

January 9, 2015

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: December 20, 2013 Exposure Draft of a Proposed Statement of the Governmental Accounting Standards Board, *The Hierarchy of Generally Accepted Accounting Principles [GAAP] for State and Local Governments [Project No. 33-1ED]*

Dear Mr. Bean:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC fully supports the Board's proposal to reduce the GASB GAAP hierarchy to two categories of authoritative pronouncements and to elevate the status of the GASB Implementation Guides to the second level of authoritative GAAP. These changes will clarify and simplify the hierarchy for the Board's constituents and provide constituents with the opportunity to comment on new questions and answers to be included in the Implementation Guide.

TIC is requesting clarifications to be included in the final standard with respect to the status of existing GASB interpretations, AICPA literature that has been cleared by GASB as category b guidance in the hierarchy and the definition of a government. Details regarding these comments are discussed in the Specific Comments section below.

SPECIFIC COMMENTS

Status of Existing GASB Interpretations

Footnote 1 to paragraph 3(a) states:

¹ Category (a) standards are the subject of Rule 203 of the AICPA's Code of Professional Conduct, and this Statement does not affect the application of that rule. GASB Interpretations also are subject to Rule 203. All GASB Interpretations heretofore issued and currently in effect are considered as being encompassed within category (a) and are continued in force until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements. [Emphasis added]

TIC believes the underlined sentence above is too important to be relegated to a footnote, since this information could easily be overlooked if it remains there. To improve the clarity of the final standard, TIC recommends moving the last sentence of footnote 1 to the body of the standard in paragraph 3(a).

AICPA Literature Specifically Cleared by GASB

Issue 1: Paragraph 3(b) of the ED describes the second category of authoritative GAAP as follows:

b. GASB Technical Bulletins; GASB Implementation Guides²; and literature of the American Institute of Certified Public Accountants (AICPA)³ if specifically cleared⁴ by the GASB.

TIC noted an inconsistency between the reference to “if specifically cleared by the GASB” in the above paragraph (as well as footnote 3) and similar language used in footnote 4:

⁴ Such literature specifically made applicable to state and local governmental entities contains a statement that indicates that it has been cleared (the majority of the Board members did not object to its issuance) by the GASB. [Emphasis added]

Footnote 4 does not use the phrase “specifically cleared” and states that AICPA literature specifically made applicable to state and local governmental entities includes a statement that it has been cleared by the GASB. In both GASB Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and footnote 4 of this ED, “specifically” referred to the parts of AICPA literature made applicable to state and local governmental entities. TIC believes the phrasing used in GASB Statement 55 is preferable to the revisions made in paragraph 3(b) and footnote 3 of the ED.

TIC therefore recommends that the word “specifically” be removed from paragraph 3(b) and footnote 3 and that footnote 4 be retained as is. If the Board decides not to make these proposed revisions, then “specifically cleared” v. “cleared” should be clarified in the final standard.

Issue 2:

Footnote 3 of the ED refers to AICPA literature cleared by GASB, as follows:

³ AICPA literature, such as AICPA Industry Audit and Accounting Guides, specifically cleared by the GASB is subject to the Memorandum of Understanding between the GASB and the AICPA.

However, footnote 3 does not provide any information on where to find a complete list of AICPA literature cleared by GASB as category b GAAP. Currently, it is very difficult to determine where this information resides. After consulting with GASB staff, TIC learned that the topical index to the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (the Codification) is meant to serve as this list under the term “American Institute of Certified Public Accountants (AICPA).” TIC reviewed the entries in the topical index, including the Introduction, and the section on Using the Codification.

Based on this review, TIC recommends that the Board and staff improve the visibility of category b guidance in the Codification. For the reasons discussed below, the topical index alone cannot adequately serve as the primary list of AICPA literature that has been cleared by GASB as category b guidance.

It is unlikely that readers of the Codification would think to look at a topical index for this type of guidance, and neither the Introduction to the Codification nor section 1000 (The Hierarchy of GAAP) directs readers to the topical index for this information. One TIC member also discovered that at least one of the commercial publishers of the electronic version of GASB standards omits the topical index from its database.

The print version of the Codification also includes a section on Using the Codification, which informs the reader that paragraphs .601-.699 and .701-.799 are reserved paragraphs in each Codification section for various types of cleared AICPA literature. However, this guidance is not repeated in either the topical index or in the Codification section on the GAAP hierarchy.

Using the AICPA Audit and Accounting Guide, *State and Local Governments* (the SLG Guide), as an example, TIC identified a number of barriers in the Codification that get in the way of readily determining the status of the SLG Guide as category b GAAP:

- The first entry in the topical index refers to the Introduction to the Codification. Pages xiv and xv of the Introduction refer to the 1974 edition of the SLG Guide as GAAP, stating its provisions would be in force until amended, revoked or otherwise changed by a subsequent GASB pronouncement, implying that the reader has the responsibility to determine what has changed. A footnote to this paragraph states that the Guide constitutes category b guidance in the GAAP hierarchy, but this footnote is easy to miss.

- The topical index also refers to GASB Statement 55, footnote 2, which expresses the status of the SLG Guide differently from the Introduction by adding the notion that the AICPA Guide would be presumed to have been cleared by GASB unless the Guide indicates otherwise.
- In addition, the Introduction to the Codification (page xv) also states:

The affirmation by the GASB of those pronouncements of the...AICPA that currently constitute “generally accepted accounting principles” for state and local governmental entities should not be construed as representing concurrence by the GASB with each of those pronouncements.

The intent of the above statement is very unclear but, on its face, seems to contradict the notion of GASB clearance of AICPA literature.

When taken together, each of the above points contributes to the difficulty in using the Codification to readily determine which AICPA pronouncements are considered authoritative within the GAAP hierarchy. TIC also believes the guidance in the Introduction to the Codification and in GASB Statement 55 is somewhat unclear and lacks consistency.

TIC believes the new GAAP hierarchy standard (Codification section 1000) should be the primary source for all relevant information about AICPA literature that has been cleared by GASB as category b guidance. TIC recommends that a complete list of the cleared documents be publicized by the Board in a concise, readable format that would eliminate the need to rely on the topical index or consult multiple Codification sections to determine the authoritative status of AICPA literature. The standard also should include a footnote that would serve as a reminder that paragraphs .601-.699 and .701-.799 include the text of AICPA literature that has been cleared by GASB as category b guidance for each applicable Codification section.

If the Board decides not to include a detailed list of cleared documents in the GAAP hierarchy standard, at a minimum, the standard should include appropriate cross-references to whatever GASB or AICPA resources may exist that would assist preparers and practitioners in locating all cleared category b guidance created by AICPA literature.

Finally, TIC believes the first full paragraph of page xv of the Introduction to the Codification should be rewritten to clarify the Board’s intent so that it doesn’t appear to conflict with the meaning of cleared category b guidance.

TIC believes these improvements would greatly improve the clarity and ease of use of the Codification for those who need this information.

Governmental v. Nongovernmental Status of an Entity

Revision of the GAAP hierarchy for governmental entities raises a related issue that occurs in practice. It is not uncommon for preparers and practitioners to have difficulty determining whether certain not-for-profit organizations should be classified as governmental v. nongovernmental entities. GASB does not provide an authoritative definition of a governmental entity in its standards. In addition, the GAAP hierarchy proposal fails to acknowledge the available AICPA literature on this topic as category b GAAP.

Various AICPA audit and accounting guides include a definition, but the definition often is subject to varying interpretations. As a result, some TIC members have encountered situations where an entity's prior-year financial statements are restated because a successor accountant disagrees with the type-of-entity decision made by the predecessor accountant. When these disagreements occur, restatements are almost always necessary since the governmental v. nongovernmental decision involves material accounting differences between the two types of entities. The disagreements can arise in both directions. For example, some not-for-profit entities erroneously follow FASB standards when they should follow GASB standards. Less often, a not-for-profit may erroneously follow GASB standards when it should be following FASB standards.

TIC therefore supports the recommendation stated in the comment letter submitted for this ED by the AICPA State and Local Government Expert Panel to develop an authoritative definition of a governmental entity so that unnecessary confusion and costly restatements may be minimized for entities whose status is uncertain due to definitional issues.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees