



## National Association of State Auditors, Comptrollers and Treasurers

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October 30, 2008

Mr. David Bean  
Director of Research and Technical Activities  
Project No. 33  
Government Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, I am pleased to provide these comments about the Governmental Accounting Standards Board's exposure draft, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

Our members believe that incorporating the accounting and financial reporting guidance presented in the AICPA SAS's into the GASB literature is appropriate. Some members also noted their agreement with the board's decision to adopt these three issues as they currently exist in the AICPA's auditing literature without opening them to reexamination. This pragmatic approach will minimize the effects on current practice.

Several members provided suggestions for clarification of some matters discussed in the exposure draft. They are included as an attachment to this letter.

Once again, NASACT appreciates the opportunity to participate in the GASB's due process. Should you have any questions about our comments, please feel free to contact me at 517-334-8050 or Pat O'Connor or Sherri Rowland of the NASACT staff at 859-276-1147.

Sincerely,

Thomas H. McTavish  
President of NASACT

**NATIONAL ASSOCIATION OF STATE AUDITORS, COMPTROLLERS AND TREASURERS**

Questions and Suggestions Related to the GASB ED, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*

October 2008

<b>Paragraph in the ED</b>	<b>Questions and Suggestions</b>
Para 4 - 7	The disclosure of related party transactions is not a new standard for state governments. However, we believe more clarity is needed regarding the reporting of these transactions in a government context. We concur with Paragraph 26 in the Basis for Conclusions, which acknowledges that there may be difficulty in evaluating the substance of related party transactions in the governmental environment. However, we do not believe that the ED does enough to address that difficulty.
Para 7	This paragraph states that it may not be possible or appropriate to compare some governmental programs and arrangements to what might have occurred in an arm's length transaction. Does that mean that a disclosure about the entire transaction is not required?
Para 7	This paragraph makes reference to many governmental activities and transactions (not including the activity of providing grants to other governments, organizations and/or individuals), but no guidance is offered as to whether they would be considered related party transactions or not. For example, our state provides low interest loans to local governments for public works projects. We assume that the local governments would not be considered related parties. However, as the ED is currently written, the only support we have for our position would be the "routine" nature of these transactions (based on the "Except for routine transactions..." lead into Paragraph 7). Further, some governmental activities that are driven by societal needs or the concern for the public good may not be so routine. Additional guidance in this area would be appreciated.
Para 24	We suggest that the board include in this paragraph its decision that the materiality issue addressed in the GASB Comprehensive Implementation Guide was considered for inclusion but was determined to be outside the scope of the project. This would give a more complete listing of the topics that the board considered for inclusion within this proposed standard (i.e., in addition to the consideration of corrections of errors).
General	We suggest that the standard specify whether it is meant only for the reporting entity as a whole or whether there are instances where the standard would be applicable to an opinion unit. For example, would there be a going concern issue if a major fund (an opinion unit) was abolished after the opinion date but the governmental entity as a whole continued to exist? This should be clarified.
General	We see continuing challenges with not-for-profit entities that are part of a government's financial reporting entity. The only authoritative guidance of which we are aware to help a not-for-profit entity determine if it should apply GASB or FASB standards is in the AICPA Not-For-Profit Audit Guide. Unfortunately, many of these entities and their CPA firms do not pay attention to this guidance and follow the wrong standards. Since GASB is now moving the GAAP hierarchy and other accounting standards contained in AICPA statements, this would seem a perfect time to include the guidance from the not-for-profit audit guide about when a not-for-profit should follow GASB pronouncements.