



## Financial Reform Legislation Includes Several Muni Provisions

On March 15, Senate Banking, Housing and Urban Affairs Committee Chairman Christopher Dodd released legislation intended to reform the nation's financial system. The 1,300-plus page bill includes not only major reforms, such as the establishment of a Bureau of Financial Consumer Protection within the Federal Reserve, but also several provisions of specific interest to municipal market participants and NASACT members.

The bill calls for an Office of Municipal Securities within the Securities and Exchange Commission 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 Municipal Securities Rulemaking Board 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 designation of the office to report directly to the chairman raises its level of importance.

The legislation calls for numerous studies, including (1) an examination of the funding structure of the Governmental Accounting Standards Board, (2) a review of trading in the municipal market, and (3) a review of the adequacy and availability of disclosures by issuers. The GASB funding study is to be conducted by the SEC and will look at the role and importance of GASB in the municipal securities market and how the availability of funding may affect financial information to investors. The report is to be submitted to the Senate Banking Committee within 270 days of enactment.

The second study, which looks at trading practices in the municipal market, is to be conducted by the U.S. Government Accountability Office and is due to the Senate Committee on

Banking, Housing and Urban Affairs and the House Financial Services Committee within 180 days of the bill's enactment. Copies of the report must be submitted to the Senate Special Committee on Aging and the SEC. 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 study also requires the GAO to make recommendations on improvements in the trading markets for municipal securities. The legislation further requires that the SEC provide a response to the above mentioned committees stating actions taken in regards to the GAO recommendations.

The third study is also to be conducted by the GAO and is due to Congress within one year of the bill's enactment. The bill requires that the GAO study current disclosures in the municipal market and compare those to corporate disclosure and provide a cost analysis of issuers providing additional financial disclosures. The provision further requires that the GAO make a recommendation on municipal disclosure and regarding the ongoing feasibility of the Tower Amendment.

In addition, the legislation would change the composition of the MSRB so that the majority of its members are "public" members and calls for SEC registration of municipal financial advisers, swap advisers, and investment brokers and subjects them to rules of the MSRB. The bill also includes a uniform ratings provision sought by several issuer groups. A summary and copy of the bill are available on the Senate Banking Committee website at <http://banking.senate.gov/public/>.

NASACT will be monitoring developments as this legislation progresses and will keep members apprised. Questions may be directed to Cornelia Chebinou or Neal Hutchko in NASACT's Washington office at (202) 624-5451. ■



### Studies Called for in the Legislation

- Examination of the funding structure of the Governmental Accounting Standards Board.
- Examination of trading in the municipal market.
- Examination of the adequacy and availability of disclosures by users, including a review of the adequacy of the Tower Amendment.

# 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/](http://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](mailto: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</i> (Redrafted)	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
Proposed SAS entitled <i>Analytical Procedures</i>	This proposed SAS would supersede SAS No. 56, <i>Analytical Procedures</i> .	May 3	April 2
Proposed SAS entitled <i>Consistency of Financial Statements</i>	This proposed SAS would supersede SAS No. 1, section 420, <i>Consistency of Application of Generally Accepted Accounting Principles</i> , as amended.	May 19	April 19
Proposed SAS entitled <i>Consideration of Omitted Procedures After the Report Release Date</i>	This proposed SAS would supersede SAS No. 46, <i>Consideration of Omitted Procedures After the Report Date</i> .	May 31	May 7

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](http://www.nasact.org/nsaa/committees/standardsreporting/index.cfm). To join this committee, email Glenda Johnson at [gjohnson@nasact.org](mailto:gjohnson@nasact.org).

### New at [www.nasact.org](http://www.nasact.org)

- Visit [www.nasact.org/nasact/positions/GASB.cfm](http://www.nasact.org/nasact/positions/GASB.cfm) to view NASACT's **observations from the GASB meeting** held January 5-7, 2010.
- Visit [www.nasact.org/nasc/technical/index.cfm](http://www.nasact.org/nasc/technical/index.cfm) to find responses to **technical inquiries** by state comptroller's offices on the following topics:
  - Monitoring State and Federal Single Audits
  - Credit Card Assessment Fees
- Visit [www.nasact.org/nsaa/peerreview/index.cfm](http://www.nasact.org/nsaa/peerreview/index.cfm) to see revisions to the National State Auditors Association's **Peer Review Manual**. The manual includes revisions to Appendix A (Single Audit Checklist) and Appendix B of Part IV of the manual. Appendix A has been updated to include reference updates (for the most recent AICPA audit guide on A-133 audits) and terminology updates (for the SAS 112/115 internal control terminology). Appendix B has been revised to include recently released GASB Statement Nos. 51-56. ■

# Association Notes

## Register Now for the 2010 NSAA Annual Conference – Carefree, Arizona

By Donna Maloy, Conference Manager

**D**ebbie Davenport, Arizona auditor general and president of the National State Auditors Association, invites you to attend the 2010 NSAA Annual Conference. The conference will be held in Carefree, Arizona, on June 16-18. NSAA's committees will meet on Tuesday, June 15.

With budget restrictions making doing business as usual difficult, there is no better time than now to come together with your peers and share ideas, success stories and lessons learned.

The NSAA Annual Conference Program Committee will be putting together a slate of sessions and speakers to address the pressing issues faced today by state auditors. Gene Dodaro, acting comptroller general, U.S. Government Accountability Office; David Bean, director of research, and Bob Attmore, chair, Governmental Accounting Standards Board; and Marcia

Buchanan, assistant director, Government Auditing Standards, GAO, are just a few of the presenters already lined up.

### Conference Hotel Registration

The 2010 NSAA Annual Conference will be held at The Boulders. Nestled among the ancient boulders, vivid colors, and captivating wildlife of the Sonoran Desert, The Boulders is situated on 1,300 sprawling acres in the foothills of Carefree, Arizona, just outside of Scottsdale. The negotiated room rate is \$169/single or double, plus applicable taxes. To book your room, contact the hotel at (866) 397-6519 and indicate that you are with the National State Auditors Association. To get this special rate, you must call before the **cut-off date of May 17**.

### Registration

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



### It's Not Too Early to Plan for NASACT 2010!

**T**he NASACT Annual Conference Program Committee has begun working to develop the program for the 2010 conference scheduled for August 7-11 in Charleston, West Virginia. The host state team is busy developing social activities to ensure an enjoyable event for all who attend. Mark your calendar for the conference and please plan to join us in August!

Watch for more details in the near future!

### Mark Your Calendar: Upcoming Conference/Information Sharing Calls

To get information about joining a NASC group, contact Kim O'Ryan at [koryan@nasact.org](mailto:koryan@nasact.org).

To join an NSAA group or the NASACT Committee on Accounting, Reporting and Auditing, contact Glenda Johnson at [gjohnson@nasact.org](mailto:gjohnson@nasact.org).

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

#### National Association of State Comptrollers

- NASC Statement 51 Work Group – March 31
- NASC Multi-State Consortium – April 1
- NASC Statement 54 Work Group – April 15
- NASC ERP – May 6
- NASC State Government Payroll – May 12
- NASC Travel and Purchase Card – May 19
- NASC E-Commerce – May 26
- NASC Transparency – June 8

#### National State Auditors Association

- NSAA Human Resources – April 29

#### National Association of State Auditors, Comptrollers and Treasurers

- Committee on Accounting, Reporting and Auditing – May 18

# News From Washington

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## RATB Issues Quarterly Report

The Recovery Accountability and Transparency Board has completed its quarterly report on recipient reporting. While significant improvements are noted, accurate and timely reporting continues to be problematic.

The report notes that the RATB has completed its charge of developing a user-friendly website, and while enhancements will continue to be made, the board's attention will now focus on its oversight mission: the identification of fraud, waste and abuse. The board has identified several factors that will assist in the success of the oversight mission:

- **Education and Awareness:** The board and the inspector general community have provided nationwide training to more than 189,000 individuals responsible for Recovery Act funding and implementation. Additionally, the board has instituted an aggressive outreach program to educate citizens, Congress and the media on the use of Recovery.gov and is sharing information with various communities involved with the Recovery Act.
- **Risk Identification and Analysis:** The board has established what is known as the Recovery Operations Center, or ROC, which houses several analysts charges with identifying

problem areas in the use of Recovery Act funds. The "Citizen IG Hotline" is part of the board's risk identification strategy. The board has fielded more than 1,200 tips and concerns from citizens on the uses of Recovery Act funds, and 102 of those concerns have been turned over for further investigation.

- **Proactive Fraud Prevention:** The board is also concentrating its efforts on identifying high-risk recipients of Recovery Act funds. High-risk factors include past bankruptcies, excessive liens, judgments and lawsuits and other indicators often used by the financial industry to identify problem individuals. Additionally, the board is looking through public information for red flags and has identified a three-pronged accountability model for Recovery Act oversight: a screening process for identifying high-risk recipients, the use of a link-analysis tool identify less obvious high-risk relationships, and the use of other risk factors to create a risk-based approach.

The report concludes by noting that the mission of the RATB is unique and the quest for transparency and accountability is ever-evolving. While significant strides have been made, challenges will need to be overcome and improvements will surely follow. A copy of the board's quarterly report is available at [www.recovery.gov/About/board/Documents/RATB\\_QuarterlyReport-Mar2010.pdf](http://www.recovery.gov/About/board/Documents/RATB_QuarterlyReport-Mar2010.pdf). ■

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## Recovery Act Update



The Recovery Accountability and Transparency Board has made the following changes to the Recovery.gov download center at [www.recovery.gov/FAQ/Pages/DownloadCenter.aspx](http://www.recovery.gov/FAQ/Pages/DownloadCenter.aspx):

- Disbursement to Sub-Recipient Data added.
- Local Amount Column added – This will make the download center consistent with the advance search results and will eliminate the double counting; also, column A1 will represent the geographic amount, so now there is coordination with the home page numbers.

The U.S. Government Accountability Office has released its latest report concerning the Recovery Act entitled "RECOVERY ACT: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability." It is the fifth in a series of reports since passage of the Recovery Act on the uses of and accountability for Recovery Act funds in 16 selected states, certain localities in those jurisdictions, and the District of Columbia. As of February 12, 2010, \$88.7 billion, or a little more than 30 percent of the approximately \$282 billion of total Recovery Act funds for programs administered by states and localities had been paid out by the federal government.

The full report, including GAO's recommendations, can be accessed at [www.gao.gov/Products/GAO-10-437](http://www.gao.gov/Products/GAO-10-437). ■

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## IRS Offers Free 1099 Webinar, March 30

The Internal Revenue Service is offering a free webinar entitled "1099 MISC Filing Requirements for State and Local Governments. Know the Law. Ask the Right Questions. Get the Facts." The webinar is being presented by the IRS's divisions of Small Business/Self Employed and Communications, Liaison and Disclosure, as well as the Office of Federal, State and Local Governments.

The webinar will be held on March 30, 2010 at 2:00 p.m. Eastern time. The webinar is free of charge and is designed for state and local government entities and tax professionals. Specifically, the webinar will address:

- Who is required to file.
- The types of entities that should receive a 1099 MISC.
- How to secure a tax identifying number.
- The types of payments that are subject to 1099 MISC reporting.
- A description of backup withholding.
- How to deposit backup withholding.

Attendees may be eligible to receive continuing professional education for participating. Register online at [www.visualwebcaster.com/event.asp?id=65909](http://www.visualwebcaster.com/event.asp?id=65909).

Visit [www.irs.gov](http://www.irs.gov) and search Webinars for information on other programs available. Those experiencing difficulty viewing the event should call (866) 956-4770.

The webinar will be archived for later viewing approximately two weeks after March 30 at [www.IRS.gov](http://www.IRS.gov). ■

## NASACT's 2010 Washington Issues Survey Is Complete

By Neal Hutchko, Policy Analyst

The results are in! Thirty-one member offices responded to the 2010 Washington Issues Survey. These responses are an invaluable asset to NASACT's Washington office staff, as they help prioritize issues of importance to members and help shape the association's efforts for the upcoming year. Thanks to all who were able to respond and submit comments.

### Five Most Important Issues

- Repeal of the three percent withholding requirement.
- Medicaid and its growing impact on state budgets and policy priorities.
- Unfunded mandates.
- Public sector pension plans.
- Proposals to amend the Single Audit Act and A-133/stimulus funding accountability-tracking (these two tied on the survey).

### Five Least Important Issues

- Results in auditor/comptroller/treasurer elections.
- Issues surrounding investing in terrorist-sponsoring nations; divestment initiatives.
- Social networks as government applications (e.g., Facebook, Twitter, etc.).
- Timely disclosure of financial reports.
- International convergence of accounting standards with the Financial Accounting Standards Board.

### Quotes from the Survey

*Explain any issues you are having with federal agencies:*

- Dealing with ARRA-related requirements continues to be challenging.
- Federal agency guidance that is inconsistent with Office of Management and Budget requirements, inconsistent with GAAP, and inconsistent with GAAS.

- Experiencing challenges in recovering supplemental statewide administrative costs associated with the Recovery Act. A significant amount of these costs cannot be recovered due to grant limitations or because the funds had already been spent or obligated prior to the issuance of OMB's memorandum M-09-18 allowing states to recover up to 0.5 percent of total ARRA funds.

*What is the best thing in financial management going on in your state today?*

- Improved transparency.
- Dedication of staff and desire to make things better.
- Implementation of a new accounting system that will allow agencies to get much more useful financial reporting information.

*Along those same lines, what is the most pressing issue your office is facing today?*

- Carrying out audit responsibilities with increasingly limited resources (cited several times by survey respondents).
- Retirements on the horizon; vulnerability of vacant positions being eliminated as part of budget reductions.
- Budget shortfalls and the potential to lose experienced staff to the private sector when the economy recovers.

*Are there any Congressional or regulatory issues of significance that the NASACT office can address to better serve the membership?*

- Complying with the three percent withholding requirement without reimbursement from the federal government would be a costly unfunded mandate that the states cannot afford.
- We need to reinvent the Single Audit Act. It is currently a giant federal compliance audit. It should be a blended audit: 90 percent performance focused on outcomes; 10 percent legal compliance.
- Very interested in tax-related issues (three percent withholding, COBRA premium subsidy, etc.).

For detailed results of the survey, or if you have any questions, please contact Neal Hutchko in the Washington Office at (202) 624-5873 or [nhutchko@nasact.org](mailto:nhutchko@nasact.org). ■



### NASACT Announces Upcoming Webinars: Mark Your Calendar

- April 14 – GASB Update: Keeping Pace in a Changing Environment
- May 11 – SAS 117, Compliance Auditing
- July 21 – Revised Government Auditing Standards

If you have an idea for a webinar topic, please let us know!  
Email your topics to Kinney Poynter at [kpoynter@nasact.org](mailto:kpoynter@nasact.org).



## GASB Update, March 2010

### GASB Proposes Amendments to Statement 14

On March 9, the Governmental Accounting Standards Board approved an exposure draft of a proposed statement, *The Financial Reporting Entity*, an amendment of GASB Statements No. 14 and 34.

The proposal is designed to improve Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, to better meet user needs and address issues that have come to light since the issuance of those statements in 1991 and 1999, respectively. The exposure draft is scheduled for publication on the GASB website ([www.gasb.org/exp](http://www.gasb.org/exp)) on March 26. The comment deadline is June 30.

The requirements contained in the proposal are meant to lead to more relevant financial statements by improving the guidance for including, presenting, and disclosing information about component units and equity interest transactions.

The proposal has significant potential to bring about enhanced consistency in practice and greater comparability across governmental financial statements.

#### What the Exposure Draft Proposes

The proposed statement would modify some of the requirements for including component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would have to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. With respect to organizations that do not meet the financial accountability criteria for inclusion as component units, but that should nevertheless be included because the primary government’s management determines that it would be misleading to exclude them, the proposal would clarify how that determination should be made, as well as the kinds of relationships that generally should be considered.

In addition, the proposal would amend the criteria for blending—reporting component units as if they were part of the primary government—in certain circumstances. For component units that currently are blended based on substantively the same board criterion, the proposal additionally would require that the primary government and the component unit have a financial benefit or burden relationship, or management below the level of the elected officials of the primary government has operational responsibility for the activities of the component unit.

The exposure draft sets out new criteria requiring blending of component units if their debt is expected to be repaid entirely or almost entirely with the resources of the primary government.

The proposal would amend blending provisions to clarify that funds of a blended component unit have the same characteristics and the same reporting options as a fund of the primary government. Finally, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single-column presentation for financial reporting.

The proposal would also clarify the reporting of equity interests in legally separate organizations. Specifically, it would require a primary government to report its equity interest in a component unit as an asset, with the asset being eliminated in the blending process if the component unit meets the blending criteria.

Appendix C of the document presents the proposed modifications in markup format. This appendix is provided so that readers of the exposure draft can more easily see how these proposed modifications would specifically impact the existing GASB literature.

#### Proposed Effective Date

The requirements of the proposed statement, if adopted, would be effective for financial statements for periods beginning after June 15, 2012. Earlier application would be encouraged.

### GASB Proposes to Bring Applicable FASB and AICPA Guidance into the GASB Codification

In January, GASB issued an exposure draft of a proposed statement, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The comment deadline is June 30 (see page 7 for the deadline to participate in NASACT’s response).

GASB Statements 34 and No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, require that governments apply pre-November 30, 1989, pronouncements from the Financial Accounting Standards Board and American Institute of Certified Public Accountants that do not conflict with or contradict GASB standards, but the applicable pronouncements were not specifically identified and no guidance for applying them was provided. The November 30, 1989, date is significant because that is the date of the Jurisdiction Determination, in which the trustees of the Financial Accounting Foundation reaffirmed the GASB’s status as the standards setter for all state and local governmental entities, including governmental business-type activities.

The proposal is designed to enhance the usefulness of the GASB Codification by incorporating guidance that previously could only be found in those FASB and AICPA pronouncements. This literature previously has not been maintained for the state and local government environment. By incorporating and maintaining this guidance in a single source, the GASB will reduce the complexity associated with locating and using the authoritative literature needed to prepare state and local government financial reports.

(article continued, next page)

## NASACT Seeks Input on Pre-89 Exposure Draft

NASACT will provide a response to the exposure draft *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Due to the length of the ED, NASACT has broken it down into five sections. NASACT seeks input on the following sections:

- Sec. 1: Paragraphs 5-116 (pages 2 through 30)
- Sec. 2: Paragraphs 117-213 (pages 30 through 57)
- Sec. 3: Paragraphs 214-274 (pages 57 through 88)
- Sec. 4: Paragraphs 275-402 (pages 88 through 120)
- Sec. 5: Paragraphs 403-503 (pages 120 through 147)

The ED can be downloaded from the GASB's website at [www.gasb.org](http://www.gasb.org). Please send your comments on any of the five sections above **by Friday, June 25**, to Kim O'Ryan at [koryan@nasact.org](mailto:koryan@nasact.org) or Sherri Rowland at [srowland@nasact.org](mailto:srowland@nasact.org). ■

The exposure draft is designed to significantly reduce the need to rely on sources outside of the GASB's literature to locate the necessary accounting guidance for state and local governments. Together with GASB Statements No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, this proposal would allow those who audit or prepare financial statements, or reference standards for state and local governments, to access the applicable guidance with greater ease and certainty.

The proposals contained in the "Pre-89" exposure draft would bring the top category of authoritative accounting and financial reporting literature (referred to as "Level A" literature) together in a single publication. The guidance contained in the exposure draft generally has been taken as is from the original FASB and AICPA pronouncements, though the guidance has been modified where necessary to relate specifically to the governmental environment. However, this document is not intended to establish any new accounting guidance.

Prior to the March 2009 issuance of Statement 55, the "GAAP hierarchy"—the sources of accounting principles, including Level A literature, used in the preparation of financial statements that are presented in conformity with GAAP, and the framework for selecting those principles—had been set forth in the AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, rather than in the authoritative literature of the GASB. Statement 56, which was issued at the same time, incorporated accounting and financial reporting guidance regarding going concern considerations, related-party transactions, and subsequent events.

The need for this project became more urgent with the July 1, 2009, launch of the FASB Accounting Standards Codification™, which supersedes all previous FASB pronouncements as the official authoritative literature. Individual FASB and AICPA pronouncements became nonauthoritative literature for the private sector when the new FASB Codification took effect. The practical effect of the new FASB Codification has been that the pre-November 30, 1989, standards are no longer readily available to many GASB constituents. Because identifying the provisions applicable to governments within the restructured

FASB authoritative literature was simply no longer practical, the ultimate issuance of the guidance contained in this exposure draft is expected to be of significant value.

### Topics Addressed in the Proposal

The Pre-89 exposure draft addresses more than 120 FASB and AICPA pronouncements that date back several decades and covers some 29 accounting and financial reporting topic areas. Topics addressed in the proposal include accounting changes and error corrections, capitalization of interest costs, contingencies, extinguishments of debt, imputation of interest costs, investments in common stock, leases, regulated enterprises, special and extraordinary items, and statement of net assets classification.

### Proposed Effective Date

The requirements in the proposed statement, if adopted, would be effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged.

### How to Obtain The Exposure Drafts

Copies of exposure drafts may be downloaded free of charge from [www.gasb.org](http://www.gasb.org). Alternatively, a single photocopy of either or both documents may be obtained by calling the GASB Order Department at (800) 748-0659.

### Recent GASB Activity

The GASB held a public meeting February 16-18 in Norwalk, Connecticut, and met via teleconference on January 26 and March 9 to discuss issues related to service concession arrangements, service efforts and accomplishments, pension accounting and financial reporting, recognition and measurement attributes under its conceptual framework, and the *AICPA Audit and Accounting Guide*.

### Service Concession Arrangements

At the February meeting, the board examined the scope of its guidance on service concession arrangements. Specifically, the board reviewed the results of applying the proposed standards against a hypothetical set of contract terms detailing a municipal

(article continued, next page)

golf course operation arrangement in which a government has contracted out the operation of the course to a private golf course management company. After applying the proposed scope provisions to the hypothetical contract terms, the board tentatively concluded that the scope provisions could remain unchanged and allow facilities such as golf courses to be included.

The board then deliberated issues raised by respondents to the exposure draft in the area of revenue sharing. The board tentatively decided to remove certain language from the final standards to ensure that an operator would always record the gross amount of revenues received in revenue-sharing arrangements. The board also tentatively decided to include language in the final standards stating that revenue should be recognized by the transferor as it is earned in accordance with the terms of the arrangement.

The board next deliberated the issue of initial measurement for SCAs with revenue sharing arrangements. The board tentatively decided that a transferor should record a receivable at the inception of the arrangement for any unconditional consideration it expects to receive. Revenue received from revenue sharing arrangements would not be considered unconditional consideration because the amount of revenue that will be earned by the operator in the future is uncertain. The board also discussed the classification of the related liability or deferred inflow that would be recorded at the inception of an SCA. The board indicated that active involvement of a transferor in the revenue generated over the course of an SCA would be an important indicator that a liability should be reported and asked the staff to conduct additional research into this concept in the context of SCAs.

Finally, the board deliberated the accounting for arrangements in which no reportable consideration is given to the transferor from the operator. Consistent with its previous tentative decision, the board tentatively decided that, because no unconditional consideration is received in these arrangements, no liability should be recorded by the transferor at the inception of the arrangement.

### **Service Efforts and Accomplishments**

At the February meeting, the board reviewed a summary of comments received on the proposed suggested guidelines for voluntary reporting, *SEA Performance Information*, relating to the six qualitative characteristics of SEA performance information—relevance, understandability, timeliness, comparability, consistency, and reliability.

The board tentatively agreed with the substance of the staff recommendations pertaining to the six qualitative characteristics of SEA performance information, and called for various editorial revisions designed to enhance clarity. The revisions designed to enhance clarity included the addition of a new example to illustrate the impact of unintended consequences, a new sentence discussing the appropriateness of the use of estimates, in some cases, rather than final data in the interest of timeliness, and a new sentence describing the importance of obtaining feedback from users to help enhance the relevance of reported SEA information.

### **Pension Accounting and Financial Reporting**

At the February meeting, the board deliberated on issues related to pension liability measurement and expense recognition by sole and agent employers, including the attribution of the present value of expected future benefit payments to financial reporting periods. The board also continued its discussion from the November 2009 meeting regarding the recognition of the effects of certain events other than employee service in the current financial reporting period that also cause changes in an employer's net pension liability.

In regard to the normal cost, or service cost, component of pension expense, the board tentatively decided that a single method—one described in the current standards as the entry age actuarial cost method—applied on a level-percentage-of-payroll basis should be used to attribute the present value of expected future benefit payments to financial reporting periods for purposes of measuring the employer's pension liability and for expense recognition purposes. The board further tentatively decided that benefits should be attributed to periods beginning in the first period in which an employee's service leads to benefits under the plan (whether or not the benefits are conditional on further service, as is the case, for example, with vesting provisions) and ending in the last period of the employee's service. The board tentatively decided that if the plan terms do not specify a period, benefits should be attributed over the total projected periods of employee service. In addition, in light of its subsequent tentative decision described below with regard to the amortization periods for changes in the pension liability due to (1) differences between assumed and actual experience with regard to demographic and economic factors, (2) the effects of changes in demographic and economic assumptions related to measurement of an employer's pension liability, and (3) the effects of benefit changes that are applied retroactively to past periods of service, the board agreed to revisit both decisions with the goal of establishing consistent attribution periods for normal cost and these other components of pension expense.

The board tentatively decided that recognition of pension investment earnings above or below the expected long-term rate of return should be deferred so long as the net cumulative amount of deferred outflow or net cumulative amount of deferred inflow remains within a corridor of 15 percent above and below the fair value of assets. However, if the net cumulative deferred balance at the end of a financial reporting period falls outside the corridor, the board tentatively decided that the excess should be recognized as pension expense immediately.

The board tentatively decided that (1) differences between assumed and actual experience with regard to demographic and economic factors, (2) the effects of changes in demographic and economic assumptions related to measurement of an employer's pension liability, and (3) the effects of benefit changes that are applied retroactively to past periods of service of plan members should be deferred and amortized over the remaining service lives of individual plan members. (An effect of these tentative decisions would be that changes related to past periods of service

(article continued, next page)



### Eells Appointed as State Auditor in New Jersey

The New Jersey State Legislature approved the appointment of Stephen M. Eells to the position of state auditor on February 11 during a special joint session. Mr. Eells is a certified public accountant who has been employed by the Office of the State Auditor since 1982. He has been an assistant state auditor since 2006, providing program development and managerial oversight.

Mr. Eells was recommended for the position after an extensive

screening process by the Legislative Services Commission, a 16-member bipartisan panel with equal representation from the state senate and general assembly. The commission oversees the non-partisan Office of Legislative Services, with the state auditor functioning under its auspices. The state auditor is a constitutional officer responsible for conducting financial and performance audits of state agencies, certain school districts, and vicinages of the judiciary, and conducting studies on the operation, economy and efficiency of state-run or state-supported programs.

Mr. Eells graduated from Rider College in 1982 with a B.S. in commerce. He resides in Florence with his wife and daughter. ■

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### Oregon State Treasurer Ben Westlund Dies of Cancer

#### Ted Wheeler Appointed to Fill the Post

Former State Treasurer Ben Westlund died on March 7, 2010, following a long battle with lung cancer. He was 60 years old. Mr. Westlund took office as state treasurer just over a year ago, after serving 12 years in the Oregon legislature.

Ted Wheeler was appointed as Oregon's twenty-eighth state treasurer on March 9 by Gov. Ted Kulongoski and was sworn into office on March 11.

At the time of his appointment, Mr. Wheeler was the elected chairman and chief executive officer of Multnomah County,

Oregon's most populous county.

Before entering elected office, Mr. Wheeler worked in the financial services industry, including posts at Bank of America and Copper Mountain Trust, where he was a senior manager.

Mr. Wheeler earned a B.A. in economics from Stanford University, an M.B.A. from Columbia University, and a master's in public policy from the John F. Kennedy School of Government at Harvard University.

Article V, section 16 of the Oregon Constitution governs filling the vacancy of the office of the state treasurer. The immediate vacancy is filled by appointment by the governor; the appointee shall serve only until such time as a successor is duly elected and qualified at the next regularly scheduled general election.

Oregon voters will select a candidate to fill the remaining two years of office at the general election in November of this year. ■

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### Update From GASB (continued from previous page)

of inactive [including retired] plan members would be recognized immediately.) In addition, in light of its earlier tentative decision with regard to the attribution period associated with normal cost, the board subsequently agreed to revisit both decisions with the goal of establishing consistent attribution periods for all four of these components of pension expense.

At the March teleconference, the board discussed accounting and financial reporting issues associated with employer reporting for cost-sharing pension plans as well as tentative decisions made thus far in the project. Among the issues discussed concerning cost-sharing employers, the board deliberated on (1) what basis should be used in determining a cost-sharing employer's pension liability and expense for accounting and financial-reporting purposes; (2) whether only certain cost-sharing employers should recognize proportionate shares of the collective unfunded liability as their pension liabilities; and (3) whether the measurement and attribution approaches for sole and agent employer accounting and financial reporting tentatively agreed to by the board should be applied to the measurement of cost-sharing employers' collective unfunded liability and expense.

### Conceptual Framework—Recognition and Measurement Attributes

The board and the Federal Accounting Standards Advisory Board staff discussed the principal differences between GASB and FASAB drafts on measurement concepts in relation to objectives of financial reporting, users of financial information, and purposes of concepts statements of the two boards.

The GASB expressed interest in harmonizing terminology so that when the same term is used in both documents it has the same meaning and in continuing to coordinate with the FASAB on this project. The board tentatively decided to replace the terms initial values and remeasured values with initial amounts and remeasurement amounts, as used in the FASAB's draft, when referring to the two primary measurement attributes.

### AICPA Audit and Accounting Guide

At the March teleconference, the board unanimously cleared for issuance the applicable portions of the AICPA Audit and Accounting Guide—*Gaming Industry*. Primary changes in the newly cleared version of the guide include updated references to authoritative literature and modification of a governmental financial statement illustration that appears in an appendix. ■

### FAF Names Appointees to Board of Trustees, to GASB

On February 24, the Financial Accounting Foundation announced the appointment of Douglas A. (“Digger”) Donahue, Jr., to the FAF Board of Trustees.

Mr. Donahue is the managing partner of Brown Brothers Harriman & Co., a position he has held since 2008. In this role, he is responsible for managing one of the largest private banks in the United States, one that oversees over \$2 trillion in client assets and offers a wide range of investment and securities services to a diverse, global clientele that includes financial institutions, corporations, and individuals. Since joining the firm as a banker in its Boston office in 1976, Mr. Donahue has served in a number of capacities, most notably as the partner in charge of its Investor Services business globally.

Also on the February 24, the FAF announced the appointment of Michael H. Granof to the Governmental Accounting Standards Board, starting July 1, 2010. His term will extend until June 30, 2015. He succeeds Dr. William Holder, who will conclude his

second five-year term on the GASB on June 30, 2010.

Mr. Granof, Ph.D., CPA, is the Ernst & Young distinguished centennial professor of the McCombs School of Business at the University of Texas at Austin. Dr. Granof has been a member of the faculty of the McCombs School of Business since 1972. Appointed in 1984 to his current role, he served as chairman of the school’s Department of Accounting from 1984-88. Concurrently, he is also a professor of public affairs at the Lyndon B. Johnson School of Public Affairs of the University of Texas at Austin, a position he has held since 1999.

Throughout his distinguished professional career, Dr. Granof has focused on government accounting and auditing issues. In addition to writing a number of articles and textbooks on these subjects, he is currently a part-time member of the Financial Accounting Standards Advisory Board for the federal government, and he previously was a member of the National Council of Governmental Accounting, the American Institute of Certified Public Accountants’ Committee on Governmental Accounting and Auditing, the U.S. Comptroller General’s Advisory Council on Government Auditing Standards, and various committees of the Texas Society of CPAs. ■

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### Register Today for the 2010 NSAA/NASC Middle Management Conference: Oklahoma City

The National State Auditors Association and the National Association of State Comptrollers are pleased to announce the fifth annual Joint Middle Management Conference. This year’s conference will be held April 19-21 in Oklahoma City. The conference features sessions tailored to address the training needs of middle management staff in the offices of state auditors and state comptrollers.

The conference will feature a Yellow Book update by Marcia Buchanan, assistant director, Government Auditing Standards, Government Accountability Office; and an update on standards from the Governmental Accounting Standards Board by Frank Crawford, president, Crawford & Associates. Participants will also hear from Scott Pattison, executive director, National Association of State Budget Officers; Vince Orza, dean of the Meinders School of Business, Oklahoma City University; Dr. Marla Sanchez, Spectrum Development; and many others!

#### Conference Hotel: Skirvin Hilton OKC

The Skirvin Hilton Oklahoma City Hotel is located in the heart of downtown and is within walking distance of many area attractions: the Ford Center Arena, Bricktown Canal and Entertainment District, Bricktown Ballpark, Oklahoma City National Bombing Memorial, Oklahoma City Arts Museum, Civic Center, and the state capitol. To book a room, call the Skirvin Hilton Hotel at (888) 460-6546 and ask for the Joint Middle Management Conference group rate.

#### Getting There

The Skirvin Hilton Oklahoma City Hotel is located ten miles from the Will Rogers World Airport. Super Shuttle offers transportation for approximately \$17/each way; taxi service is approximately \$20/each way.

#### Registration and Additional Information

Registration is currently available, and a draft agenda is posted on NASACT’s website at [www.nasact.org](http://www.nasact.org). Questions about the conference may be addressed to Kim O’Ryan ([koryan@nasact.org](mailto:koryan@nasact.org)) or Sherri Rowland ([srowland@nasact.org](mailto:srowland@nasact.org)). ■

### Register Online Today!

The **2010 Middle Management Conference** will feature the following tracks:

■ **Audit** (2 ½ days - April 19-21)  
20 credits of CPE: \$425

■ **Finance** (2 days - April 19-20)  
16 credits of CPE: \$320

To register, visit [www.nasact.org](http://www.nasact.org) and click on “Upcoming Events.”

## Fraud News to Use

Provided courtesy of the Oregon State Controller's Office

### What is Fraud, Waste and Abuse?

It can be difficult to determine one definition of fraud, waste or abuse. As a result, there are many definitions that exist. The Oregon Secretary of State Audits Division has defined fraud, waste and abuse as follows:

**Fraud** — A dishonest and deliberate course of action that results in the obtaining of money, property or advantages to which state employees or an official committing the action would not normally be entitled. Intentional misleading or deceitful conduct that deprives the state of its resources or rights. Fraud is most often classified in one of three categories: asset misappropriation, corruption, or fraudulent financial statements.

**Waste** — The needless, careless or extravagant expenditure of state funds, incurring of unnecessary expenses, or mismanagement of state resources or property. Waste does not necessarily involve private use or personal gain, but almost always signifies poor management decisions, practices or controls. Waste typically takes the form of purchasing unneeded supplies or equipment, purchasing goods at inflated prices, or failure to reuse or recycle resources.

**Abuse** — The intentional, wrongful or improper use or destruction of state resources, or seriously improper practice that does not involve prosecutable fraud. Abuse can include the excessive or improper use of an employee or official's position in a manner other than its rightful or legal use. Abuse is often seen when there is a failure to report damage to state equipment or property, a public official uses their position for personal gain for themselves or a family member, significant time away from work or state time used for personal business, receiving favors for awarding contracts to certain vendors, conflicts of interest, and other ethics violations.

### Fraud Case Overview

This case involves a local elected government official who provided favors to friends, family and campaign contributors at the expense of taxpayers in exchange for large kickbacks over the course of a year in office.

In the same month when the public official took office, the individual moved to eliminate the Department of Public Works. This resulted in the lay off of 60 public employees. In lieu of a Department of Public Works, services were contracted with a public company where the official's son and grandson both worked.

The company selected for the contract was incorporated just days before receiving the contract. In addition, the two owners of the corporation were the two largest contributors to the public officials campaign for office.

The contract was in effect for approximately one year. During this time the local government paid the corporation over \$3.1 million dollars. This amount included hundreds of thousands of dollars in inflated and false charges.

In exchange for providing the favorable contract, not only did the work go to a company for which the official's family worked, but the official received more than \$65,000 in kick-backs from the company.

Kick-backs were also allegedly paid to another official in order to ensure the invoices that were submitted by the company were not challenged. These kick-backs came in the form of both cash and a new car.

The scheme was revealed when an undercover informant began cooperating with investigators. Additionally, one of the owners of the company began cooperating with investigators when the individual became aware that the company was the target of an investigation.

As the result of a long investigation, the official was eventually arrested and indicted on charges of conspiracy, bribery and fraud. The public official has pleaded guilty to conspiracy and admitted receiving the bribes and faces a sentence ranging from 46-57 months in prison, as well as up to \$100,000 in 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](mailto: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 14 ■ Webinar: GASB Update: Keeping Pace in a Changing Environment  
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 11 ■ Webinar: SAS 117 - Compliance Auditing  
May 13-14 ■ Tennessee Training Seminar, Morristown, TN  
May 19-20 ■ Tennessee Training Seminar, Jackson, TN  
June 15-18 ■ NSAA Annual Conference, Carefree, AZ  
July 21 ■ Webinar: Revised Government Auditing Standards  
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

## NASACT Announces Webinar: "GASB Update: Keeping Pace in a Changing Environment"

By Donna Maloy, Conference Manager

**N**ASACT, in conjunction with the Association of Government Accountants and the Association of Local Government Auditors, is pleased to announce the latest in its series of audio conferences addressing timely issues in government auditing and financial management. The webinar will be held on Wednesday, April 14 from 2:00-3:50 p.m. Eastern time. The cost is \$249 per site (unlimited attendance).

As fiscal year-end for most state governments quickly approaches, it's an opportune time for financial statement preparers and auditors to get a refresher on (1) recently issued GASB pronouncements, (2) new standards that are effective for June 30, 2010, and (3) other significant projects on GASB's current technical agenda. This webinar will provide "must know" guidance for financial statement preparers and auditors.

Robert H. Attmore, GASB chair, and various members of the GASB staff will cover new GASB pronouncements along with key technical agenda items, including:

- Statement 54 (fund balance) and 14 (reporting entity) reexamination.
- Service concession arrangements.
- Codification of Pre-November 30, 1989 FASB and AICPA pronouncements.
- Statements 55 (GAAP hierarchy) and 56 (codification).
- Pension standards reexamination.
- Statements 57 (OPEB measurements) and 58 (Chapter 9 bankruptcies).
- Service efforts and accomplishments (SEA) reporting guidelines.
- Economic condition: fiscal sustainability project.

Standards that will be effective for fiscal years ending June 30, 2010, will also be covered. These include Statement 51, *Accounting and Financial Reporting for Intangible Assets*, and Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. Herb Maguire, director, Bureau of Financial Management, Comptroller Operations (PA), and Eric Berman, deputy comptroller (MA), will discuss key implementation issues that auditors and comptrollers need to be aware of as these new statements become effective.

Please join us for this informative training event. In addition to hearing scheduled segments from our speakers, you will be able to ask questions during a live Q&A session. Register today at [www.nasact.org](http://www.nasact.org). ■

### NASACT News

## MARCH 2010

**R. Kinney Poynter**  
*Executive Director*

**Cornelia Chebinou**  
*Washington Office Director*

**Glenda Johnson**  
*Communications Manager*

### National Association of State Auditors, Comptrollers and Treasurers

**Headquarters Office**  
449 Lewis Hargett Circle, Suite 290  
Lexington, KY 40503-3590  
P (859) 276-1147, F (859) 278-0507

**Washington Office**  
444 N. Capitol Street, NW, Suite 234  
Washington, DC 20001  
P (202) 624-5451, F (202) 624-5473

**Online**  
[www.nasact.org](http://www.nasact.org)

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