



NASACT Members Continue to Focus on ARRA-Related Issues

The American Recovery and Reinvestment Act has dominated the minds of most NASACT members since its passage on February 17, and in just a few weeks, recipients of ARRA funds will be required to submit their Section 1512 reports. While many questions and issues remain unresolved, below are some of the more recent and noteworthy actions concerning ARRA that you may find useful as the reporting deadline draws near. Developing a truly efficient, transparent and accountable process will take time, and lessons learned from the first round of reporting on October 10 will hopefully emphasize successful strategies and bring to light those that require additional modification.

RATB Provides Hope for ARRA Central Filers

The Recovery Accountability and Transparency Board has developed a process that will significantly assist the reporting process for those states that have chosen to utilize a centralized approach for filing Section 1512 reports. The RATB has been working to develop a modified approach to provide central filers the option to submit batch reports.

To help ensure that each central filing state has only one registrant, the RATB is working through the state recovery points of contact, or recovery czars, to present the option of batch reporting. This new alternative allows a central filer to submit batch reports without having to register under each program's DUNS number and eliminates the need for a central filer to obtain the federal reporting PIN for each reporting DUNS number.

To submit batch reports, central filing states must submit a request to the RATB and receive appropriate ID and password credentials from the system administrator. Complete details for batch reporting have been provided to each state's central point of contact for ARRA. Those with an interest should contact that individual in their state; to find out who your state point of contact is, inquire through NASACT's Washington office at (202) 624-5451.

Recipient Reporting Assistance Project Underway

Due to much confusion and an onslaught of unanswered questions regarding ARRA, the U.S. Office of Management and Budget and the RATB have teamed up to create a national program to assist with recipient reporting required by Section 1512 of the Recovery Act.

In early September, the OMB and the RATB sent out a

memorandum to state recovery points of contact announcing a program which will place a federal liaison in each state and several select localities to assist with reporting. Essentially, the onsite liaison is available from September 2 through October 20 to serve as point person for expediting questions and serving as a conduit for communications with the OMB and the RATB.

At the time of this writing, each state was being contacted by a coordinator to assess recipient needs and to determine interest in having an onsite representative.

OMB Proposes Pilot to Address Concerns of GAO and Congress

In an effort to address growing concern by the U.S. Government Accountability Office and members of Congress that federal Single Audit work does not adequately address Recovery Act risk, the OMB is proposing a voluntary pilot project that will provide early communications of significant deficiencies and material weaknesses in selected major programs with ARRA expenditures. GAO has stated that Single Audit reporting occurs too late for an audited entity to take action on deficiencies noted in Recovery Act programs.

The proposal, if implemented, would engage volunteer auditors to conduct work and provide early communication to management on internal control test work related to each major program with ARRA expenditures prior to the completion of the Single Audit.

Early discussion on the proposal anticipated that the scope would include at least 10 states and 10 ARRA programs (to include both new programs and existing programs with ARRA funds). A minimum of two major programs will be selected for the auditor to perform the internal control test work required by Circular A-133 on internal control over compliance. Communications on the deficiencies would be presented to management in an expedited manner so that a corrective action plan could be put into process.

Details of the pilot are currently being discussed and will be communicated to the NASACT membership once finalized. The National State Auditors Association's Single Audit Committee and leadership of the National Association of State Comptrollers have been participating in the process by providing feedback to the OMB and the RATB on the proposal.

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GAO Provides Testimony on State Use of Recovery Act Funds

Christopher Mihm, managing director, Strategic Issues, GAO, appeared before the Senate Committee on Homeland Security and Government Affairs in September to discuss the GAO's ongoing work to look at the use by state and local governments of Recovery Act funds, efforts to assure accountability, and plans to assess the impact of the funds.

The GAO, in responding to a mandate under the Recovery Act, chose 16 states and the District of Columbia and select localities in those states to look at the effect of the Recovery Act on states and localities. These states and localities represent about two-thirds of the intergovernmental federal assistance available.

The GAO found that Treasury has outlaid approximately \$45 billion of the \$49 billion in Recovery Act funds projected for use in states in localities in 2009. Increased funding for Medicaid Federal Medical Assistance and the State Fiscal Stabilization Fund account for about three fourths of that amount.

The GAO continues to report that while states have implemented various internal control mechanisms, Single Audit results are provided too late for actions to be taken on reported deficiencies. GAO recommends that the OMB leverage the Single Audit to serve as an effective oversight tool by:

- Developing requirements for reporting on internal controls.
- Focusing audit coverage in the area of internal controls and compliance in smaller programs with high risk.
- Considering audit relief for low-risk programs to focus efforts on new Recovery Act audit responsibilities.
- Considering the development of ways to fund the additional audit costs.
- Taking steps to achieve volunteers for a single audit internal control pilot that provides early written communication of internal control deficiencies.

The GAO also stresses that additional funding for state auditors to undertake additional audit work is needed and recommends that Congress consider a mechanism to provide that funding. Additionally, the GAO recommends the creation of additional examples of jobs created and retained, clarification of performance measures, and the continuation of avenues to improve communication and clarify guidance.

Recovery.Gov Has Host of Resources for Recipients

Recovery.gov has provided a place on its website specifically related to recipient reporting: www.recovery.gov/?q=content/recipient-reporting. The following resources are now available there:

- Registration Quick Reference Card
- Registration Guide
- Recipient Point of Contact Guide
- Office of Management and Budget Guidance on Reporting
- Agency Guidance for Recipient Reporting
- Data Dictionary (data elements that recipients will report from October 1, 2009, to October 10, 2009)
- XML Schema (standard structure for machine-to-machine transfer of data)
- Excel Spreadsheet Templates (to allow for manual data entry)
- Recipient FAQs
- OMB Clarification of Guidance FAQs
- Federal Reporting Technical FAQs

A new version of Recovery.gov is slated for release by month's end. The new version will be easier to navigate, more interactive and provide state-of-the-art mapping technologies to assist with understanding displayed data. Look for the new website on or near September 28. ■

FAF Appoints New Trustees

On August 26, the Financial Accounting Foundation announced that Edward E. Nusbaum and Luis M. Viceira have been appointed to the FAF's board of trustees.

Edward E. Nusbaum is currently the chief executive officer and executive partner of Grant Thornton LLP. He was recently named chief executive officer of Grant Thornton International Ltd., a position he will assume on January 1, 2010. Before becoming Grant Thornton's chief executive officer, Mr. Nusbaum served as the firm's national managing partner of professional services, managing partner of the Philadelphia office, and national director of assurance services based in New York. In addition to having served on the SEC's Advisory Committee on Improvements to Financial Reporting, Mr. Nusbaum is a member of the board of governors for the Center for Audit Quality. He also previously served on the Financial Accounting Standards Board's primary advisory group,

the Financial Accounting Standards Advisory Council, as well as on its Small Business Advisory Committee.

Luis M. Viceira is the George E. Bates professor at the Harvard Business School, where he teaches investment management and capital markets in the M.B.A. and doctoral programs. An award-winning researcher, he focuses on the analysis of asset allocation strategies for long-term investors, both individuals and institutions, in the face of changing interest rates, risk premia, and risk. He has authored multiple articles published in leading academic finance journals, as well as Harvard Business School cases. He is a faculty research fellow for the National Bureau of Economic Research in Cambridge, Massachusetts, a research affiliate for the Centre for Economic Policy Research in London, a fellow of the TIAA-CREF Institute in New York, and a member of the Scientific Council of NETSPAR, the network for research on the economics of pensions, aging, and retirement in Tilburg University in the Netherlands.

Each of the appointments is for a five-year term. ■

New at www.nasact.org

The following new items have been posted on NASACT's website at www.nasact.org (you must be logged in as a member to view some of these items):

- A compilation of state CAFR completion dates at www.nasact.org/nasc/positions/CAFR.cfm.
- NASACT's response to the IRS's proposal, Substantiating Business Use of Employer-Provided Cell Phones at www.nasact.org/nasact/positions/congressional.cfm.
- NSAA's response letters to the AICPA Auditing Standards Board's exposure drafts of the proposed statements on auditing standards entitled *External Confirmations* and *Quality Control for an Audit of Financial Statements* have been posted at www.nasact.org/nsaa/positions/aicpa.cfm.

NASC ARRA Info Sharing Calls

The National Association of State Comptrollers has established a series of conference calls to provide information-sharing opportunities for state comptroller offices as they implement the American Recovery and Reinvestment Act. The next call will be held on Thursday, October 1, at 12:00 p.m. Eastern time. Questions and/or issues for discussion may be directed to Kim O'Ryan, NASC's association manager, at koryan@nasact.org.

Please Provide Your Input on the Following Exposure Drafts

Governmental Accounting Standards Board

Proposed suggested guidelines for voluntary reporting, SEA Performance Information

The purpose of this document is to obtain feedback on suggested guidelines intended to provide a common framework for the effective external communication of SEA performance information. The suggested guidelines are intended to help state and local governments that choose to communicate SEA performance information to citizens, elected officials, and other interested parties to do so more effectively. The board has asked for comments on all matters in this proposal including comments on any aspects with which you agree as well as any with which you disagree. The board requests that you explain the reasons for your views, including suggested alternatives.

To have your comments included in NASACT's response to GASB, send comments [by Friday, October 2](#), to koryan@nasact.org.

Proposed exposure draft entitled *Financial Instruments Omnibus*

The proposed statement on financial instruments is intended to update and improve existing standards

regarding financial reporting and disclosure requirements of some financial instruments for which significant issues have been identified in practice. The exposure draft presents proposals for amending Statements No. 25, 31, 40, and 53. The board has asked for comments on all matters in this proposed statement including comments on any aspects with which you agree as well as any with which you disagree. The board requests that you explain the reasons for your views, including alternatives that you believe should be considered.

To include your comments in NASACT's response to GASB, send comments [by Wednesday, October 7](#), to koryan@nasact.org.

American Institute of Certified Public Accountants

Omnibus Proposals of Professional Ethics Division Interpretations and Rulings

The AICPA's Professional Ethics Executive Committee has issued an exposure draft entitled *Omnibus Proposals of Professional Ethics Division Interpretations and Rulings*. The ED includes:

- (1) Proposed revision to the subsections "Application of the Independence Rules to Covered Members Formerly Employed by a Client or Otherwise Associated With a Client" and "Application of the Independence Rules to a Covered Member's Immediate Family" of Interpretation No. 101-1, under Rule 101, Independence.
- (2) Proposed revision to Ethics Ruling No. 107, "Participation in Employee Benefit Plan Sponsored by Client," of ET Section 191, *Ethics Rulings on Independence, Integrity, and Objectivity*.
- (3) Proposed revision to the subsection "Retirement, Savings, Compensation, or Similar Plans" of Interpretation No. 101-15, "Financial Relationships," under Rule 101.
- (4) Proposed revision to Ethics Ruling No. 2, "Distribution of Client Information to Third Parties," of ET Section 391, *Ethics Rulings on Responsibilities to Clients*.
- (5) Proposed addition to ET Section 92, Definitions: "Confidential Client Information."

The exposure draft can be found at www.aicpa.org/Professional+Resources/Exposure+Drafts/.

Through the Audit Standards and Reporting Committee, the National State Auditors Association will be responding to this exposure draft. To have your comments included in the committee's response, please send comments to Sherri Rowland at srowland@nasact.org [by Friday, October 16](#).

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Please Provide Your Input on the Following Exposure Drafts

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American Institute of Certified Public Accountants

Proposed SAS entitled *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures* (Redrafted)

The AICPA's Auditing Standards Board has released for comment an exposure draft of a proposed SAS entitled *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures* (Redrafted). This proposed SAS would supersede SAS No. 57, *Auditing Accounting Estimates*, and SAS No. 101, *Auditing Fair Value Measurements and Disclosures*. This proposed SAS has been issued using the ASB's clarity drafting conventions. The proposed SAS can be found at www.aicpa.org/Professional+Resources/Exposure+Drafts/.

The ASB is seeking your response to the four questions listed under the Guide for Respondents that concern changes resulting from applying the clarity drafting conventions and converging with the ISA and their effect on the content of the SAS. The ASB is also interested in comments or suggestions on any aspect of the ED.

Through the Audit Standards and Reporting Committee, NSAA will be responding to this exposure draft. To have your comments included in the committee's response, please send your comments to Sherri Rowland at srowland@nasact.org by Monday, November 2.

Proposed SAS entitled *Related Parties* (Redrafted)

The AICPA's ASB has released for comment an exposure draft of a proposed statement on auditing standards entitled *Related Parties* (Redrafted). This proposed SAS would supersede the "Related Parties" section of SAS No. 45, *Omnibus Statement on Auditing Standards—1983*. This proposed SAS has been issued using the ASB's clarity drafting conventions. The proposed SAS can be found at www.aicpa.org/Professional+Resources/Exposure+Drafts/.

The ASB is seeking your response to the four questions listed under the Guide for Respondents (pages 5-6) that concern changes resulting from applying the clarity drafting conventions and converging with the ISA and their effect on the content of the SAS. The ASB is also interested in comments or suggestions on any aspect of the ED.

Through the Audit Standards and Reporting Committee, NSAA will be responding to this exposure draft. To have your comments included in the committee's response, please send your comments to Sherri Rowland at srowland@nasact.org by Monday, November 16.

Proposed SAS entitled *Audits of Group Financial Statements (Including the Work of Component Auditors)*

The AICPA's ASB has released for comment an exposure draft of a proposed SAS entitled *Audits of Group Financial Statements (Including the Work of Component Auditors)*. This proposed SAS would supersede SAS No. 1, section 543, *Part of Audit Performed by Other Independent Auditors*. This proposed SAS has been issued using the ASB's clarity drafting conventions. The proposed SAS can be found at www.aicpa.org/Professional+Resources/Exposure+Drafts/.

As noted in the explanatory memorandum, the ASB is seeking feedback on three issues for consideration. Specifically, the ASB is interested in feedback on:

- (1) Whether auditors should be permitted to make reference to the audit of a component auditor in the auditor's report on the group financial statements.
- (2) Whether the illustrative auditor's report clearly articulates the degree of responsibility assumed by each auditor when reference to the audit of a component auditor is made.
- (3) Whether the proposed SAS makes appropriate distinctions between what is required of the auditor when making reference and when not making reference.

The ASB is also seeking response to the five questions listed under the Guide for Respondents. The first four questions concern changes resulting from applying the clarity drafting conventions and converging with the ISA and their effect on the content of the SAS. The last question relates to the impact assessment found on page 13 of the ED. The ASB is considering the use of an impact assessment to assist respondents in assessing the overall impact of a proposed new SAS.

When preparing your comments, please address the issues for consideration as well as the five questions under the Guide for Respondents. The ASB is also requesting comments or suggestions on any aspect of the exposure draft.

Through the Audit Standards and Reporting Committee, NSAA will be responding to this exposure draft. To have your comments included in the committee's response, please send your comments to Sherri Rowland at srowland@nasact.org by Monday, November 16. ■

You may view past responses to standards setting bodies from NASACT, NSAA and NASC at www.nasact.org.

Association Notes

NASC Business Meeting Highlights

By Kim O’Ryan, NASC Association Manager

The National Association of State Comptrollers held a business meeting on August 17, 2009, in Dearborn, Michigan. The meeting was facilitated by President Calvin McKelvogue (IA) and was held in conjunction with the NASACT 2009 Annual Conference. Highlights from the meeting are detailed below. Complete minutes will be made available soon at www.nasact.org/nasc/aboutus/meetings.cfm, where members may also find minutes from past NASC business meetings.

Committee Reports

Brenda Bolander (OK) reported for the **Advisory Committee on State Comptrollers: Technical Activities and Functions**. Forty-four states provided information for the current portion of the book and 39 states provided information for the long-term portion. The complete book is now available on NASACT’s website. The committee is currently revising the short-term portion of the 2010 survey.

David McDermott (CO), co-chair of the **Committee on Accounting and Financial Reporting**, summarized the issues discussed at the committee’s last meeting including fair value reporting, lease accounting, and intergovernmental dependency. Since March 2009, the committee has participated in responding to the GASB’s invitation to comment on *Pension Accounting and Financial Reporting*. He gave an overview of the ITC and NASACT’s response. He reported that GASB has five additional due process documents out for comment.

Lisa Pusich (AK) reported for the **Derivatives Implementation Network**. Twenty-eight states participated on the June call. A total of four calls have been held since the network’s inception. Peter Shapiro from the Swap Financial Group was on the May call as a guest speaker. Randy Finden from the Governmental Accounting Standards Board continues to be involved with the calls, and he covered examples from the

Derivatives Implementation Guide on the June call. Technical questions from the states are also addressed on the calls.

Ms. Pusich also summarized the activities of the **Statement 51 Work Group**. The May conference call had 24 participating states and the July call had 15. Darryl Mays and Janet Turner from U.S. Department of Health and Human Services were on the May call to answer questions that were submitted prior to the meeting. Greg Driscoll from KPMG and Lisa Avis from GASB continue to be involved with the calls. Technical questions from the states are also addressed on each call.

Leila Malatesta (MS) reported for the **Multi-State Consortium on Internal Control**. Currently posted on NASACT’s website are the *Internal Control Guidebook* and draft sections of the following internal control questionnaires: payables, cash, control environment, personnel and payroll. Also posted are the risk assessment documents and the advisory controls for A-87 compliance. The following sections are currently being worked on: glossary, receivables, financial reporting, IT and investments. The group is meeting monthly and documents are posted after being approved by the group.

Ms. Bolander, chair of the **Committee on the Financial Plan**, discussed NASC’s 2009 projected results of operations. She encouraged everyone to pay their NASC dues, which have increased to \$2,000. She encouraged attendees to send staff to the next 2010 NSAA/NASC Middle Management Conference, which will be held in Oklahoma City next April.

Other Business

President McKelvogue invited everyone to attend the 2010 NASC Annual Conference to be held in Des Moines, Iowa on March 24–26, 2010.

A discussion ensued about holding a monthly conference call for the comptrollers to discuss ARRA-related issues, similar to the calls the auditors are currently having. The first call was held on September 10.

The next NASC business meeting will be held in March 2010 at the NASC annual conference in Des Moines. ■

Mark Your Calendar: Upcoming Conference/Information Sharing Calls

To get information about joining a NASC group, contact Kim O’Ryan at koryan@nasact.org. To join an NSAA group, contact Glenda Johnson at gjohnson@nasact.org. Summaries of past calls and resources from these groups can found at www.nasact.org (you must log in to the site to view the information).

- NASC Derivatives Implementation Network – September 29
- NASC E-Commerce – September 30
- NASC Statement 51 Workgroup – September 30
- NASC ARRA Information Sharing Call – October 1
- NASC Multi-State Consortium on Internal Control – October 8
- NASACT Committee on Accounting, Reporting and Auditing – October 13
- NSAA Human Resources – October 29
- NASC Transparency – November 3
- NASC State Government Payroll – November 4
- NASC ERP – November 5
- NASC Travel and Purchase Card – November 18



GASB Update, September 2009

GASAC Meets in Savannah

Members of the Governmental Accounting Standards Advisory Council met on August 3 and 4 in Savannah, Georgia, in conjunction with the National Association of State Retirement Administrators' fifty-fifth annual conference. All members of the Governmental Accounting Standards Board were in attendance.

GASAC's agenda included updates on the activities of the Financial Accounting Foundation and of GASB, including recent events related to the standards-setting process and the application of GASB pronouncements.

GASAC members provided feedback on several projects, including the codification of pre-November 30, 1989, FASB pronouncements; the Statement 14 reexamination; and the recognition and measurement attributes conceptual framework project. The members addressed tentative decisions made by the board on these projects and offered input on open questions the board will address in the future. The members also reviewed and commented on a draft prospectus regarding a potential current agenda project on economic condition reporting: fiscal sustainability. The next GASAC meeting is scheduled for December 3 and 4 in New York City.

Public Hearing Held on Reexamination of Pension Standards

In August, GASB held a public hearing on its invitation to comment on *Pension Accounting and Financial Reporting*. The ITC, which is intended to obtain feedback from constituents at an early stage of the board's reexamination of its pension accounting and financial reporting standards, was issued on March 31.

The public hearing began during the board's regular meeting on August 26 at the GASB's offices in Norwalk and continued on August 28 at the Government Accountability Office in Washington, D.C. GASB heard a wide range of views from 17 individuals and organizations, including actuaries, preparer organizations, and public employee retirement systems.

The input received in response to the ITC will help the board determine whether modifications to current pension standards should be developed in order to make them more effective.

GASB Meets with FASAB

The board and staff met on August 27 with members and staff of the Federal Accounting Standards Advisory Board to discuss each board's efforts on fiscal sustainability reporting, the financial reporting entity, and conceptual framework issues relating to measurement attributes. At the request of the FASAB, GASB

Chairman Robert Attmore agreed to consider a coordinated approach by the two boards to address issues regarding the conceptual framework for measurement attributes in historical-based financial statements prepared using the economic resources measurement focus.

Recent GASB Activity

GASB held public meetings on July 14–16 in Norwalk, Connecticut, and on August 27 in Washington, D.C., to discuss issues related to the projects on the codification of pre-November 30, 1989, FASB pronouncements; recognition and measurement attributes under the conceptual framework; and Statement 14 (financial reporting entity) reexamination.

Codification of Pre-November 30, 1989, FASB and AICPA Pronouncements

The board began deliberations on the codification of pronouncements issued before November 30, 1989, by the Financial Accounting Standards Board, as well as by the American Institute of Certified Public Accountants' Accounting Principles Board and Committee on Accounting Procedures. The board is considering those pronouncements for incorporation into the GASB's literature by reviewing the project staff's initial categorization of the pronouncements. While the board tentatively agreed with the classification of pronouncements superseded prior to November 30, 1989, board members offered suggestions on how certain pronouncements in other staff-proposed categories could be reclassified more appropriately.

The board tentatively decided that the pronouncements that conflict with or contradict GASB standards and those that are inapplicable to governments should not be considered for incorporation into GASB literature. In addition, the board deliberated whether pre-November 30, 1989, pronouncements with limited application to governments should be considered for incorporation and tentatively decided that, of the pronouncements categorized as having limited application to governments, only those that have "rare" application to governments should not be considered for incorporation into GASB literature. The board tentatively decided to consider all other pronouncements in the limited applicability category.

With respect to incorporating pronouncements focusing on issues similar to those of projects currently on the GASB's research agenda (for example, government combinations), the board tentatively decided to consider those FASB pronouncements on a case-by-case basis.

In addition, the board tentatively agreed that the scope of the project would consider only those pronouncements issued prior to November 30, 1989, that are applicable to governmental and business-type activities and to proprietary funds reported in the basic financial statements, and that do not conflict with or contradict GASB standards. The board tentatively agreed that FASB pronouncements issued subsequent to November 30, 1989, including amendments, interpretations, and technical corrections to prior standards, would not be considered for incorporation into

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GASB literature under this project. The board also tentatively agreed that this decision also applies to FASB Statement No. 13, *Accounting for Leases*, and that the board would only consider whether FASB Statement 13, as amended and interpreted as of November 30, 1989, should be incorporated into GASB literature.

Finally, the board reviewed and made suggestions regarding the first set of pronouncements considered to be applicable to governments, as well as modifications proposed by the staff to adapt the literature as closely as possible to the style and terminology used in the GASB literature.

Continuing its deliberations at the August meeting, after reviewing the staff's proposed modifications to the business combinations guidance, the board tentatively decided that the provisions of APB Opinion No. 16, *Business Combinations*, and its related amendments and interpretations, should not be considered further for incorporation into GASB literature. Rather, accounting for government combinations should be addressed in the separate project on the GASB research agenda.

In addition, the board discussed the applicability to governments of FASB pronouncements concerning accounting for income taxes and tentatively agreed that those standards rarely are applicable to governments and should therefore not be incorporated into the GASB literature. Similarly, the board tentatively agreed that FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, and its related amendments have rare application to governments and therefore should not be incorporated.

The board also reviewed research conducted by the staff related to the application by governments of paragraph 7 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended. Based upon this research, the board tentatively proposed that paragraph 7, which applies to FASB pronouncements issued after November 30, 1989, be eliminated from this project.

Finally, the board reviewed and made suggestions regarding a second set of FASB pronouncements considered to be applicable to governments, as well as modifications proposed by the staff to adapt the literature as closely as possible to the style and terminology generally used in GASB literature.

Conceptual Framework—Recognition and Measurement Attributes

At the July meeting, the board reviewed a draft document on measurement attributes in financial statements prepared using the economic resources measurement focus and generally agreed with its format and content. The board directed the staff to make various editorial changes, add an appendix to describe certain alternatives and issues the board considered in developing these concepts, and add a table presenting the relationship between the qualitative characteristics and the measurement attributes of initial value and remeasured value.

At the August meeting, the GASB reviewed a revised draft. The board focused on revising specific language to more precisely describe its tentative conclusions, including eliminating

references that could be considered too specific for a concepts statement and more appropriate for standards setting.

Reexamination of Statement 14 (*Financial Reporting Entity*)

At the July meeting, the board continued its discussion of the criteria for reporting blended component units and tentatively agreed to:

- Revise the substantively-the-same-board criterion. In addition to having substantively the same board, it was proposed that a component unit would also need to have a financial benefit/burden relationship with the primary government in order to qualify for blending. Otherwise, it would be discretely presented.
- Add a criterion to require blending of a component unit if its principal activities are financed with debt that is secured primarily by revenues of the primary government.
- Clarify the almost-exclusively-serves/benefits-primary-government criterion.
- Propose language to clarify that blending of business-type activity component units, such as a university hospital, in a single-column stand-alone business-type activity report, such as a university report, is accomplished by combining all information into the primary government column.

The board also directed the staff to further explore the mechanics of blending component units as funds of a government.

At the August meeting, the board considered the potential consequences of limiting blending to a situation first discussed at the July meeting. At that meeting, the board tentatively decided to amend the criteria for blending so that, in addition to having substantively the same board, a component unit would have to have a financial benefit/burden relationship with the primary government in order to qualify for blending; otherwise, it would be discretely presented. When considering the issue further in August, the board tentatively decided to expand that notion to require blending when management (below the level of the elected officials) of a primary government has operational responsibility for the activities of a component unit.

In addition, the board agreed that the blending provisions of Statement 14 should be amended to clarify that blended component units are subject to the same requirements and constraints as funds of the primary government (except for the general fund).

The board also continued its previous discussions of the misleading-to-exclude criterion for reporting component units and reaffirmed its tentative decision to retain the criterion, but requested that the staff continue working on changes to the language to clarify that it is subject to professional judgment. ■

The GASB Update is provided by the Governmental Accounting Standards Board. It is printed bi-monthly in the NASACT News.

Fraud News to Use

Provided courtesy of the Oregon State Controller's Office

Behavioral Red Flags and Warning Signs

In most fraud cases, the perpetrator exhibits warnings signs that can potentially lead to the discovery of the fraud scheme. The most common warning sign, noted in approximately 39 percent of cases in a recent report from the Association of Certified Fraud Examiners, was an individual living beyond their financial means, followed very closely by individuals exhibiting signs of financial difficulty (over 34 percent of cases).

The warning sign attributable to the highest median loss, approximately \$410,000, was an unusually close relationship/association with a vendor or customer. This could be because fraud schemes involving collusion, especially those with an outside party, can be very difficult to detect. Although found in more cases, the average median loss attributable to a perpetrator living beyond their financial means was significantly less at \$250,000.

Another recent study indicated that some of the most common contributing factors to fraud are pressures to do "whatever it takes" to meet goals (81 percent) and seeking personal gain (72 percent). The same report shows that 40 percent of perpetrator do not consider their actions to be fraudulent.

In addition, some behaviors can also be seen more commonly in certain fraud schemes. For example, in fraud cases that were examined as part of an ACFE study, an unusually close relationship with a vendor or customer is most commonly attributable to a corruption scheme; while excessive pressure from within an organization is more commonly an indicator of financial statement fraud. Living beyond means was equally distributed amongst each of the three major fraud scheme classifications (financial statement fraud, corruption, and asset misappropriation).

Although these behavioral indicators have the potential alert you to fraud, waste, or abuse within your organization, it is important to note that just because these red flags are present does not necessarily mean fraud is occurring or has occurred. These signs are merely POTENTIAL indicators of POTENTIAL fraud.

The Fraud Triangle in an Economic Downturn

The Fraud Triangle essentially details three components that contribute to the perpetration of fraud. These three components are motivation, opportunity, and rationalization. In the current economic climate there are additional factors to be aware of that could impact fraud within your organization.

Opportunity: With an increased focus on increasing revenues, efficiencies, and effectiveness, there is potential to decrease the focus on internal controls.

Motivation: Potential layoffs and cutbacks while the cost of living stays flat or increases could result in an increased incentive to commit fraud. Increased pressures to perform and show value within an organization an organization can also provide motivation for fraud.

Rationalization: As workforces and salaries are cut back, many employees are forced to do more work for less money, which can lead to a feeling of entitlement: "I deserve it" or "they owe it to me."

What Can You Do?

Good controls to assist in the prevention and detection of fraud are the responsibility of everyone within the organization. All levels of staff are responsible for aiding in the fight against fraud:

- Ensure a basic understanding of the red flags and be aware of the warning signs.
- Understand how your duties play a role in the internal control structure within your organization.
- Know why processes and procedures are set-up the way they are, as it can help provide an understanding of how each step works and help mitigate risks and protect against fraud, waste, and abuse.
- Read and understand policies and procedures within your organization and stay aware of changes or deviations.
- Report suspicions and inconsistencies that could be the result of fraud, waste, or abuse. ■

Fraud Facts Newsletter – Free for Members!

Would you like your staff or agencies in your state to know more about fraud facts and repercussions? The Oregon State Controller's Office publishes a monthly newsletter called "First Friday Fraud Facts" that aims to promote awareness of the potential for fraud in the public sector and the costs and ramifications. The information above is excerpted from this newsletter. Now you can use this newsletter to promote fraud issues within your office. All you need to do is change a few items in the file and it will be print-ready for distribution to your office or division.

The file is formatted in Microsoft Publisher. If you would like to receive a copy of the newsletter for distribution to your staff, please email your request to Glenda Johnson at gjohnson@nasact.org. If you have already expressed interest in receiving the fraud newsletter, you do not need to contact NASACT again; it will automatically be sent to you each month. ■

2009

- September 29 ■ NSAA IT Workshop, Harrisburg, PA
September 30 - October 2 ■ NSAA IT Conference, Harrisburg, PA

2010

- March 24-26 ■ NASC Annual Conference, Des Moines, IA
March 23 ■ NASACT Executive Committee Meeting, Des Moines, IA
April 19-21 ■ NSAA/NASC Middle Management Conference, Oklahoma City, OK
June 15-18 ■ NSAA Annual Conference, Carefree, AZ
August 7-11 ■ NASACT Annual Conference, Charleston, WV
August 8 ■ NASACT Executive Committee Meeting, Charleston, WV

Attention Corporate Associates: Plan Now for FY 2010 Program

By Donna Maloy, Conference Manager

NASACT corporate partners – plan now to join NASACT’s FY 2010 corporate associates program! The corporate associates program offers your company various opportunities for exposure and participation at NASACT’s annual conference as well as other benefits throughout the year, including a link on NASACT’s website. As a corporate associate, you will also receive copies of NASACT’s publications and e-distributions.

Whether your goal is networking, staying informed about state government finance, or participating in one of the premier conferences of the year for state government officials, the corporate associates program will benefit your company.

We would like to thank those companies who have participated in this program in the past. The financial contributions and the knowledge that you have shared with the association have been invaluable. Although the next annual conference is almost a year away, we know that budgeting the dollars needed to participate in the program next summer must be earmarked early. The 2010 NASACT annual conference will be held August 7–11 in Charleston, West Virginia.

Benefits associated with membership in the corporate associates program vary by level. To view the complete brochure outlining the benefits and to see which companies are currently members, visit www.nasact.org/nasact/corporate/index.cfm.

Questions about the corporate associates program may be directed to Donna Maloy at dmaloy@nasact.org or (859) 276-1147. ■

It's not too early to mark your calendar for the 2010 NASACT Annual Conference!



NASACT News

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The next issue of *NASACT News* will be published in October 2009. To submit articles, photos or ideas, contact Glenda Johnson by October 13 at gjohnson@nasact.org or phone at (859) 276-1147.