



Working Together, We Can Overcome Tough Challenges

By Glen B. Gainer III, State Auditor of West Virginia and 2009-10 President of NASACT

It has been my honor to serve as president of NASACT. To say that NASACT has been busy this year is an understatement. It is through active involvement by state auditors, comptrollers and treasurers from around the nation that we have been able to accomplish so much in FY 2010. Additionally, our combined voices have come together to ensure that we are more respected than ever nationally as an organization that works to reach solutions in a collaborative manner.

I hope that you will consider joining me and the West Virginia host team in Charleston this August 7-11 for the 2010 NASACT Annual Conference. For those with budget problems, please consider using the NASACT travel assistance program, through which you can be reimbursed for up to \$1,000 of your travel and registration costs to attend the conference.

We have much to talk about and much more work to do. Here is an overview of some of our accomplishments this year:

- **GASB Funding:** NASACT has been working, along with partner organizations, to find a solution to funding the Governmental Accounting Standards Board since 2003. We have tried several different ways to fund GASB, but none of them have been able to generate the needed levels of funding. In 2008, it seemed that the stakeholder parties were all in agreement that funding GASB was a state responsibility and that collecting the funds from the states was the only viable solution. However, the economic crisis hit, and any impetus

for state funding was tempered by the reality of state budgets and impending cuts. In March 2010, the Financial Accounting Foundation suggested that it was time to seek a definitive source of funding, through a federal model if necessary. Financial reform legislation has passed both the House and Senate and should be signed into law soon; it includes a provision to fund GASB (see page 4 for an overview).

- **Recovery Act:** NASACT continues to be actively involved in the community of government accountability officials and associations working to ensure the successful implementation, and now auditing, of the American Recovery and Reinvestment Act. We have worked closely with the U.S. Office of Management and Budget to help develop single audit guidance. We have planned conference calls with various federal inspectors general and state auditors in an effort to coordinate federal and state audit efforts. We have hosted national briefings for our members and partner organizations to keep everyone informed. In October, we assisted OMB in launching a single audit pilot to examine interim reporting on internal control. The pilot was successful, and OMB is now set to launch a second pilot.
- **Faster Reporting:** In addition to the pilot projects on interim reporting on internal controls, there have been pushes for faster reporting from many quarters. In March 2010, representatives from NASACT and the National Association of State Treasurers met with Elisse Walter, a commissioner

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Get "A New Perspective" at NASACT 2010 in Charleston!

Join Glen B. Gainer III and the West Virginia host team in Charleston, West Virginia, August 7-11 for the 2010 NASACT Annual Conference. The conference will feature keynote sessions to address the leadership challenges currently faced by NASACT members. NASACT's principals (or their designees) are eligible to receive up to \$1,000 in travel assistance to attend the conference. (See page 3 for an overview of the keynote sessions; see page 2 for more about the travel assistance program).

with the U.S. Securities and Exchange Commission, to discuss timely financial disclosures and the SEC's anti-fraud authority. In the meantime, we have moved to establish a work group of NASACT's Committee on Accounting, Reporting and Auditing to examine the issue of timelier financial reporting. This is not a new issue for NASACT. However, the answer to the problem remains elusive. Working together, perhaps we can address this need.

- **Improper Payments:** Last fall, President Obama issued Executive Order 13520, Reducing Improper Payments. As part of the Executive Order, a series of workgroups were formed to examine various aspects of the improper payments issue. NASACT was invited to participate in two of those groups: Single Audit and Incentives and Accountability. The groups spent a significant amount of time last winter and this spring on conference calls examining the issues under their mandate. The groups have completed their work and have submitted their reports to the OMB for consideration. A recap of the recommendations was published in the June issue of *NASACT News*. We will continue working with OMB and other partners to improve the single audit process to help ensure the reduction of improper payments nationwide.
- **Standards Setting:** This has been a huge year for NASACT's members in terms of reviewing and responding to proposed standards and standards changes. The American Institute of Certified Public Accountants' Clarity Project resulted in 14 response letters from the state auditors just since last July. That project continues, and we will continue to provide input. We have also responded to multiple GASB exposure drafts and offered input on the 2010 draft Compliance Supplement from OMB. An exposure draft of the first revision to the Yellow Book since 2007 is anticipated to come out in July – so we will be busy examining that and offering our input. I know that it takes time to read all the exposure drafts, but this really is one of the most important functions that NASACT performs. Our input is vital to ensuring the appropriate development and revision of accounting and auditing standards. Thank you for your input, and please continue providing it.
- **Inter-Organizational Cooperation:** The thing I am most proud of during my year as NASACT's president is the positive inter-organizational and inter-governmental cooperation that has developed as government stakeholders

have come together to address crisis on multiple fronts. Our relationship with groups like the National Governors Association and the National Conference of State Legislatures has never been stronger. We continue to work with peer groups like the National Association of State Treasurers, the Government Finance Officers Association, the National Association of State Chief Information Officers, the National Association of State Budget Officers, and others, on a variety of issues. The economic crisis and Recovery Act issues found us working more closely than ever with OMB, GAO, and other federal counterparts. It is my hope that this cooperation will continue and become a model for the future.

- **Training and Professional Development:** Another essential function of NASACT is meeting the training needs of association members. NASACT has continued to offer its standard conferences. To address budget cuts and travel restrictions, we have also increased our webinar offerings, and will continue to do so in the future. If you have ideas about how NASACT can improve its training offerings, please call the headquarters office and share your ideas with staff. Speaking of training, we have a wonderful technical agenda lined up for the upcoming NASACT annual conference. Tom Ridge and Dr. Marla Sanchez will be on hand to share their leadership experiences and advice. Gene Dodaro will be there to speak about national trends and meeting new accountability expectations. And I will be sharing with you a case study on potential dangers that exist in this new age of transparency. Immediately following the conference we will host a free half-day Economic Summit. West Virginia Governor Joe Manchin III will moderate the conversation on Survival Post Recovery Act. Other governors from the region have been invited, as well as representatives from NASBO and the bond rating community. I know these sessions will be full of value – I urge you to attend.

There are many people who have worked very hard on behalf of NASACT this year and who deserve thanks. This newsletter is not long enough to list all the names, so I'll just say thank you – to all who have served. Each time you respond to an exposure draft or volunteer for a committee or attend a conference, you are helping ensure the continuation of one of our most valuable resources: our professional network.

There are many challenges in our world and our profession right now. However, I am optimistic that by working together, we can rise to meet the challenges. ■

New This Year: Travel Assistance and New Member Programs!

NASACT's Executive Committee recently approved a travel assistance program for 2010 and 2011 to help principal members (or their designees) attend the annual conference. Each member can be reimbursed for up to \$1,000 to cover conference airfare, hotel or registration. Reimbursements will be made following the conference; all requests for reimbursement must be submitted by September 30, 2010. New members will receive complimentary registration to the conference (a \$600 value). New members should call Donna Maloy at (859) 276-1147 to register. Register today! Download the conference brochure at www.nasact.org/conferences_training/events.cfm.



The 2010 NASACT Annual Conference is scheduled for August 7-11 in Charleston, West Virginia. Our conference hosts, Glen Gainer, president of NASACT and state auditor; John Purdue, state treasurer; Ross Taylor, state comptroller; and Aaron Allred, legislative auditor, invite you to the beautiful state of West Virginia for several days of professional networking and informative conference sessions. The registration brochure is now available at www.nasact.org. The conference team has planned a number of special activities, so don't miss it! ■

General Session Highlights

NASACT's annual conference will feature four general sessions designed to stimulate conversation and steer thinking towards solutions to some of today's most pressing issues for the business of government.



Leading in Challenging Times

Tom Ridge, Former Governor, Congressman and Secretary of Homeland Security, CEO, Ridge Global, and Senior Advisor, Deloitte

One of the world's most visible leaders, Tom Ridge understands that leadership, both individual and collective, requires that we think differently about its meaning and methods. Drawing from a remarkable career, Ridge will pull from his experiences in Vietnam, the U.S. Congress, the Pennsylvania statehouse, the U.S. Cabinet and as CEO of his own company to discuss how to achieve goals and serve missions that will undoubtedly confront change, crisis, opportunity and growth.



Anticipating and Meeting Accountability Challenges in a Dynamic Environment

Gene Dodaro, Acting Comptroller General, U.S. Government Accountability Office

The Acting Comptroller General of the United States will discuss trends from GAO's recently updated Strategic Plan for serving the Congress and related GAO work, as well as give an update on GAO's latest Recovery Act reports and future plans.



The Unexpected Consequences of Transparency

Glen B. Gainer III, State Auditor, West Virginia

As we move down the transparency highway, are your vendor authentication and validation processes and internal controls adequate? Auditor Gainer will discuss the process used by conspirators who attempted to steal the identity of multiple corporations and defraud numerous states, including West Virginia, using the Internet and public information.



Managing When Your Back Is Against the Wall

Dr. Marla Sanchez, Founder and CEO, Spectrum Development, Inc.

These are trying times—economically, emotionally, mentally, and relationally—leaving people feeling overwhelmed, helpless, and sometimes even hopeless. Contrary to what many leaders believe, such situations offer the greatest opportunity to stand up and lead with purpose, passion, and conviction. Not only are people needing inspirational leaders, they want them! This presentation will offer leaders insight into how to capitalize on their leadership influence during difficult times.

POST CONFERENCE WORKSHOP Economic Summit: Survival Post Recovery Act

Wednesday, August 11 ■ 8:30 – 11:45 a.m. ■ FREE of charge ■ 3 CPE credits will be offered

Join West Virginia Governor Joe Manchin III for a half-day forum analyzing the current economic crisis facing most states and identifying strategies for the future, including financial survival after the American Recovery and Reinvestment Act. Governor Manchin has invited other governors in the region to participate. Representatives from the National Governors Association and the National Association of State Budget Officers Association also have been invited to attend and provide their perspectives. The bond rating community also will be present to discuss the impact the current economic downturn is having on states' bond ratings, and the impact this is having on states' ability to raise capital. Register today for the annual conference and the Economic Summit at www.nasact.org! ■

Financial Regulatory Reform Includes Provision to Fund GASB

Long-awaited legislation aimed at reforming our nation's financial system passed both the House and Senate and is expected to be signed into law soon by President Barack Obama. The final version of the legislation, known as the Dodd-Frank Wall Street Reform and Consumer Protection Act, includes several changes affecting the municipal market. Perhaps the most noteworthy provision for NASACT members is the inclusion of language that will provide a stable funding source for the Governmental Accounting Standards Board.

NASACT and several other state and local government organizations have been working with the Financial Accounting Foundation for several years in an effort to establish a mechanism to provide a stable source of funding for GASB. While Section 978 of the conference report does provide for a federal government source of funding, it also includes some important safeguards for state and local governments. The act includes a provision allowing the U.S. Securities and Exchange Commission to require a national securities association, presumably the Financial Industry Regulatory Authority, or FINRA, to assess its members a fee to fund GASB's annual budget. Several measures were also included to limit the authority of FINRA or the SEC from having direct or indirect oversight of the budget or technical agenda of GASB. Additionally, the rules and procedures to assess and collect the new accounting support fees are to be established in consultation with the principal organizations representing state governors, legislators, local elected officials and state and local finance officers. The law also provides for a U.S. Government Accountability Office study to evaluate the role and importance of GASB in the municipal market and the manner and level of GASB funding, and requires consultation with the above-mentioned government groups. A report concerning the findings of the study is to be provided to the Senate Committee on Banking and Urban Affairs and the House Financial Services Committee within six months of enactment.

The act also includes other muni-related provisions that are relevant to NASACT members including several provisions involving the Municipal Securities Rulemaking Board. Most notably, the provision provides for new regulatory authority over municipal financial advisors (including swap advisors, GIC brokers, and pension placement agents), who for the first time will be required to register with the MSRB and will be subject to MSRB regulatory jurisdiction. The legislation specifically directs the MSRB to prescribe rules relating to a municipal advisor's fiduciary duty. Additionally, the act provides for a change in the composition of the MSRB so that a majority of the 15 members of the board are public. Specifically, eight of the members must

be independent of any municipal securities broker, dealer or advisor and at least one of those eight must be a representative of institutional or retail investors in municipal securities, at least one of the eight should represent municipal entities, and at least one of the eight should be a member of the public knowledgeable in the municipal arena. The other seven members may be associated with a broker, dealer, municipal securities dealer or municipal advisor.

The act also creates an Office of Municipal Securities within the SEC to report directly to the chairman of the SEC. The legislation tasks the office with (1) administering the rules of the SEC with respect to the practices of municipal securities brokers and dealers, municipal securities advisors, municipal securities investors, and municipal securities issuers; and (2) coordinating with the MSRB for rulemaking and enforcement actions as required by law. The current municipal securities office is a subset of a larger division on trading and markets.

The act also contains several provisions prescribing studies of the municipal market. One study will look at trading practices in the municipal market and another at disclosure practices in the municipal market as compared to those in the corporate sector. Both studies are to be conducted by the GAO and will require reporting back to Congress. The trading study will look at mechanisms for trading, quality of trade executions, market transparency, trade reporting, price discovery, settlement clearing, and credit enhancements

in addition to potential uses of derivatives. The trading study also requires the GAO to make recommendations on improvements in the trading markets for municipal securities and requires that the SEC provide a response to Congress stating actions taken in regards to the GAO recommendations. The disclosure study requires that the GAO examine current disclosures in the municipal market and compare those to corporate disclosure and provide a cost analysis of issuers providing additional financial disclosures. The law further requires that GAO make recommendations concerning municipal disclosure and the ongoing feasibility of the Tower Amendment.

The law also contains several provisions regarding credit rating agencies including one that requires the use of universal credit rating symbols for all securities. The different rating scales used for corporate and municipal securities have caused confusion in the past and have been an issue for municipal issuers in obtaining credit. The use of a universal rating symbol will mean a rating of AA for corporate securities is the same as AA for municipal securities. The legislation further establishes an Office of Credit Rating within the SEC with the authority to fine credit rating agencies and to administer the rules of the SEC regarding the practices of Nationally Recognized Statistical Rating Organizations. The act further requires that credit rating agencies

The Dodd-Frank Wall Street Reform and Consumer Protection Act includes a provision that will provide a stable source of funding for the Governmental Accounting Standards Board. State government groups have been working to find a suitable, sustainable source of funding for GASB since 2003.

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GAO's New Strategic Plan Includes Focus on State-Federal Relations

The U.S. Government Accountability Office recently released its 2010-15 strategic plan. The plan focuses on federal-state relations and coordination. The plan includes several goals to address the new focus on coordination efforts and notes that demands on the government are growing, thus blurring the lines of responsibility between state and federal partners.

Strategic Objective 3.2 highlights one aspect of the coordination effort: working across government levels on fraud prevention—including controls that prevent the improper and fraudulent disbursement of federal dollars—to ensure the most efficient and effective means to minimize fraud, waste and abuse. The plan states:

“...estimated improper payments in fiscal year 2009 totaled about \$98 billion and involved over 70 programs, or five percent of the \$1.9 trillion of reported outlays for those programs... Once federal dollars are disbursed fraudulently or improperly, the government is likely to recover only a few pennies on the dollar.”

The GAO will focus on fraud prevention during the next five years in the areas of health care (Medicaid), the tax gap, procurement, entitlement programs, and the Recovery Act.

The plan also examines the state budget crisis and notes that the current situation is dire in many parts of the country:

“Strains on the budget are not being felt solely at the federal level. State and local governments also face near-term challenges in funding current programs, as well as long-term challenges driven by health-related costs. Medicaid will

continue to be a key component of the sector's health-related costs. State and local budgets are also under stress because of decreased tax revenue. The reliance of state and local budgets on income, sales, and property tax receipts means that if unemployment remains high, consumer spending is sluggish, or property values are slow to recover, state and local budgets will likely experience prolonged strain. Recent declines in pension asset values could also affect the sector's long-term fiscal position. In addition to declines in pension asset values and the challenge of fully funding pension benefits, state and local governments also face challenges funding their liabilities for other public employee benefits (which are primarily retiree health benefits). State and federal policymakers will need to work closely in the coming years to close state budget gaps in a sustainable way...because of the strained fiscal condition of many state and local governments, the federal government is increasingly in the position to partner or intervene at the state and local level to provide relief.”

Strategic Objective 4.3, “Expand Networks, Collaborations, and Partnerships That Promote Professional Standards and Enhance GAO's Knowledge, Agility, and Response Time,” showcases the GAO's desire to enhance its efforts across all levels of audit offices in the country. It also sets a goal to expand the GAO's knowledge-sharing collaborations with the auditing and accountability community to minimize duplication of effort and to leverage resources while conducting research on various public policy issues. The four sub-objectives of this section direct the GAO to participate in forums, task forces, and work groups to expand knowledge of audit approaches, as well as coordinate with the domestic standards-setting organizations to strengthen public sector accounting and auditing standards.

The full strategic plan document can be found at www.gao.gov/new.items/d10559sp.pdf. ■

Financial Regulatory Reform

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disclose their methodologies and their use of third parties to undertake due diligence. Additionally, investors can bring private rights of action for agencies that knowingly or recklessly fail to conduct a reasonable investigation of the facts or obtain a reasonable verification of facts by a competent independent party.

Surprisingly, the law contains a provision which allows for the Federal Reserve to limit interchange fees to those that are “reasonable and proportional” to the cost incurred by the issuer as applied to debit card transactions. The act also allows the Federal Reserve to consider the issuer's cost of protecting against fraud when determining if fees are reasonable and proportional. Issuers (together with their affiliates) having assets of less than \$10 billion are exempt from the interchange provisions. A provision exempting prepaid cards that are used to disburse government benefits was also included in the interchange provision after

state government organizations provided important information regarding the potential impact of the original provision on government benefit cards. Re-loadable prepaid cards are also exempt. The exemption does not apply, however, if there is a fee charged for overdraft or a fee on the first withdrawal from the issuer's ATM network per month. The interchange provisions also provide that merchants may offer discounts based upon a certain payment type (credit card, debit card, check or cash). The discount may not, however, be based on the card's issuer or network. The legislation further provides that a payment network cannot limit the ability of a merchant to require a minimum for credit card acceptance (not less than \$10).

For a copy of the conference text, visit the Senate Banking Committee website at <http://banking.senate.gov/public/law>. Questions may be directed to NASACT's Washington office at (202) 624-5451. ■

Association Notes

NSAA 2010-11 Committees Finalized

Walter J. Kucharski, auditor of public accounts of Virginia and president of the National State Auditors Association, recently finalized committees for 2010-11. Committee chairs and

vice-chairs are listed below. Visit www.nasact.org/nsaa/committees/index.cfm for committee descriptions, current rosters, past meeting minutes and other resources. It's not too late to join one of these committees; if you'd like to join, contact Sherri Rowland at srowland@nasact.org. ■

■ Executive Committee

President: Walter J. Kucharski, Auditor of Public Accounts, VA
President-Elect: Janice Mueller, State Auditor, WI
Secretary/Treasurer: David A. Vaudt, Auditor of State, IA
Past President: Debbie Davenport, Auditor General, AZ
Elaine M. Howle, State Auditor, CA
Rebecca Otto, State Auditor, MN
Thomas Salmon, State Auditor, VT

■ Audit Standards and Reporting

Chair: Auston Johnson, State Auditor, UT
Vice-Chair: Beth Wood, State Auditor, NC
Vice-Chair: Randy Roberts, Director of Professional Practice, Office of the Auditor General, AZ

■ Auditor Training

Chair: Glen Fowler, Recruiting and Training Manager, CA

■ E-Government

Chair: Karen Helderman, Audit Director, VA

■ Human Resources

Chair: Roger Norman, Legislative Auditor, AR
Vice-Chair: Daryl Purpera, Legislative Auditor, LA

■ Peer Review

Chair: Pat Davidson, Legislative Auditor, AK
Vice-Chair: Debbie Davenport, Auditor General, AZ
Vice-Chair: Tom Barnickel, Deputy Legislative Auditor, MD

■ Performance Audit

Chair: Steve Eells, State Auditor, NJ
Vice-Chair: Sally Symanski, State Auditor, CO
Vice-Chair: Deborah Loveless, Assistant Director, TN

■ Single Audit

Chair: David Martin, Auditor General, FL
Vice-Chair: Thomas Salmon, State Auditor, VT
Vice-Chair: George Strudgeon, Audit Director, VA

■ Auditor's Education Foundation

Chair: David A. Vaudt, Auditor of State, IA

■ Annual Meeting Program

Chair: Walter J. Kucharski, Auditor of Public Accounts, VA

■ Resolutions

Chair: Ronald L. Jones, Chief Examiner, AL

■ Time and Place

Chair: David A. Vaudt, Auditor of State, IA

■ William R. Snodgrass Award

Chair: Walter J. Kucharski, Auditor of Public Accounts, VA

Mark Your Calendar: Upcoming Information Sharing Calls

- NASC Multi-State Consortium on Internal Control – July 28
- NASC Derivatives Implementation Network – August 3
- NASC Statement 51 Workgroup – August 5
- NASC ERP – August 5
- NASC Travel and Purchase Card – August 18
- NASC Statement 54 Workgroup – August 19
- NASC Faster Financial Reporting Workgroup – August 24
- NASC State Government Payroll – August 25
- NASC Transparency – September 14
- NASC E-Commerce – September 29
- NSAA Human Resources – July 29

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). ■

New at www.nasact.org

- Visit www.nasact.org/nasact/positions/GASB.cfm to view NASACT's **response letter** to the Governmental Accounting Standards Board's exposure draft on *The Financial Reporting Entity*.
- Visit www.nasact.org/nsaa/technical/index.cfm to find **responses to technical inquiries** by state auditors' offices on the following topics:
 - Use of State Fiscal Stabilization Funds
 - Audit Work on ARRA 1512 Reporting
 - Statistic Sampling
 - Overtime Practices
- Visit www.nasact.org/nasc/committees/multistate/index.cfm to view the newest **internal control document** produced by the National Association of State Comptrollers' Multi-State Consortium on Internal Control: "Davis-Bacon Action Section of the Internal Control Questionnaire."

Call for Resolutions

Business meetings of NASACT, NSAA and NASC will occur at the upcoming 2010 NASACT Annual Conference. If you would like to submit resolutions for consideration at any of these meetings, please email the chairs of the appropriate committees as listed below. Resolutions may also be sent to Glenda Johnson at gjohnson@nasact.org.

- **NASACT Resolutions Committee**
D. Clark Partridge, State Comptroller, AZ, Chair
(clark.partridge@azdoa.gov)
- **NSAA Resolutions Committee**
Ronald L. Jones, Chief Examiner, AL, Chair
(ron.jones@examiners.alabama.gov)
- **NASC Resolutions Committee**
Paul Christofferson, State Accounting Division Administrator, MT, Chair (pachristofferson@mt.gov)

NASC Transparency Info Sharing Group Features Guest Author at Next Call

The next NASC Transparency Information Sharing Group conference call is scheduled for September 14 at 3:00 ET. Dr. Phineas Baxandall, co author of *Following the Money*, has agreed to be a guest on the call. *Following the Money* ranks each state's transparency website and gives an overall grade to each state. Dr. Baxandall will discuss the methodology used for the report and he may be able to provide updates for the methodology that will be used for the March 2011 report. All NASACT members are invited to attend this call, even if you are not a participant in the Transparency Information Sharing Group. To participate, contact Kim O'Ryan at koryan@nasact.org.

GASB Notes

Service Concession Arrangements

On June 17, GASB issued a revised exposure draft on *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this project is to provide accounting and financial reporting guidance for service concession arrangements (SCAs), which are a subset of public-private partnerships. This involves determining whether existing authoritative guidance is sufficient to address the accounting and financial reporting issues resulting from SCAs, or whether new standards are necessary to address these issues.

The ED can be downloaded from the GASB's website at www.gasb.org.

NASACT will be preparing an association position on this ED. In order to meet the GASB's deadline, please send your comments to Kim O'Ryan at koryan@nasact.org or Sherri Rowland at srowland@nasact.org no later than Friday, July 23, 2010.

Pension Accounting and Financial Reporting

On June 16, the Governmental Accounting Standards Board issued a preliminary views document on *Pension Accounting and Financial Reporting By Employers*. The document presents the board's current views on what it believes are the most fundamental issues related to recognition and measurement of pension obligations by state and local government employers. The purpose of the document is to obtain comments from constituents on those views before developing more detailed proposals for changes to existing accounting and financial reporting standards. Public hearings are scheduled for three different locations in October.

The PV can be downloaded from the GASB's website at www.gasb.org.

NASACT will be preparing an association position on this PV. In order to meet the GASB's deadline, please send your comments to Kim O'Ryan at koryan@nasact.org or Sherri Rowland at srowland@nasact.org no later than Friday, August 20, 2010. ■



GASB Update, July 2010

Comments Sought on Potential Improvements to Pension Standards

In June, the Governmental Accounting Standards Board issued a preliminary views document, *Pension Accounting and Financial Reporting by Employers*, which contains a preliminary set of views outlining potential means of improving the effectiveness of existing pension standards for state and local governments. The GASB is seeking public comment on the views described in this document prior to developing more detailed proposals. The comment deadline is September 17, 2010 (the deadline to have your comments included in NASACT's response to this PV is August 20—see page 7 for details).

The reexamination of the GASB's pension standards is a part of the board's commitment to reexamine its standards after they have been in effect for a sufficient period of time. Such reexaminations may lead the GASB to modify its standards to improve their effectiveness and to take into account what has been learned about how they function in practice as well as changes in the government environment.

The board is committed to developing standards that will result in the reporting of information that will help users of financial reports assess the relationship between a government's inflows of resources and its total cost—including pension expense—of providing government services each period. The other principal objective of this project is to improve the usefulness of information for decisions or judgments of relevance to the various users of the general purpose external financial reports of governmental employers and postemployment benefit plans.

The PV relates to accounting and financial reporting only and does not extend to how governments approach pension plan funding. While currently there is a close connection between how governments fund pensions and how they account for and report information about them in financial statements, the views expressed in the PV would now distinguish these two areas from one another.

The document presents the board's current views on what it believes are the most fundamental issues related to employer accounting and financial reporting for pensions. Most of the issues on which preliminary views of the GASB are presented were discussed previously in the March 2009 invitation to comment, *Pension Accounting and Financial Reporting*. Additionally, the PV addresses issues related to the timing and frequency of measurements for accounting and financial reporting purposes.

GASB has scheduled three public hearings on the PV and invites all interested individuals and organizations to participate. The hearings will be held in Dallas (October 13), San Francisco (October 14), and New York City (October 27).

William W. Holder Retires from the GASB

On June 30, William W. Holder retired from the GASB upon completing his second five-year term. Dr. Holder joined the GASB on July 1, 2000, and served the full 10 years allowed as a board member.

John J. Brennan, chairman of the Financial Accounting Foundation, described Dr. Holder as "a tremendous asset to the GASB." Robert H. Attmore, chairman of the GASB, said, "Bill's time on the GASB was marked by significant strides forward in governmental accounting and financial reporting that came as the result of standards the Board issued during his tenure." The chairman thanked Dr. Holder for his outstanding service and his friendship.

Dr. Holder is the Ernst & Young Professor of Accounting at the University of Southern California.

Replacing Dr. Holder on the board is Dr. Michael H. Granof, who was appointed by the FAF board of trustees to serve a five-year term on the GASB, which began July 1. Dr. Granof is the Ernst & Young Distinguished Centennial Professor at the McCombs School of Business at the University of Texas at Austin, where he has been on the faculty since 1972.

New Guidance on Financial Instruments

In June, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The statement addresses significant issues that have been identified in practice related to financial instruments in several statements, including No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, No. 40, *Deposit and Investment Risk Disclosures*, and No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These issues include external investment pool reporting and clarifying what qualifies as a "2a7-like" pool, unallocated insurance contracts, and interest rate risk disclosures for mutual funds.

Importantly, Statement 59 clarifies what is meant by "2a-7-like." For all intents and purposes, a 2a-7-like pool is one that, if it were to file with the Securities and Exchange Commission, would be fully compliant. Some governments had interpreted the term to mean "similar to" rather than "identical to." This clarification could have implications for how investment pools are managed and what types of investments they hold.

The provisions of this statement are effective for financial statements for periods beginning after June 15, 2010, with earlier application encouraged.

Exposure Draft on Service Concession Arrangements Revised and Reissued

The GASB issued a revised exposure draft, *Accounting and Financial Reporting for Service Concession Arrangements*, in mid-June. Considering the extent of the changes that had been made based on constituent feedback on the original ED, the board determined it was appropriate to issue a revised ED. The comment deadline is August 17, 2010 (the deadline to include your comments in NASACT's response is July 23—see page 7 for details).

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A service concession arrangement, or SCA, is an arrangement between a government and an operator in which the government conveys to the operator the right and obligation to provide services through the use of infrastructure or another public asset. Common examples of SCAs include long-term arrangements involving toll roads, hospitals, and student housing. Under these types of arrangements, the operator collects fees from third parties.

The scope of the original ED (issued in June 2009) included arrangements in which the transferor did not retain control of the facility subject to an SCA, and used the control criteria to determine what the accounting should be, distinguishing between arrangements in which control was retained or transferred. After considering the written comments received from constituents regarding the original proposal, the scope of this revised ED has been modified in that the control criteria (determination of services, clientele, and prices and entitlement to a significant residual interest in the facility) are now included as a scope criterion. As a result, arrangements in which control is transferred to the operator would not be subject to the requirements of the proposed statement.

The original ED also proposed that transferors would report a liability upon commencement of an SCA for consideration received (such as up-front payments, installment payments received from an operator, or an operator-provided facility). After considering respondent feedback and further discussions of the definitions in Concepts Statement No. 4, Elements of Financial Statements, the GASB concluded that the consideration from an operator would be more appropriately reported by the transferor as a deferred inflow of resources, reduced by any liabilities incurred by the transferor in the arrangement.

Service Efforts and Accomplishments Reporting Guidelines Finalized

After more than two decades of extensive research and constituent outreach, the GASB issued its suggested guidelines for voluntary reporting, *SEA Performance Information*. The board approved the document unanimously at its public meeting in June.

The suggested guidelines for voluntary reporting were developed to assist state and local governments that choose to report service efforts and accomplishments performance information externally. SEA reporting is an important form of general purpose external financial reporting. It communicates information about the results of governmental programs and services to citizens, taxpayers, elected officials, investors, and others outside the government.

The suggested guidelines provide a common framework for the effective external communication of SEA performance information that is designed to help readers to assess governmental accountability and make economic, social, and political decisions.

The suggested guidelines are composed of four essential components of an effective SEA report—purpose and scope,

major goals and objectives, key measures of SEA performance, and discussion and analysis of results and challenges—and six qualitative characteristics representing the attributes SEA performance information needs to possess—relevance, understandability, comparability, timeliness, consistency, and reliability. The document also addresses the three keys to effective communication of an SEA report: intended audiences, multiple levels of reporting, and forms of communication.

Deadline Approaching for Commenting on GASB Codification Exposure Draft

The deadline for comments on the GASB ED *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* is approaching. Constituents have until Saturday, July 31, to submit written comments.

The proposed statement is intended to enhance the usefulness of the GASB's Codification of Governmental Accounting and Financial Reporting Standards to financial statement preparers and auditors by incorporating guidance that previously could only be found in certain pronouncements of the Financial Accounting Standards Board and American Institute of Certified Public Accountants.

By incorporating and maintaining this guidance in a single source, the GASB will reduce the complexity of locating and using authoritative literature needed to prepare state and local government financial reports and thereby improve the consistency and comparability of government financial reports.

Obtaining Documents Referenced in this Update

The preliminary views on pensions, the revised ED on SCAs, and the ED on pre-1989 FASB and AICPA pronouncements may be downloaded at no charge from the Documents for Public Comment section of the GASB website at www.gasb.org. The website also contains education materials about the preliminary views on pensions including a fact sheet, plain-language article, and video podcast.

Statement 59, Financial Instruments Omnibus (product code GS59), and the suggested guidelines for voluntary reporting, SEA Performance Information (product code GSG01), may be obtained through the GASB Order Department by telephoning (800) 748-0659 or through the GASB Store at www.gasb.org. ■

The GASB Update is provided for publication in the NASACT news on a bi-monthly basis by the Governmental Accounting Standards Board..

News From Around the Nation

Galib Named Comptroller of Puerto Rico Effective July 1

Effective July 1, Yesmin M. Valdivieso Galib became the Comptroller of Puerto Rico. Ms. Galib replaces Manuel Diaz Saldana who has held the position since October 1992.

According to the constitution of the commonwealth of Puerto Rico, the comptroller may hold office for a term of ten years and until a successor is appointed and qualified.

Ms. Galib was appointed to the position by Puerto Rico's governor, Luis G. Bursset Fortuño. She was confirmed by Puerto Rico's house of representatives and senate on June 15 and June 24, respectively. ■

IRS Seeks Comment on Expanded Information Reporting Requirement

On July 1, the Internal Revenue Service invited public comment on how to most effectively carry out a law change that, starting in 2012, will require businesses to report a wider range of payments to contractors, vendors and others, usually on Form 1099. These comments will help the IRS issue guidance that implements this provision in a manner that minimizes burden and avoids duplicate reporting.

Under a proposed regulation, many business purchases made with credit or debit cards would be exempt from the new reporting requirement because they are already reported by banks and other payment processors. The IRS seeks comments

on additional circumstances in which duplicate reporting might otherwise occur and on rules that would prevent such duplicate reporting.

The change, enacted in March but not effective until 2012, expanded existing reporting requirements to include a business's payments related to goods and other property, and payments to most corporations. With some exceptions, payments to corporations are currently exempt from this requirement.

The National Association of State Comptrollers will be preparing a response to the notice. To have your comments included in NASC's response, please send them to Kim O'Ryan at koryan@nasact.org by September 10, 2010.

The notice may be downloaded at www.irs.gov/pub/irs-drop/n-10-51.pdf. Pages 3 and 4 of the notice list the specific issues on which comments are desired. ■

IRS's ACT Seeks Input on the Coming Year's Agenda

NASACT participates in the Internal Revenue Service's Advisory Committee on Tax Exempt and Government Entities (ACT committee). The ACT is an organized public forum for the IRS and representatives who deal with employee plans, exempt organizations, tax-exempt bonds, and federal, state, local and Indian tribal governments. The ACT allows the IRS to receive regular input on administrative policy and procedures of the Tax Exempt and Government Entities Division. Former

Nebraska State Accounting Administrator Paul Carlson is serving on behalf of NASACT in one of the government positions.

The ACT is seeking input and comment regarding issues that should be addressed through the ACT committee, specifically, any IRS policies or procedures that could be outdated or that could be revised to help streamline processes or alleviate compliance burdens. Your input is very important as the committee considers which areas will be addressed for the coming year.

Please send any suggestions to Cornelia Chebinou, NASACT's Washington office director, at cchebinou@nasact.org no later than 5:00 p.m. Eastern time on Monday, August 2. ■

Sign Up Today for a NASACT Training Seminar!



NASACT members can take advantage of many specialized training seminars. Sessions are scheduled by request and may be tailored to meet specific needs within offices of state auditors, state comptrollers and state treasurers. Experienced consultants conduct one- and two-day sessions and can cover a range of topics. The cost for the training seminars is negotiated based on the cost of the selected trainer. The fee does not include training site arrangement/rental, audio visual equipment rental, or copies of handouts. For more information about NASACT's training seminars program or to see a list of course topics, contact Fay Kurkky at NASACT, (859) 276-1147 or fkurkky@nasact.org.

Fraud News to Use

Provided courtesy of the Oregon State Controller's Office

The Fraud Perpetrator

In the United States, almost half (45 percent) of occupational frauds are perpetrated by individuals in either the accounting or operations departments of organizations. The majority (over 60 percent) of frauds perpetrated by accounting department employees are the result of a check tampering (over 33 percent) or billing scheme (over 30 percent), while the frauds perpetrated by operations department staff are predominately the result of corruption (over 30 percent) or billing schemes (over 22 percent).

In general, only seven percent of occupational frauds are perpetrated by employees who have been previously convicted of a fraud-related offense. Eighty-six percent of employees who have perpetrated fraud have never been convicted of any prior offense. Although they may not have been convicted, approximately eight percent of perpetrators have been previously punished by an employer and 10 percent have been previously terminated for fraud-related activities.

Fraud in Government and Public Administration

Overall in the U.S., billing schemes are the most common type of occupational fraud, followed by corruption, and then check tampering. In the government and public administration sector, corruption is the most common fraud scheme, followed by billing schemes, and expense reimbursement schemes; check tampering is far less common ranking sixth in frequency.

Across all industries and sectors, the average loss per occurrence as a result of occupational fraud in the U.S. is approximately \$105,000, while the government and public administration sector has a slightly lower average of \$100,000. While, government and public administration has one of the highest rates of occupational fraud occurrence; however, it also has one of the lowest median loss rates.

Fraud Case Overview

This example involves a contractor and several sub-contractors working with a federal agency. One of the project managers for the prime contractor was able to use his position to influence the award of various sub-contracts, involving several different companies, in exchange for kickbacks from the sub-contractors.

The project manager operated a shell company in order to hide the kickbacks. Each sub-contractor would cause a payment to be issued from the sub-contractor to the shell company operated by the project manager. These payments were issued as a result of false invoices that were issued by the shell company. Each sub-contractor would then inflate the costs of the sub-contract to include the kickbacks. The kickbacks would then be included in the inflated costs that were invoiced to the prime contractor and then passed on to the federal agency. On several occasions the project manager also provided portions of the kickbacks to the sub-contractors.

The project manager was involved in kickback schemes involving various sub-contractors over the course of a six-year period.

To date, several of the sub-contractor fraudsters have pleaded guilty and been sentenced:

- One individual was sentenced to 20 months in jail and ordered to pay \$154,597 in criminal fines and restitution.
- One individual was sentenced to five months in jail and five months of home confinement, and ordered to pay \$35,000 in restitution.
- One company operating as a sub-contractor was sentenced to pay criminal fines and restitution of more than \$2.66 million.
- Several additional parties, including the project manager for the prime contractor, are awaiting trial and/or sentencing. The project manager could face as much as 70 years in jail in addition to substantial criminal fines and restitution. ■

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

- August 8 ■ NASACT Executive Committee Meeting, Charleston, WV
August 8 ■ NASACT Committee on Accounting, Reporting & Auditing, Charleston, WV
August 7-11 ■ NASACT Annual Conference, Charleston, WV
August 11 ■ NASACT Post Conference Workshop - Economic Summit: Survival Post Recovery Act, Charleston, WV
September 28 - October 1 ■ NSAA IT Workshop and Conference, Tallahassee, FL

2011

- March 23-25 ■ NASC Annual Conference, Phoenix, AZ
June 15-18 ■ NSAA Annual Conference, Williamsburg, VA
August 13-17 ■ NASACT Annual Conference, Burlington, VT

Scholarships Available for NSAA's IT Workshop and Conference

By Donna Maloy, Conference Manager

Scholarships are once again available for the National State Auditors Association's IT workshop and conference, scheduled for September 28–October 1, 2010, in Tallahassee, Florida. Scholarships may be used to pay for registration fees or travel/lodging costs (up to the amount of the registration fee). To apply for a scholarship, please e-mail Sherri Rowland at srowland@nasact.org to indicate your interest and request application information. **The deadline to request a scholarship is Thursday, August 12, 2010.**

The workshop will be held on Tuesday, September 28 (topic to be determined soon). The conference will follow on Wednesday, September 29 through noon on Friday, October 1. Conference topics will include risk-based data analysis, social networking, cloud computing, understanding and interpreting SAS 70 reports, audit standards update (including SSAE16) and much more.

- **Conference Hotel** The Doubletree Hotel Tallahassee is located in the heart of downtown Tallahassee and is within walking distance of Florida's Capital Complex, museums and eateries. The Doubletree Hotel is offering a rate of \$90/single or double, plus applicable taxes. The cut-off date for this special rate is September 10, 2010.
- **Getting There** The Doubletree Hotel is located 15 minutes from the Tallahassee Regional Airport. The hotel offers complimentary shuttle service to and from the airport. Taxi service is approximately \$20 each way.
- **Registration Fees and CPE** Conference registration fees for this year's conference and workshop are \$350 for the conference and \$150 for the workshop per attendee. Eight continuing education credits will be given for the workshop and 19 credits for the conference.
- **More Information** A draft program agenda, complete hotel information and online registration will be available soon on NASACT's website at www.nasact.org. Questions about the conference program can be addressed to Sherri Rowland at srowland@nasact.org. Questions about registration or the conference hotel can be addressed to Donna Maloy at dmaloy@nasact.org.

NASACT News

JULY 2010

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The next issue of *NASACT News* will be published in August 2010. To submit articles, photos or ideas, contact Glenda Johnson by August 13 at gjohnson@nasact.org or phone at (859) 276-1147.