective, efficient and deliberative.

**Proposal 11** - *Provide GASB Chair with decision-making authority to set GASB’s technical agenda.*

We disagree with this proposal. In some organizations, setting power in the hands of one individual is not a good thing. However, if that individual is held accountable for those decisions then, the Board may become more agile to adapt to changes in the governmental environment. The FMSB believes that the current process is a good one. Unlike its for-profit sister FASB, GASB rarely has a restatement of its pronouncements. This is because the process is deliberative, open and effective. Providing the chair with decision-making authority to set the GASB agenda may have the effect of speeding up the process but may, at the same time, cause the process to be less effective.

We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions on the letter, please contact Anna D. Gowans Miller, CPA, AGA’s Director of Research and staff liaison for the FMSB, and facilitator for this project, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or (703) 684-6931, ext. 313.

Sincerely,



Robert L. Childree, Chair,  
AGA Financial Management Standards Board

cc: Richard L. Fair, CPA  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2007 – June 2008**

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