



NASACT Joins Work Groups on Improper Payments & Single Audit

As reported in the December 2009 issue of *NASACT News*, Executive Order 13520, “Reducing Improper Payments and Eliminating Waste in Federal Programs,” was issued in November by President Obama. The Executive Order aims to intensify efforts already underway to reduce payment error, including coordinating federal, state and local government action to identify and eliminate improper payments. Toward that goal, two work groups have been established – one to improve the effectiveness of the single audit and one to examine methods for reducing improper payments.

The mission of the Single Audit Work Group is to:

Make recommendations to the director of the U.S. Office of Management and Budget designed to improve the effectiveness of single audits of state and local governments and non-profit organizations that are expending federal funds. The recommendations shall address, among other things, the effectiveness of single audits in identifying improper payments and opportunities to streamline or eliminate single audit requirements where their value is minimal.

Representing NASACT on the Single Audit group are Debbie Davenport, auditor general of Arizona (and current president of the National State Auditors Association) and David A.

Vaudt, state auditor of Iowa (and chair of NSAA’s Single Audit Committee). The chair of the group is Elliot Lewis, assistant inspector general for audit with the U.S. Department of Labor.

The second group, the Incentives and Accountability Work Group, will explore the development of incentives that state and local governments can use for identifying and reporting improper payments.

Representing NASACT on this group will be Glen B. Gainer III, state auditor of West Virginia (and current president of NASACT), Martin J. Benison, comptroller of Massachusetts (and secretary of NASACT’s Executive Committee), and Kim R. Wallin, state comptroller of Nevada (and member of the Executive Committee of the National Association of State Comptrollers). This group is chaired by Pat Reese, director, Division of Financial Integrity, Office of Federal Assistance Management, Health Resources and Services Administration. ■

The Single Audit Work Group and the Incentives and Accountability Work Group have each held one meeting. NASACT members will be kept apprised of the activities of these groups.

Questions about the groups may be addressed to NASACT’s Washington office director, Cornelia Chebinou, at (202) 624-5451 or at cchebinou@nasact.org.

NASACT Names Representatives to Federal Work Groups

Shown left to right: Single Audit Work Group members – Debbie Davenport (AZ) and David A. Vaudt (IA); Incentives and Accountability Work Group members – Glen B. Gainer III (WV), Martin J. Benison (MA), and Kim R. Wallin (NV).



New at www.nasact.org

Visit www.nasact.org/nsaa/positions/aicpa.cfm to find responses from the National State Auditors Association to the following exposure drafts from the American Institute of Certified Public Accountants:

- *Terms of Engagement and Written Representations*
- *Forming an Opinion and Reporting on Financial Statements; Modifications to the Opinion in the Independent Auditor's Report; and Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements (Redrafted)*
- *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, and Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*

Visit www.nasact.org/nasc/technical/index.cfm to find responses to technical inquiries by state comptroller's offices on the following topics:

- Payroll Debit Cards
- Borrowing from the Federal Unemployment Tax Fund
- Mandated Direct Deposit
- Infrastructure Assets
- Non-Dependent Health Care Coverage
- Enactment of a Balanced Budget
- Accounting for Advance Construction
- State Rebates

New at www.nasact.org (cont.)

Visit www.nasact.org/nasact/positions/GASB.cfm to view NASACT's observations from the GASB meeting held October 6-8, 2009.

NASC Forms Statement 54 Work Group

The National Association of State Comptrollers has formed a work group to assist with the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The group is co-chaired by Kathryn Ross, manager of State Accounting and Reporting in the Oregon State Controller's Division, and Claire Watkins, from the Florida Department of Financial Services. The group will hold its first conference call on Thursday, February 11, at 2:00 p.m. Eastern time. To join this group and receive the agenda and dial-in information, contact Kim O'Ryan at koryan@nasact.org. The group plans to meet regularly via conference call.

NASC Calls for Roundtable Topics and Resolutions

Three roundtables are planned for the 2010 NASC Annual Conference. To submit topics you would like to discuss at the roundtables, email Kim O'Ryan at koryan@nasact.org.

Additionally, NASC will consider resolutions at the annual conference. Please send any proposed resolutions to NASC Resolutions Committee Chair Paul Christofferson (MT) at pachristofferson@mt.gov. ■

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 or the NASACT Committee on Accounting, Reporting and Auditing, contact Glenda Johnson at gjohnson@nasact.org.

Summaries of past calls and resources from these groups can be found at www.nasact.org (you must log in to the site to view the information).

National Association of State Comptrollers

- NASC Transparency – January 26
- NASC Multi-State Consortium – January 28
- NASC ERP – February 4
- NASC ARRA Information Sharing Call – February 10
- NASC State Government Payroll – February 10
- NASC Statement 54 Work Group – February 11 (first call)
- NASC Travel and Purchase Card – February 17
- NASC Statement 51 Work Group – February 24
- NASC E-Commerce – February 24

National State Auditors Association

- NSAA Human Resources – January 28

National Association of State Auditors, Comptrollers & Treasurers

- NASACT Committee on Accounting, Reporting and Auditing – February 23

Association Notes

NSAA Seeks Input on AICPA EDs

The American Institute of Certified Public Accountants, through the Auditing Standards Board, has issued several exposure drafts as part of its clarity project. The ASB is seeking comments from all interested parties. The Audit Standards and Reporting Committee of the National State Auditors Association will be issuing an association response to each of

the proposals. The documents may be downloaded from the AICPA's website at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Exposure+Drafts+of+Proposed+Statements/.

Comments for inclusion in NSAA's responses should be sent to Sherri Rowland, NSAA association director, at srowland@nasact.org, by the dates indicated in the chart below. Sherri may also be reached at (859) 276-1147. ■

Proposal Name	Description	Deadline to submit comments to AICPA	Deadline to include your comments in NSAA's response letter
Proposed SAS entitled <i>Audit Evidence—Specific Considerations for Selected Items</i>	On page 8 of the ED is an Issue for Consideration as well as a Guide for Respondents.	April 30	April 2
Proposed SAS entitled <i>Using the Work of an Auditor's Specialist</i>	This proposed SAS would supersede SAS No. 73, <i>Using the Work of a Specialist</i> . On page 6 of the ED is a Guide for Respondents.	April 30	April 2
Proposed SAS entitled <i>Communicating Internal Control Related Matters Identified in an Audit (Redrafted)</i>	This proposed SAS would supersede SAS No. 115, <i>Communicating Internal Control Related Matters Identified in an Audit</i> . On page 6 of the ED is a Guide for Respondents.	April 30	April 2

NSAA's Audit Standards and Reporting Committee is chaired by Randy Roberts, professional practice director, Arizona Office of the Auditor General. To see minutes from meetings of this committee or to view the committee list, visit www.nasact.org/nsaa/committees/standardsreporting/index.cfm. To join this committee, email Glenda Johnson at gjohnson@nasact.org.

NASC Seeks Input on IRS Pilot Regarding Truncating SSNs on Paper Payee Statements

In an effort to reduce the risk of identity theft, the Internal Revenue Service issued a notice (Notice 2009-73, 2009 51 IRB) to create a pilot program. The pilot allows filers of information returns to truncate an individual payee's social security number or other nine-digit identifying number on paper payee statements for calendar years 2009 and 2010 if the filers meet certain requirements. The notice also solicits comments on the truncation of identifying numbers.

An information return is a return, statement, form, or other document that must be filed with the IRS to report certain payments or distributions to a payee or amounts received from a payee in a calendar year.

Regs, forms, or instructions to forms typically require that the payee statement include the identifying number of the payee. The three types of identifying numbers applicable to individuals are social security numbers, IRS individual taxpayer identification numbers, and IRS adoption taxpayer identification numbers. All three of these identifying numbers are nine-digit numbers taking the

form 000-00-0000. The notice observes that a person's identifying number is sensitive personal information. A risk exists that this information could be misappropriated from a payee statement and misused in various ways, such as to facilitate identity theft.

As previously mentioned, the IRS notice requests general comments on the truncation of identifying numbers, specifically in these areas:

- Whether truncation of an individual's identifying number on paper payee statements should be required.
- Whether it should be permitted or required for identifying numbers appearing on other paper payee statements.
- Whether it should be permitted or required for payee statements furnished electronically.
- Whether a filer should be required to include the complete identifying number on the payee statement if requested by the payee.
- Whether truncation creates difficulties for filers and/or payees.

Visit www.irs.gov/pub/irs-irbs/irb09-51.pdf to see the full notice (IRS page numbers 863 and 864). Please provide your comments to Kim O'Ryan at koryan@nasact.org by April 2 for inclusion in NASC's official response to the notice. The IRS due date for comments is May 1. ■

OMB Expands FAQ Website for ARRA Reporting

By Neal Hutchko, Policy Analyst

The U.S. Office of Management and Budget recently updated the frequently asked questions section of its American Recovery and Reinvestment Act website. The updates focus on guidance issued in mid-December and deal specifically with questions that recipients and reporting parties have in regards to vendor payments. The FAQs include answers to questions like:

- What information are prime recipients and subrecipients with delegated reporting responsibility required to report for vendor payments?

- Does the \$25,000 threshold for vendor payments apply to payments or the award or invoice amount?
- How are aggregated payments reported over more than one quarter?
- How are separate payments to one vendor reported over more than one quarter?
- What if a vendor's payments were aggregated in a previous quarter and then the vendor received a payment of more than \$25,000 during the current reporting quarter?

The latest FAQ installment can be found at www.whitehouse.gov/omb/recovery_faqs. ■

GAO Appoints New Medicaid Panel

By Neal Hutchko, Policy Analyst

On December 23, 2009, Gene Dodaro, acting comptroller general of the U.S. Government Accountability Office, announced the appointment of 17 members to the new Medicaid and CHIP Payment and Access Commission (MACPAC). The Children's Health Insurance Program Reauthorization Act of 2009 established the MACPAC to review Medicaid and CHIP access and payment policies and to advise Congress on issues affecting Medicaid and CHIP. The act directs the comptroller general to appoint MACPAC's members, with initial appointments to be made no later than January 1, 2010.

The terms of MACPAC commissioners are intended to be staggered, with the first set of appointments for terms of one, two, or three years. Commissioners may be appointed for subsequent three-year terms. Some members of the commission include:

- Dr. Diane Rowland, executive vice president, Henry J. Kaiser Family Foundation, and executive director, Kaiser Commission on Medicaid and the Uninsured (Dr. Rowland will serve as chair of MACPAC).
- Trish Riley, director, Maine Governor's Office of Health Policy and Finance.

- Sharon L. Carte, executive director, West Virginia Children's Health Insurance Program.

As tasked by the legislation, MACPAC is required to review policies of the Medicaid program and the State Children's Health Insurance Program affecting children's access to covered items. By no later than March 1 of each year (beginning with 2010), the commission will submit a report to Congress containing the results of reviews and MACPAC's policy recommendations. By June 1 of each year (beginning with 2010), the commission will submit a report to Congress containing an examination of issues affecting Medicaid and CHIP, including the implications of changes in healthcare delivery in the United States and in the market for healthcare services on such programs.

Specific topics to be reviewed for these reports will include payment policies under Medicaid and CHIP, and the factors affecting expenditures for items and services in different sectors (including the processes for updating hospital, skilled nursing facility, physician, federally-qualified health center, rural health center, and other fees). The reports will also focus on payment methodologies and the relationship of such factors and methodologies to access and quality of care for Medicaid and CHIP beneficiaries.

The full list of commission members can be found at www.gao.gov/press/macpac_2009dec23.html. ■

U.S. Department of Education Provides Guidance on State Fiscal Stabilization Fund

The U.S. Department of Education recently released guidance on auditing the State Fiscal Stabilization Fund (SFSF) program. The guidance is specifically geared toward clarifying matters that should be helpful in light of auditors' questions on recordkeeping, documentation and reporting. The specific information concerning references to OMB cost principles, including time distribution and time and effort requirements,

supersedes question III-D-4 on a local educational agency's use of funds in the Department of Education's April 1, 2009, SFSF guidance. The document also provides supplemental guidance on the applicability of the cost principles to government services funds and education stabilization funds provided to institutions of higher education. The guidance document may be updated periodically to aid grantees and auditors.

The PDF file can be found at www.ed.gov/programs/statestabilization/auditor-guidance.pdf. ■



GASB Update, January 2010

New GASB Standards Address OPEB Implementation Issues and Chapter 9 Bankruptcies

In December, the Governmental Accounting Standards Board issued Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The statements are intended to improve consistency in the measurement and financial reporting of other postemployment benefits (OPEB) such as retiree health insurance, and of the effects of municipal bankruptcy.

Statement 57

Statement 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans.

Statement 57 establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. In addition, it clarifies requirements of GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, related to the coordination of the timing and frequency of OPEB measurements by agent employers and the agent multiple-employer OPEB plans in which they participate.

It amends Statement 45 to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, Statement 57 also amends a Statement 43 requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.

In addition, Statement 57 clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a

minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

The requirements in Statement 57 will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting. As a result of this change, the cost of compliance with the requirements of Statement 45 for eligible agent employers may be reduced while achieving an appropriate balance between the goals of reliable measurement of reported information and reasonable cost. In addition, the clarification that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date will improve the consistency of reporting with regard to funded status and funding progress information.

The final standards retain the basic reporting requirements proposed in June 2009, but the GASB did make a number of changes based on public feedback and further study.

In the final statement, the board took note of concerns that the proposed effective date might not provide sufficient time for affected governments to address the guidance related to actuarial valuations. As a result, the provisions of Statement 57 related to the coordination of actuarial valuation dates were made effective for actuarial valuations first used to report funded status information in agent multiple-employer OPEB plan financial statements for periods beginning after June 15, 2011, one year later than originally proposed. Earlier application of the statement is encouraged. The provisions of the statement related to the use and reporting of the alternative measurement method are effective immediately.

Statement 58

Statement 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. Chapter 9 is designed to protect a financially distressed government from its creditors while it develops and negotiates a plan for adjusting its debts. Prior to the issuance of Statement 58, there was no authoritative accounting and financial reporting guidance for governments filing for bankruptcy. The requirements of the statement will improve financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. In addition, these requirements provide financial statement users with better information regarding the effects of bankruptcy upon governments that file for Chapter 9 protection. Statement 58 applies to municipal governments only; its guidance does not extend to either state or tribal governments.

The statement requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court approves a new payment plan. It is intended to improve financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that have filed for bankruptcy under Chapter 9.

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For accounts payable, notes, debentures and bonds, and related interest payable, the statement requires governments to base remeasurement on the new payment plan. Reductions in future interest payments would result in lower interest costs reported in future periods. Reductions to principal or to accrued interest payable may result in gains reported at the time of the reduction. If the new payment plan does not indicate whether it reduces principal payments or future interest payments that have not been accrued, the debt should be remeasured at the present value of the future payments using the original discount rate, and a gain should be reported at the time of the reduction.

For leases, pollution remediation liabilities, and liabilities for pension and other postemployment benefit plans, the statement requires remeasurement based on existing authoritative guidance. However, if a benefit plan is rejected in bankruptcy and becomes general unsecured debt, the statement requires the existing liability to be removed and a new approved payment plan to be recognized as a judgment, with a gain or loss recognized for the difference.

For governments that are not expected to emerge from bankruptcy as going concerns, the statement requires remeasurement of assets to a value that represents the amount expected to be received. Gains or losses resulting from remeasurement of liabilities and assets are classified as extraordinary items.

Governments that have filed for bankruptcy are required to disclose information regarding, among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services.

Statement 58 does not differ significantly in substance from what was proposed in June 2009, but the final pronouncement does clarify a number of issues highlighted by constituents. Governments will implement Statement 58 for periods beginning after June 15, 2009, with early application encouraged.

How to Order Copies

Statements 57 (product code GS57) and 58 (product code GS58) and may be ordered through the GASB's Order Department at (800) 748-0659 or through its website at www.gasb.org.

GASAC Meets in New York

Members of the Governmental Accounting Standards Advisory Council met on December 3-4 in New York. The GASAC's agenda included updates on the activities of the Financial Accounting Foundation and of the GASB, including recent events related to the standards-setting process and the application of GASB pronouncements.

GASAC members provided significant feedback on primary issues associated with the reexamination of pension accounting and financial reporting, the reexamination of Statement No. 14, *The Financial Reporting Entity*, and the service concession arrangements project. In addition, the council discussed communication activities before adjourning. The next GASAC meeting is scheduled for March 31–April 1 at the GASB offices

in Norwalk, Connecticut.

As reported in the December issue of *NASACT News*, the FAF trustees approved the appointment to the GASAC of Martin J. Benison, comptroller, commonwealth of Massachusetts, to represent NASACT. His two-year term began on January 1. The FAF and GASB recognized Debbie Davenport, auditor general, state of Arizona, for her service representing NASACT on the GASAC, which concluded December 31.

Recent GASB Activity

GASB held public meetings on November 18–20 and January 5–7 and met via teleconference on December 8 to discuss topics including the codification of pre-November 30, 1989 pronouncements issued by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants' Accounting Principles Board and Committee on Accounting Procedures, pension accounting and financial reporting, service concession arrangements, service efforts and accomplishments, the Statement 14 reexamination, and the *Technical Plan* for the first third of 2010.

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

At the November meeting in Norwalk, GASB reviewed a draft standards section of an exposure draft for the proposed statement, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The board also discussed the impact of the proposed statement on GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and tentatively decided that the proposed statement would supersede Statement 20 in its entirety.

In addition, GASB considered the effective date provisions of the proposed statement and tentatively decided to encourage early application.

At the January meeting, the board reviewed a preballot draft of an exposure draft for the proposed statement and provided suggestions to further clarify the draft material. A ballot draft of a proposed statement will be reviewed by the board at a January 2010 teleconference.

Pension Accounting and Financial Reporting

At the November meeting in Norwalk, the board continued its deliberations on issues raised in the 2009 invitation to comment, *Pension Accounting and Financial Reporting*. The issues discussed related to the focus of sole and agent employer accounting and financial reporting for pensions, as well as pension liability and expense recognition. The board's deliberations included consideration of comment letters received in response to the invitation to comment and testimony provided at two public hearings.

In discussing the focus of pension accounting and financial reporting, the board tentatively concluded that a sole or agent

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employer incurs a pension obligation to its employees as a part of the exchange between the employer and its employees of salaries and benefits, including defined pension benefits, for employee services. The board also tentatively concluded that the pension plan becomes the primary obligor, and the employer becomes the secondary obligor, for that pension obligation to the extent that plan assets have been accumulated to provide for the payment of benefits to employees or their beneficiaries when due, and that the employer remains the primary obligor for that pension obligation to the extent that it is unfunded.

The board also considered whether sole and agent employers should recognize the unfunded accrued benefit obligation as a pension liability. That consideration included two questions: Does the unfunded accrued benefit obligation meet the definition of a liability—that is, it is a present obligation, and the employer has little or no discretion to avoid a sacrifice of its resources to satisfy the obligation? Is it measurable with sufficient reliability to be recognized as a liability in basic financial statements of the employer? After discussion, the board tentatively answered yes to both. The board further agreed to consider at a future meeting whether an employer also would continue to report its net pension obligation in some manner.

In addition, the board discussed reporting of changes in the pension liability, other than those associated with normal cost, by sole and agent employers. The board tentatively decided to explore the possibility that short-term fluctuations in investment values might not be recognized immediately but, rather, would be reported as a deferred inflow or outflow and amortized over a period of time (to be determined at a subsequent meeting). The board further tentatively decided to explore the possibility that actuarial gains and losses (for example, a loss that results when plan members live longer than was assumed), except for those associated with events that are not likely to recur, and changes in actuarial assumptions might be reported as a deferred inflow or deferred outflow, as applicable, and amortized (over a period to be determined at a subsequent meeting).

Finally, the board tentatively decided that changes in the pension liability as a result of changes to benefits of existing retirees would be recognized immediately. The board tentatively decided to explore the possibility that changes in the pension liability associated with collective bargaining agreements or similar arrangements related to active employees might be reported as a deferred inflow or outflow, as applicable, and amortized over the term of the agreement.

During the first week of December, the board met separately with the project task force and the GASAC to discuss the project. At the December teleconference, the board discussed the feedback raised at those meetings but did not reach any tentative decisions.

At the January meeting, the board held an educational session in which actuaries provided explanations and illustrations and answered questions regarding measurements of pension liability and expense using various actuarial cost methods, amortization methods, discount rates, and asset valuation methods. This session was informational only and did not include discussion of project issues.

Following the educational session, the board deliberated on issues related to the measurement of a sole or agent employer's pension liability: whether the effects of certain types of projected future changes should be included when projecting benefit payments for the purpose of measuring the pension liability, and what discount rate should be used in determining the present value of projected pension benefits.

The board considered whether the projection of benefits for the purpose of measurement of the pension liability should include the effects of one or more of the following types of projected future changes: automatic cost-of-living adjustments (COLAs); projected future ad hoc COLAs in circumstances in which an employer has demonstrated a pattern of granting ad hoc COLAs in the past; projected future salary increases; and projected future service credits. The board tentatively decided that:

- Effects of automatic COLAs would be included in the projection of benefits.
- Projected future ad hoc COLAs, referring in this context to COLAs that are dependent upon a decision to grant by a responsible authority, would be included in the projection of benefits when certain criteria for inclusion (to be further discussed at a subsequent meeting) are met.
- Projected future salary increases would be included in the projection of benefits in circumstances in which the pension benefit formula is based on future compensation levels.
- Projected future service credits would be included both in determining an employee's probable eligibility for benefits and in the projection of benefits.

The board's discussion also addressed the discount rate that should be used to discount projected benefits for purposes of measuring an employer's pension liability. The board tentatively decided that to the extent current and projected pension plan assets are projected to be sufficient to provide for payment of benefits in future periods, the projected benefit payments would be discounted at the long-term expected yield on plan assets. Additional benefit payments, if any, projected beyond the point at which plan assets are projected to be fully depleted would be discounted using a current high-quality municipal bond index rate.

Service Concession Arrangements

At the November meeting in Norwalk, GASB reviewed various respondent comments received in response to the exposure draft Accounting and Financial Reporting for Service Concession Arrangements and deliberated various issues relating to the scope and focus of the proposed standard.

First, the board discussed comments received from respondents concerning the scope of the exposure draft. The board tentatively affirmed its previous decision to exclude governmental funds from the scope of the standards, and decided to include language that would emphasize the focus on an operator's provision of primary services associated with a facility.

The board tentatively decided to remove the existence of a

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significant residual interest as a control criterion and instead include it as a scope criterion. In addition, the board discussed the proposed use of a control approach to determine the proper accounting for SCAs. The board considered the suitability of using a control approach versus an ownership approach and discussed the possibility of a transferor completing a partial sale of an asset by relinquishing control of that asset, referring to their related discussions as part of the project on conceptual framework—recognition and measurement. The board tentatively decided to include the remaining proposed control criteria—that is, determination of services, clientele, and prices—as additional scope criteria. Under this tentative decision, arrangements within the scope of the standards would follow the accounting provisions developed for when control remains with the transferor. The board also tentatively stated that other arrangements that will be excluded from the scope of the standards because of the change should be accounted for by applying the lease accounting standards, if appropriate.

At the January meeting in Norwalk, the board continued its deliberations of issues raised by respondents to the exposure draft *Accounting and Financial Reporting for Service Concession Arrangements*; specifically, issues relating to transferor and operator accounting and financial reporting.

The board discussed several different issues relating to transferor accounting and reaffirmed several of its previous tentative decisions in this area that were proposed in the exposure draft. The board tentatively decided to clarify in the final standard that the reduction of a transferor's liability over the course of the SCA should be reported as revenue. The board also tentatively decided to clarify that the transferor should capitalize improvements made by the operator during the term of the SCA. Finally, the board tentatively decided to include language in the final standard stating that a transferor is not required to depreciate an SCA facility if the operator is required to return the facility in its original or an improved condition. The board also suggested various changes relating to transferor accounting and financial reporting to further clarify the final statement.

The board deliberated several different issues relating to operator accounting and financial reporting and reaffirmed several of its previous tentative decisions in this area that were proposed in the exposure draft. The board tentatively decided to clarify in the final standard that an operator should generally treat the creation of a liability to return a facility in a specified condition as an expense when the liability is incurred. The board also tentatively decided to require operator capitalization of improvements made to the facility during the term of the SCA. The board also suggested various changes relating to operator accounting and financial reporting to further clarify the final statement. The board also addressed comments received in response to the illustrations used in the exposure draft, tentatively deciding to make no further changes to those illustrations for their inclusion in the final standard.

The board will deliberate comments received in response to the exposure draft relating to revenue sharing arrangements and discuss unresolved issues relating to the definition of SCAs during the February 2010 meeting.

Service Efforts and Accomplishments Reporting

At the January meeting in Norwalk, GASB reviewed and discussed a summary of the due process comments received on the proposed suggested guidelines for voluntary reporting entitled *SEA Performance Information*. For the February board meeting, the staff will prepare a summary of comments received regarding the “Qualitative Characteristics of SEA Performance Information” section.

Statement 14 (The Financial Reporting Entity) Reexamination

At the November meeting, the board discussed reporting requirements for major component units and tentatively decided to propose the removal of the current provision to consider the component unit's significance relative to the other component units. In addition, new language would be proposed that would require that consideration be given to the nature of significant transactions with the primary government and to the significant benefit/burden relationship that exists between the component unit and the primary government. Furthermore, the board requested that proposed language be added to require consideration of the nature of services provided by the component unit.

The board tentatively agreed to propose amending the note disclosure requirements regarding discussion of the criteria for including each component unit in the financial reporting entity.

The board also tentatively agreed to propose requiring that minority interests in organizations with joint venture characteristics be reported as “restricted net assets, nonexpendable” in proprietary funds and in the government-wide statement of net assets of the primary government. This will result in a proposed amendment of paragraph 35 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to specifically state that the nonexpendable category should be applied to minority interests in organizations with joint venture characteristics.

With respect to the fiduciary responsibility notion, following discussion of staff research on how governments report fiduciary activities, the board concluded that the issues associated with this topic were broader than reporting entity consideration and, therefore, should not be addressed in this project. The topic was returned to the GASB's potential projects list.

At the January meeting, the board reviewed the initial draft of the standards section of the exposure draft and made certain editorial changes. Given anticipated issuance of the final statement in February 2011, the board concluded that the effective date should be approximately one year later, for periods beginning after June 15, 2012.

The board continued discussing its previous decision that acquisitions of 100 percent of the net assets (for example, stock) of a corporation would be reported as blended component units. At issue was how to report ownership of 51 to 99 percent of the net assets of a corporation. The board tentatively decided that there would be no distinction made between certain percentages

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News From Around the Nation

NASACT Welcomes New Officials, Bids Old Friends Farewell

Alabama



On January 1, 2010, **Thomas L. White, Jr.**, assumed the position of state comptroller and head of the Division of Control and Accounts with the Alabama Department of Finance. Mr. White fills a vacancy left when **Robert L. Childree** retired last year; **Michael Hudson** served as acting comptroller during the interim.

Mr. White began his state career over 35 years ago. After graduating with a degree in accounting and business administration from Troy State University in 1971, Mr. White worked briefly in public accounting and private enterprise before accepting an analyst position with Alabama's Law Enforcement Planning Agency. He has served as chief financial officer with the Alabama Department of Youth Services and in various CFO positions on the Board of Pardons and Paroles and the Alcoholic Beverage Control Board.

For the last 22 years, Mr. White was chief accountant and director of the Bureau of Financial Services at the Alabama Department of Public Health. In this capacity, he supervised over 40 employees ranging from clerical support to senior accounting management. While with the Alabama Department of Public Health, Mr. White also served as chief financial officer for the Alabama Public Health Care Authority.

New Jersey

Andrew P. Sidamon-Eristoff was nominated by New Jersey Governor Chris Christie to serve as state treasurer; he assumed the duties of acting state treasurer on January 19, 2010.

Mr. Sidamon-Eristoff is an accomplished leader in public sector budget, revenue and tax system administration. Prior to his nomination he served as commissioner of the New York State Department of Taxation and Finance, the nation's second-largest state revenue administration. From 1999 to 2002, he served as New York City commissioner of finance and as a three-time elected member of the New York City Council.

Mr. Sidamon-Eristoff is currently a member of the Internal Revenue Service's Electronic Tax Administration Advisory Committee. He is a former president of the North Eastern States Tax Officials Association and a board member of the Federation of Tax Administrators.

Mr. Sidamon-Eristoff earned a bachelor's degree, cum laude, from Princeton University and a juris doctor degree, cum laude, from Georgetown University Law Center. He also earned an advanced professional certificate in information technology from New York University.

Mr. Eristoff still needs to be confirmed by the state senate. He will replace **David Rousseau**, who has served as new Jersey's state treasurer since 2007.

New York



Mark Pattison is the new auditor representative in the New York Office of the Comptroller. He replaces **Lynn Canton**, who retired from the office in January to accept a position as regional administrator with the Federal Emergency Management Agency.

Mr. Pattison was appointed executive deputy comptroller for the Office of State and Local Government Accountability in the NYS Office of the State Comptroller on May 7, 2007. Mr. Pattison previously served as the deputy comptroller for Local Government Services and Economic Development.

Prior to his appointment, he served as the mayor of the city of Troy, New York, for two terms. Prior to becoming mayor, Mr. Pattison worked as the director of Residential Services for the Rensselaer County Chapter Association for Retarded Citizens. Mr. Pattison has a long record of community service. He has served on the boards of many community organizations including TRIP (Troy Rehabilitation and Improvement Program). He is a past president of Vanderheyden Hall; he has served as vice chair of the Rensselaer County Regional Chamber of Commerce; and he was a member of the Community Foundation of the Capital District. He also was elected to the School Board of the Enlarged City School District of Troy, where he served as vice president.

Ms. Canton was an active member of NASACT, serving on several committees, including NASACT's Executive Committee. She was secretary/treasurer of the National State Auditors Association and belonged to several NSAA committees as well.

Rhode Island



Ernest A. Almonte will be stepping down from his position as Rhode Island's auditor general, effective January 31. Mr. Almonte has accepted a job to become a partner at DiSanto, Priest & Co., a financial services and accounting firm in Warwick, Rhode Island, where he will head the company's fraud-examination and municipal consulting practices. Rhode Island's deputy auditor general, **Dennis Hoyle**, will lead the office's efforts until a successor is named.

Mr. Almonte has served as Rhode Island's auditor general since 1994. He has been an active member of NASACT and the National State Auditor's Association, serving on NASACT's Executive Committee for several years and as president of NSAA in 2006. He has been involved in numerous NASACT and NSAA projects and initiatives over the years and is a tireless advocate of government accountability and professionalism. He recently served as the first-ever government chairman of the AICPA and has been honored with numerous other distinctions and awards during his tenure, including NASACT's President's Award in 2007. ■

News From Around the Nation

Nebraska State Treasurer Responds to Calls to Eliminate Office

Nebraska State Treasurer Shane Osborn responded on January 12 to Legislative Resolution 284 CA, introduced by Sen. Dennis Utter on the elimination of the Nebraska State Treasurer's Office. The proposal suggests eliminating the office in 2013. To succeed, it must be approved by a legislative committee, the full legislature and finally, voters in a statewide election. Treasurer Osborn had the following response to the proposal:

"The state treasurer serves a vital role as an independent elected official who is accountable to the citizens of Nebraska, and a check to the power of the governor and

legislature. In an era of growing government, my office has been doing more with less, increasing efficiency, all while creating transparency in government spending."

My actions in office speak for themselves, returning more than \$42 million in unclaimed property, dispersing more than \$276 million dollars in Child Support Payments electronically, processing \$9.6 billion in state agency receipts through my Treasury Management Division, and the highest in-state participation rate in the country for the Nebraska College Savings Plan."

Treasurer Osborn also cited the recent improvement made to Nebraskaspending.gov, which includes the addition of 1.76 million payments made by state agencies, a first in the history of the state. ■

Delaware Office of Finance to Be Kept Intact

In the summer of 2009, Delaware Governor Jack Markell recommended eliminating the Department of Finance and consolidating its functions into other agencies. The Department houses the Division of Accounting, the Division of Revenue and the State Lottery Office. At that time, then-director of the department, Gary Pfeiffer, resigned, and Thomas J. Cook was

named to serve as acting secretary.

On January 19, the *Delaware Daily Times* reported an unannounced decision by the Markell administration to keep the department intact after all. Governor Markell cited the state's new ERP system and cost-saving measures implemented by Acting Director Cook as reasons for the reversal.

Prior to his job as deputy secretary of finance, Mr. Cook worked for the Office of Information Systems and the Department of State and served as Delaware's commissioner of elections. ■

Arizona Treasurer Martin Announces Bid for the Republican Nomination

On January 12, Arizona State Treasurer Dean Martin announced that he would be running for the Republican

governor nomination. The first-term treasurer and former state senator will be challenging Gov. Jan Brewer for the nomination. Mr. Martin has criticized the governor's proposal for a temporary sales tax increase to help balance the state budget in the face of current and projected shortfalls. ■

GASB Update, continued from page 8

of ownership. Once it is determined that a purchase of a majority interest results in a component unit (based on the intent of the purchase being enhancement of the government's ability to provide services), the component unit would be blended or discretely presented based on the current blending criteria. To avoid reporting an outflow for the purchase of "explicit, measurable" equity interests, the board tentatively decided that an asset should be recorded by the primary government if the component unit is discretely presented. The explicit, measurable equity interest notion would be the same as that currently used for reporting interests in joint ventures.

The board next reaffirmed its previous decision to expand the blending requirement in paragraph 53 to include component units that issue debt that is primarily secured by revenues of the primary government.

Finally, with respect to the board's previous decision to blend lotteries and casinos, the board now tentatively decided

that there should not be a specific provision in Statement 14 to require blending of either. The staff will continue to respond to questions related to this issue with the guidance provided in the *Comprehensive Implementation Guide*, which holds that lotteries should be discretely presented.

Technical Plan

At the December teleconference, the board reviewed and provided input to the chairman on the first-third 2010 technical plan, which includes the addition of the Economic Condition Reporting—Fiscal Sustainability project to the current agenda. There were no additions to the roster of practice issues or research projects. The technical plan anticipates, in addition to the continued deliberation of projects on the GASB's current agenda, the issuance of exposure drafts in the codification of pre-November 30, 1989, FASB and AICPA pronouncements project and Statement 14 reexamination. After considering the views of the other board members, the chairman approved the technical plan with the above-mentioned addition. ■

Fraud News to Use

Provided courtesy of the Oregon State Controller's Office

What is "Conflict of Interest?"

Conflict of Interest may be defined differently in each state. But as an example, conflict of interest is defined by Oregon Revised Statute (ORS) as either an "actual conflict of interest" (ORS 244.020(1)) or a "perceived conflict of interest" (ORS 244.020(11)). The Oregon Government Ethics Commission (OGEC) summarizes a conflict of interest as the result of a public official participating in official action which could result in a financial benefit to the public official, a relative of the public official, or a business with which either are associated.

The OGEC also notes that the difference between an actual conflict of interest and a potential conflict of interest is determined by the words "would" and "could" as used in the ORS. For example, an *actual* conflict of interest occurs when the action taken by a public official *would* affect the financial interest of the official, the official's relative, or a business with which the official or a relative of the official is associated. A *potential* conflict of interest exists when the action taken by the public official *could* have a financial impact on the official, a relative of that official, or a business with which the official or the relative of that official is associated.

Red Flags

In fraud involving conflict of interest, a public official misrepresents their impartiality in business decisions when they have an undisclosed financial interest. There are many associated red flags to watch for, particularly as related to contract, bidding, and procurement processes. Some of these indicators include, but are not limited to:

- Unexplained or unusual favoritism shown to a particular contractor or consultant.
- A public official disclosing confidential bid information to a contractor or prospective contractor.
- A public official having discussions about employment with a current or prospective contractor or consultant.

- Acceptance of inappropriate gifts, travel, or entertainment from a contractor.
- A vendor or consultant's address being incomplete or matching an employee's address.
- A public official leasing or renting equipment to a contractor for performing contract work.
- A public official who fails to file Conflict of Interest or Financial Disclosure forms in accordance with state law.

Fraud Case Overview

This case involves a state agency director who allegedly provided favors for friends and family at the expense of taxpayers. The fraud occurred over a five-year period and resulted in the expenditure of over \$1 million in public funds.

Officials involved in the investigation have indicated that the agency director violated conflict of interest laws by ordering employees of his department to hire his wife and son and attempting to cover it up. It is also alleged that the director later authorized a 35 percent increase in his wife's salary. Payments to his son and wife totaled over \$330,000.

Further allegations indicate that the director misused public money by gifting money to individuals and private corporations, including payments over a two-year period to help establish and maintain his own private corporation and purchasing over 1,200 gift cards for employees over a four-year period. Accusations also include procurement fraud perpetrated by circumventing procurement rules over a three-year period, including making payments for services that were never received.

The agency director ordered one of the programs under his authority to decrease spending in order to pay for many of the expenses. This meant elimination of services to direct recipients of public assistance programs.

The state agency director has since resigned from his position amid these allegations and additional issues resulting in a \$10,000 civil penalty issued to the department by the federal government. The alleged perpetrator is charged with eight felony charges related to conflict of interest, fraudulent schemes and practices, misuse of public money, and procurement fraud. If convicted on all eight counts, the individual could be sentenced to more than 15 years in prison. ■

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. ■

2010

- March 22 ■ NASACT Strategic Planning Committee Meeting, Des Moines, IA
March 23 ■ NASACT Executive Committee Meeting, Des Moines, IA
March 24-26 ■ NASC Annual Conference, Des Moines, IA
April 19-21 ■ NSAA/NASC Middle Management Conference, Oklahoma City, OK
April 26-27 ■ Tennessee Training Seminar, Chattanooga, TN
May 3-4 ■ Tennessee Training Seminar, Nashville, TN
May 13-14 ■ Tennessee Training Seminar, Morristown, TN
May 19-20 ■ Tennessee Training Seminar, Jackson, TN
June 15-18 ■ NSAA Annual Conference, Carefree, AZ
August 7-11 ■ NASACT Annual Conference, Charleston, WV
August 8 ■ NASACT Executive Committee Meeting, Charleston, WV
September 28 - October 1 ■ NSAA IT Workshop and Conference, Tallahassee, FL

Register Now for NASC 2010

By Donna Maloy, Conference Manager

On behalf of Calvin McKelvogue, chief operating officer, Department of Administrative Services, Iowa, we invite you to join us for the 2010 NASC Annual Conference to be held March 24–26, 2010, in Des Moines, Iowa.

This year's program committee has been working hard to put together a slate of sessions on timely topics including state budget issues; shared services; new standards and their implementation; internal controls; and reporting and audit documentation related to the American Recovery and Reinvestment Act. Three sessions of the comptrollers' roundtable will allow for plenty of interactive discussion about a wide variety of topics and challenges in the world of financial management in state government. One session of the roundtable will be devoted to federal-state issues, while another will focus on ARRA-related issues. The last roundtable session will be devoted to general issues including transparency, ACH payments, and new guidance from the National Automated Clearinghouse Association.

A special tour of Iowa's state capitol has been arranged for Thursday afternoon directly following the NASC business meeting.

Online registration is now open. Detailed information and registration can be found on NASACT's website. Questions can be addressed to Donna Maloy at dmaloy@nasact.org or (859) 276-1147. ■

NASC 2010: Schedule of Events

Tuesday, March 23

- NASACT Executive Committee: 8:30 a.m. - noon
- NASC's Committee on Accounting and Financial Reporting: 1:00 - 1:50 p.m.
- NASC's Executive Committee: 2:00 - 2:50 p.m.
- Grant Thornton Survey Meeting: 3:00 - 3:50 p.m.
- Benchmarking Forum: 4:00 - 5:00 p.m.

Wednesday, March 24

- NASC's conference, all day

Thursday, March 25

- NASC's conference, until 3:00 p.m.
- NASC's business meeting, afternoon
- Iowa state capitol tour

Friday, March 26

- NASC's conference, ending at 12:00 noon

NASACT News

JANUARY 2010

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The next issue of *NASACT News* will be published in February 2010. To submit articles, photos or ideas, contact Glenda Johnson by February 16 at gjohnson@nasact.org or phone at (859) 276-1147.