



National Association of State  
Auditors, Comptrollers and Treasurers

# WASHINGTON UPDATE

444 N. Capitol Street NW, Suite 234 ♦ Washington, DC 20001 June 02, 2010

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## **GAO Releases Latest Recovery Act Report: States Should Do More**

The Government Accountability Office (GAO) has released their latest review on the uses of and accountability for Recovery Act funds. The report, entitled “States’ and Localities’ Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability”, highlight the ongoing issues of recipient reporting.

The report finds that while the Office of Management and Budget (OMB) has met some objectives in its Single Audit Internal Control Project to encourage earlier reporting of internal control deficiencies and corrective actions, further efforts are needed. GAO recommends that OMB issue more timely Single Audit guidance to help ensure federal agencies provide more timely management decisions on corrective action plans. GAO further recommends that Education, HUD, and OMB improve reporting guidance.

The report notes that progress continues to be realized in improving completeness and quality of recipient data however errors and reporting inconsistencies remain.

The full report can be obtained at: <http://www.gao.gov/new.items/d10604.pdf>

GAO highlights of the report are available at: <http://www.gao.gov/highlights/d10604high.pdf>

## **SEC’s Holds Open Meeting on Muni Market Rules**

On May 26<sup>th</sup>, the Securities and Exchange Commission (SEC) conducted an open meeting to discuss possible changes to the municipal market. Of particular interest was the SEC’s consideration of

recommendations to adopt amendments to Rule 15c2-12 which pertain to municipal securities disclosure. The Commission also considered interpretive guidance to assist brokers, dealers and municipal securities dealers in meeting their obligations under the antifraud provisions of the federal securities laws.

As you are aware, 15c2-12 prohibits underwriters from purchasing or selling municipal securities unless they have determined that the issuer has agreed to make certain key information available to investors on an ongoing basis. The change would expand the scope of the rule to include certain demand securities such as variable rate demand obligations (VDRO) and expand the list of events that issuers agree to disclose. The proposed rules also provide that the issuer has agreed to make the disclosure in a timely manner, not in excess of 10 business days.

Of note are several statements by the various Commissioners regarding expansion of SEC’s authority over the municipal market and growing concern over the current disclosure regime. According to a statement by SEC Commissioner Elise Walters, the SEC’s efforts in this regard will begin with the commencement of muni field hearings to gather opinions and commentary from municipal market participants.

A video archive of the open meeting can be found at: <http://www.sec.gov/news/openmeetings/2010/052610openmeeting.shtml>

## **Senate Reviews Improper Payments in Unemployment Insurance; DOL Sends Draft Recovery Legislation to Congress**

The Senate Finance Committee held a hearing last week to discuss problems of improper payments in the Unemployment Insurance (UI) program and recently-

# WASHINGTON UPDATE *(page 2)*

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introduced legislation to help states recover overpayments.

According to Committee Chairman Max Baucus (D-MT), the leading causes of overpayments are:

- claimants who have returned to work but continue to claim benefits,
- errors in verifying that unemployed workers are in fact eligible for unemployment insurance benefits; and
- workers who continue to receive benefits despite not fulfilling the program's requirements.

The Department of Labor also sent draft legislation to Congress entitled "The Unemployment Compensation Integrity Act of 2010." The draft bill would provide states with flexibility in using UI fund money for purposes of reducing erroneous payments and increasing collections. The draft legislation would:

- require penalties for claimant fraud and employer fault,
- expand the recovery of erroneous payments,
- collect unpaid contributions through offsets of Federal income tax refunds; and
- improve State administration of the UI program.

Testimony from all panelists and the video archive can be found at:

<http://finance.senate.gov/hearings/hearing/?id=c4efb69c-5056-a032-5201-db7a88ce6056>

DOL's press release on the Unemployment Compensation Integrity Act can be found at:

<http://www.dol.gov/opa/media/press/eta/eta20100681.htm>

## Tobacco Smuggling Hearing Features Comptroller and Audit Commentary

In light of recent cigarette and tobacco product smuggling operations being uncovered by state finance agents in Mississippi and Maryland (among other states), the House Ways and Means Oversight Subcommittee conducted a hearing to look at the rapidly expanding problem. The panelists included representatives of the California Board of Equalization (responsible for administering the tobacco taxes in California and which is comprised of four elected members and the State Controller) and the Massachusetts Department of Revenue's Audit Division.

Testimony revealed a wave of high-tech tobacco "stamps" which utilize encrypted information and that seem to provide a good value in combating smuggling and tax avoidance. Jerome Horton, Vice Chairperson of the California State Board of Equalization, stated that in California "state inspectors and investigators of the Board of Equalization have proven the effectiveness of technology-based tax stamps, manufacturer and distributor licensing, and vigorous enforcement. Use of these strategies has led to the retention of nearly \$153 million in annual state tax revenues: \$87.7 million in cigarette excise tax, \$16 million in other tobacco products excise tax, and \$49.2 million in state sales and use taxes. These measures have been an effective tool in reducing tax evasion and increasing the retention of revenues in the cigarette and tobacco product tax program."

The Massachusetts report concurred, noting that "Examples from various reports have indicated a high volume counterfeit or inter-state trafficking of tobacco product across the country. Federal officials have tracked and identified illegal product

# WASHINGTON UPDATE *(page 3)*

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sold by individuals with profits filtered to the Middle East and used for terrorism... Massachusetts new stamp will provide the purchaser with multiple ways to determine whether the stamp is authentic to the naked eye including: a 6 digit alphanumeric identifier unique to each stamp, a red to green ink color shift, and micro text printing. In addition, there are several covert features implanted into the stamp that can only be read by a security device issued to DOR personnel.”

The full report to the Subcommittee from California and Massachusetts area available at:

<http://waysandmeans.house.gov/Hearings/hearingdetails.aspx?NewsID=11196>