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*Mr. Scantling*  
FGRMSD 6001

COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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The Honorable L. H. Fountain  
Chairman, Subcommittee on  
Intergovernmental Relations  
and Human Resources  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

We met recently with representatives of several public interest groups interested in State and local governmental affairs to discuss the need for accounting standards. Representatives from the following organizations were in attendance:

- Council of State Governments
- National Association of Counties
- International City Management Association
- National Conference of State Legislatures
- National Governors' Association
- National League of Cities
- U. S. Conference of Mayors
- Municipal Finance Officers Association
- National Association of State Budget Officers
- National Association of State Auditors,  
Comptrollers, and Treasurers
- State, County, and City Public Interest Groups

There was general agreement among those present that such standards were badly needed for several purposes including informing citizens, investors, and the Federal Government more fully on the way in which funds entrusted to such governments are spent. The public interest group representatives agreed to support a Government Accounting Standards Board and a foundation to support it. They also agreed that it should be funded by other than the Federal Government. It was proposed that the public

interest groups join with the General Accounting Office, American Institute of Certified Public Accountants, Financial Accounting Foundation, Municipal Finance Officers Association, and others to create such a Board and a sponsoring foundation. To obtain funding the public interest groups suggested that they would undertake a program to persuade recipients of revenue sharing to commit a small portion of the funds they receive from this source to finance this project. When supplemented with funds from other interested parties, we are hopeful that this will provide sufficient funds to support the Board.

Based on this meeting, we believe that this would be a better method of obtaining funding than withholding a portion of revenue sharing at the source. I am enclosing a short writeup on this matter which you might use for your committee report.

Sincerely yours,

MITTON J. SOCOLAR

Acting Comptroller General  
of the United States

Enclosure

bc: Index and Files  
Mr. Scantlebury, FGMSD ✓  
Mr. Points, FGMSD

## ACCOUNTING AND AUDITING

For some time now State and local accounting standards have needed improvement. The problem was most dramatically brought to public attention by the crisis in New York City a few years ago. Other cities including Washington, D. C., have had problems producing reliable financial information. Moreover, existing standards produce reports that are long, complex and difficult to understand. Furthermore, important liabilities like pension fund liabilities have often been ignored.

In the past, accounting standards for State and local governments were set by the National Council on Governmental Accounting, a volunteer organization made up of Federal, State, and local financial offices and others with interest in this area. The Council was sponsored by the Municipal Finance Officers Association. The National Council on Governmental Accounting has acknowledged that the task that needs to be done--rebuilding accounting standards from the ground up--will be too much for a volunteer organization to perform in a timely and acceptable manner. They have a grant of about \$1 million from the Department of Housing and Urban Development (HUD) but this will only carry them through a basic research stage.

The Financial Accounting Standards Board which sets standards for the private sector indicated willingness to undertake this task but State and local governments do not consider them acceptable principally for two reasons. First, they are too

busy and have not been able to progress as fast as desirable with commercial accounting standards. Thus, the State and local government people believe that they would not give this additional task prompt and adequate attention. Second, the State and local people believe that the Financial Accounting Standards Board would try to apply commercial accounting standards to government which they believe do not fit since government's objectives are not to measure profits--the basic objective of private sector accounting. Therefore, State and local people do not regard the Financial Accounting Standards Board as a viable standard-setting organization for them.

Recently, a plan has been devised to create a separate standards board for State and local governments. The board would be funded by a non-profit foundation governed by Federal, State and local government representatives and representatives of various private and public interest groups. The board itself would consist of five individuals experienced in governmental accounting and supported by a staff of 20 to 25 people.

Incorporators of the foundations would include the Financial Accounting Foundation (which funds the Financial Accounting Standards Board) the American Institute of Certified Public Accountants, the Municipal Finance Officers Association, the Public Securities Association, the National Association of State Auditors, Comptrollers and Treasurers, and the public interest groups. It is estimated that the board would cost about \$2 to \$2.5 million a

year to operate. Some funds would be provided by State and local governments, the American Institute of Certified Public Accountants, the Financial Accounting Foundation and others. The amounts available from such sources are not known at this time. Many of those involved would prefer that it be entirely funded from non-Federal sources.

The standards resulting from this effort would benefit State and local officials, taxpayers, investors, creditors, and others who use such information as well as the Federal Government. Insofar as the Federal Government is concerned, existing financial statements from State and local governments are virtually useless for monitoring the disposition of Federal funds. With proper standards this would be corrected.

Therefore, the Committee has discussed the issue of generally accepted accounting and reporting standards for State and local governments and since Federal funds are now a substantial portion of many State and local budgets, there is a direct Federal interest in generally accepted accounting and reporting standards. The Committee encourages State and local governments to establish the Government Accounting Standards Board and its related foundation.