



## NASACT Announces December ARRA Post-Reporting Webinar

By October 30, states had concluded the first round of required reporting under the American Recovery and Reinvestment Act. Although not perfect, for the first time states gathered and reported vast amounts of information on their grants, loans and contracts, and a new era of transparency was ushered in.

On December 3, NASACT will co-host a webinar to examine lessons learned during this first wave of ARRA reporting as well as challenges and responsibilities accountability professionals will face moving forward toward the next reporting period in January 2010. During this webinar, you will hear from:

- State representatives responsible for ARRA reporting.
- The Recovery Accountability and Transparency Board, discussing the successes and pitfalls identified during the first reporting exercise.
- The U.S. Government Accountability Office, discussing the results of GAO's work on Section 1512 recipient reporting and its recommendations moving toward the next reporting period.
- The U.S. Office of Management and Budget, discussing OMB's plans for additional or amended guidance and an update on a pilot program designed to address Recovery Act risk through the use of early written communication of internal control deficiencies for Recovery Act programs.

Join us for this timely webinar. In addition to hearing from the states and the RATB, OMB and GAO, participants will be able to address questions to the speakers during a live Q&A session at

the end of the webinar.

This webinar offers something for all government auditors, comptrollers, treasurers, budget officers and other government officials playing a role in successful implementation of the Recovery Act. Please share this opportunity with others in your government interested in this topic.

### Overview

- Date: Thursday, December 3, 2009
- Time: 2:00-3:50 p.m. Eastern time
- CPE: 2 credits will be offered
- Cost: \$249 per connection (unlimited attendance) on or before November 30; \$299 thereafter

Find complete details about the webinar or register online today at [www.nasact.org/conferences\\_training/events.cfm](http://www.nasact.org/conferences_training/events.cfm). Online registration will end at 4:30 p.m. Eastern time on Tuesday, December 1, so register soon! ■

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*The webinar, entitled "ARRA Reporting Round Two: What Worked, What Didn't, and What's Next," is presented by NASACT in conjunction with the Association of Government Accountants and the Association of Local Government Auditors as part of an ongoing series of events to address timely issues in government auditing and financial management.*

### ARRA-Related Dates of Note

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|-------------|--|
| December 3  | ■ Webinar: "ARRA Reporting Round Two: What Worked, What Didn't, and What's Next" (register at <a href="http://www.nasact.org/conferences_training/events.cfm">www.nasact.org/conferences_training/events.cfm</a> ) |
| December 10 | ■ National Association of State Comptrollers: ARRA Issues Call (For information, contact Kim O'Ryan, <a href="mailto:koryan@nasact.org">koryan@nasact.org</a> )  |
| January 10  | ■ Next ARRA recipient reporting deadline at <a href="http://www.recovery.gov">www.recovery.gov</a>   |

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

The following new items have been posted on NASACT's website at [www.nasact.org](http://www.nasact.org):

- The 2009 edition of *Auditing in the States: A Summary*, at [www.nasact.org/nsaa/publications/auditing.cfm](http://www.nasact.org/nsaa/publications/auditing.cfm).
- NASACT's response letters to the Governmental Accounting Standards Board's exposure draft entitled *Financial Instruments Omnibus* and proposed guidelines entitled *SEA Performance Information* at [www.nasact.org/nasact/positions/GASB.cfm](http://www.nasact.org/nasact/positions/GASB.cfm).
- NASACT's observations from the GASB meeting held July 13-16, 2009, at [www.nasact.org/nasact/positions/GASB.cfm](http://www.nasact.org/nasact/positions/GASB.cfm).
- NASACT's observations from the GASB meeting held August 26-28, 2009, at [www.nasact.org/nasact/positions/GASB.cfm](http://www.nasact.org/nasact/positions/GASB.cfm).
- Responses to technical inquiries by state comptrollers on the topics of "IAT Rules as They Relate to Payroll," "OPEB Discount Rates," "Capitalization Thresholds and Amortization Periods," and "SWCAP" at [www.nasact.org/nasc/technical/index.cfm](http://www.nasact.org/nasc/technical/index.cfm).
- NASC's internal control questionnaire document entitled "Accounting System Section of the Internal Control Questionnaire" at [www.nasact.org/nasc/committees/multistate/index.cfm](http://www.nasact.org/nasc/committees/multistate/index.cfm).

## NSAA Seeks Peer Review Team Members

The National State Auditors Association's Peer Review Program is anticipating a busy year, with 15 reviews scheduled in 2010. NSAA is seeking members, team leaders, and concurring reviewers to serve on peer review teams.

Potential team members should visit [www.nasact.org/nsaa/peerreview/index.cfm](http://www.nasact.org/nsaa/peerreview/index.cfm) and complete the "Team Member Qualifications Form" (you must be logged in as a member to get to the form). If you filled out a previous qualifications form, you must still fill out a new form to be considered for the upcoming year. Those interested in participating should complete and submit the "Team Member Qualifications Form" by December 1, 2009. Questions may be directed to Fay Kurkijy at [fkurkijy@nasact.org](mailto:fkurkijy@nasact.org) or (859) 276-1147.

## Workgroup Develops Sample Legislative Language on Transparency

The National Association of State Comptrollers' Transparency Information Sharing group has been meeting via conference call for some time to discuss various issues states are having as they implement transparency initiatives. The group has formed a Workgroup for Legislative Language which is working to develop sample legislative language that could be used by states in their efforts to develop transparency initiatives. ■

## 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 Workgroup – December 9
- NASC Transparency – January 26
- NASC State Government Payroll – February 10
- NASC ERP – February 4
- NASC ARRA Information Sharing Call – December 10
- NASC Travel and Purchase Card – February 17
- NASC E-Commerce – January 27

### National State Auditors Association

- NSAA Performance Audit – December 16
- NSAA Human Resources – January 28

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

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

# Association Notes

## NSAA Seeks Input on AICPA EDs

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

the proposals. The documents may be downloaded from the AICPA's website at [www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Exposure+Drafts+of+Proposed+Statements/](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>Reporting on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country</i>	This proposed SAS supersedes SAS No. 51, <i>Reporting on Financial Statements Prepared for Use in Other Countries</i> . On page 5 of the ED is an Issue for Consideration as well as a Guide for Respondents.	December 31	November 30
Proposed SAS entitled <i>Engagements to Report on Summary Financial Statements</i>	This proposed SAS would supersede SAS No. 42, <i>Reporting on Condensed Financial Statements and Selected Financial Data</i> . On pages 6 and 7 of the ED are three Issues for Consideration as well as a Guide for Respondents.	December 31	November 30
Proposed SASs entitled (1) <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i> and (2) <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i>	These proposed SASs would supersede SAS No. 1, section 544, <i>Lack of Conformity with Generally Accepted Accounting Principles</i> , as amended, and SAS No. 62, <i>Special Reports</i> , as amended, except paragraphs 19-21. On pages 5 and 6 of the ED are two Issues for Consideration as well as a Guide for Respondents.	December 31	November 30
Proposed SAS entitled <i>Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements (Redrafted)</i>	This proposed SAS would supersede paragraphs 19-21 of SAS No. 62, <i>Special Reports</i> . There is an Issue for Consideration on page 5 of the ED, as well as a Guide for Respondents on page 6.	December 31	November 30
Proposed SASs entitled (1) <i>Forming an Opinion and Reporting on Financial Statements</i> ; (2) <i>Modifications to the Opinion in the Independent Auditor's Report</i> and (3) <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>	These proposed SASs would supersede SAS No. 58, SAS No. 87, SAS No. 1 (Section 410), and SAS No. 32. There is an Issue for Consideration on page 13 of the ED, as well as a Guide for Respondents on page 14.	December 31	November 30
Proposed SASs entitled <i>Terms of Engagement</i> and <i>Written Representations</i>	The proposed SAS <i>Written Representations</i> would supersede SAS No. 85, <i>Written Representations</i> . No comparable extant SAS to the proposed SAS <i>Terms of Engagement</i> in its entirety exists. The proposed SAS <i>Terms of Engagement</i> would supersede paragraphs .03–.10 of SAS No. 84, <i>Communications Between Predecessor and Successor Auditors</i> . Additionally, some of the content in the proposed SAS <i>Terms of Engagement</i> is contained in paragraphs .08–.10 of AU section 311, <i>Planning and Supervision</i> . AU section 311 would be superseded in its entirety by the proposed SAS <i>Planning an Audit</i> .	January 15	December 28

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).

# News From Washington

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## Chinese Finance Officials Visit NASACT's D.C. Office

By Neal Hutchko, Policy Analyst

Two delegations of Chinese finance officials visited NASACT's Washington D.C. office last month. The first group, arriving on October 20, focused mainly on management of human resources within governmental financial entities. They were led by Deputy Director General Li Fu of the Personnel and Education Department of the Chinese Ministry of Finance. They were very interested in how an "association" actually functions and in how an organization such as NASACT can aid governments. They noted that there is no entity in China comparable to an association, and they were very interested in how long NASACT had been in existence and the services it provides. Through their translator, the group indicated that

America and China both share a significant human resources problem during this difficult economic environment: staffing. They indicated that staffing is their most critical human resource issue. Not surprisingly, they face many of the same problems that NASACT member offices face: generational differences between employees, recruitment, and retention.

The second delegation from China arrived at NASACT's offices on October 29. This group featured many municipal auditors and finance officials from some of the larger provinces in China. The group's leader, Sun Jun, is the deputy director of the Hangzhou Municipal Audit Bureau. The 17-member group consisted mainly of auditors and division chiefs, and they were mostly interested in the structural composition and operations of NASACT. As with the previous group, they expressed a level of confusion about what an association actually is, and about how NASACT responds to changes to proposed accounting rules and standards. ■



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## 2009 IRPAC Report Contains 3% Withholding Recommendations

On October 28, the Information Reporting Program Advisory Committee (IRPAC) of the Internal Revenue Service released its 2009 recommendations on a wide range of tax administration issues. Included in the report were recommendations by an ad hoc subcommittee of the group concerning the three percent withholding requirement. Specifically, the subcommittee recommends:

- That the \$10,000 threshold be increased.
- That the IRS create a certificate similar to a W-9 to help determine which entities are exempt.
- That the \$100 million payments threshold for determining if a political subdivision of a state is subject to withholding be determined by averaging multiple accounting years.
- That guidance spell out what constitutes a "good faith effort."

The committee's recommendations are available at [www.irs.gov/taxpros/article/0,,id=214434,00.html](http://www.irs.gov/taxpros/article/0,,id=214434,00.html). No timeframe was given as to when the Treasury Department will issue final regulations.

As previously reported in *NASACT News*, the implementation date for the three percent withholding requirement was pushed back to January 1, 2012, as part of the stimulus package signed into law in February of this year. NASACT and other state and local groups, as well as many businesses, continue to seek a full repeal of the provision. There are two repeal bills circulating in Congress, one in the House (H.R. 275) and one in the Senate (S. 292). Both can be accessed and downloaded at <http://thomas.loc.gov> (type the bill number in "Search Bill Summary and Status"). Action this year on repeal remains unlikely.

NASACT will continue to seek member assistance in contacting Congressional delegations as opportunities for repeal arise going forward. Questions about this issue may be directed to Cornelia Chebinou at [chebinou@nasact.org](mailto:chebinou@nasact.org). ■



## GASB Update, November 2009

### GASB Requests Input on Emerging Issues

The Governmental Accounting Standards Board is committed to addressing the important emerging issues that state and local governments face as they arise. Constituents play a key role in GASB's efforts to monitor emerging issues by helping to identify those that may require the board's attention. You might say that the preparers, auditors, and users of government financial reports are GASB's advance scouts.

The board has a number of processes in place to help its staff keep abreast of emerging issues. These include the activities of its advisory council, the Governmental Accounting Standards Advisory Council, which meets three times a year to, among other things, consider whether there are matters that GASB should investigate. Constituents also indirectly help GASB identify potential issues when they contact staff with questions about standards. GASB tracks the technical inquiries that it receives, and when a number of questions about a particular topic are posed, it considers whether the issue requires guidance.

In addition, GASB encourages constituents to notify its staff if issues come to their attention, including raising those issues at presentations made by the board members and staff at conferences around the country. If you are aware of new issues for which accounting and financial reporting guidance is needed, or issues with the interpretation or implementation of GASB standards or with the financial reporting information that results from application of existing guidance, please let GASB know. Potential concerns can be sent via email to GASB's director of research and technical activities at [director@gasb.org](mailto:director@gasb.org). Alternatively, a letter can be sent to: Director of Research and Technical Activities, GASB, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116.

### Recent GASB Activity

GASB met via teleconference on September 15, held a public meeting on October 6–8 in Norwalk, Connecticut, and met again by teleconference on October 27 to discuss the following:

- Final-third 2009 technical plan.
- Projects addressing codification of pre-November 30, 1989, FASB pronouncements.
- Postemployment benefit accounting and financial reporting.
- Statement 14 reexamination.
- Recognition and measurement attributes under the conceptual framework.
- Other postemployment benefit implementation issues.
- Chapter 9 bankruptcies.
- Service concession arrangements.

### *Technical Plan*

At the September teleconference, the board reviewed and provided input to the chairman on the final-third 2009 technical plan. The board recommended that the proposal to issue a due process document on the postemployment benefit accounting and financial reporting project in December 2009 not be accepted. To accommodate the issuance of a due process document on the project in June 2010, the chairman agreed that the due process documents on two projects should be deferred to the fourth quarter of 2010. The two affected projects are recognition and measurement attributes and the financial instruments omnibus. These changes will allow the board additional deliberation time and the staff resources needed to issue the project's next due process documents by June 2010. After considering the views of the other board members, the chairman approved the technical plan with the above-mentioned changes.

### *Codification of Pre-November 30, 1989, FASB Pronouncements*

At the September teleconference, the board continued its deliberations on a set of pronouncements issued prior to November 30, 1989, that are being considered for incorporation into GASB literature. The pronouncements include statements and interpretations issued by the Financial Accounting Standards Board; Accounting Principles Board opinions; accounting research bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure; and AICPA accounting interpretations (collectively, the "FASB pronouncements"). The board reviewed and made suggestions concerning these standards and modifications proposed by the project staff to adapt the guidance as closely as possible to the style and terminology generally used in GASB literature.

Additionally, after reviewing the project staff's proposals related to interim financial reporting guidance, the board tentatively decided that the provisions of APB Opinion No. 28, *Interim Financial Reporting*, and its related amendment and interpretation, should not be considered further for incorporation into GASB literature. The board determined that based upon the prescriptive nature of the guidance in Opinion 28 and the related amendment, those pronouncements were in conflict with the principles on interim reporting established in NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, and, therefore, should be not be incorporated into the GASB literature.

At the October meeting in Norwalk, the board discussed the format of the exposure draft of a proposed statement for the project. The board reviewed a sample of the proposed contents of the exposure draft, including selected provisions of the standards section and appendices. The board also discussed the effective date and transition period that would be proposed in the exposure draft. The board tentatively decided that the exposure draft would include a proposal for a one-year transition period following the issuance of the final statement.

At the October teleconference, the board discussed whether provisions from certain appendices of FASB and the AICPA pronouncements should be considered for incorporation

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into GASB literature. The board tentatively decided that supplementary guidance from these appendices, which governments need in order to apply a given standard, should be considered for incorporation. However, guidance from these appendices that is illustrative in nature and only serves to complement the authoritative standards of a pronouncement would not be considered for incorporation.

The board also continued discussing whether to reconsider the tentative decision to incorporate FASB and AICPA guidance on extinguishments of debt in light of accounting and financial reporting issues recently brought to the staff's attention pertaining to governments repurchasing their own debt securities. The board upheld its original tentative decision to include the guidance on extinguishments of debt in the proposed statement.

### ***Postemployment Benefit Accounting and Financial Reporting***

At the October meeting in Norwalk, the board reviewed and discussed the staff's proposed plan for considering issues raised in response to the invitation to comment, *Pension Accounting and Financial Reporting*, which was issued in March 2009. The board also discussed how additional issues—specifically, those regarding other postemployment benefits and pension accounting and financial reporting by plans—should be considered in relation to the planned due process document and the overall postemployment benefits project. The board tentatively decided to address issues related to OPEB separately from the currently planned due process document. The board deferred its decision on whether to include plan reporting issues in the document until further deliberations have taken place.

To facilitate its future discussions, the board also discussed characteristics of several potential models of the relationships among employers, defined benefit pension plans (or trusts), and employees for financial reporting purposes. The alternatives discussed included models derived from responses to the invitation to comment, the current model established by GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and others. No tentative decisions were reached, and the board will continue its discussions on the modeling of these relationships during its subsequent deliberations.

### ***Reexamination of Statement 14 (Financial Reporting Entity)***

At the October meeting in Norwalk, the board continued its discussions of the misleading-to-exclude criterion for reporting component units. The board tentatively agreed to the proposed clarifying language presented, which emphasizes the consideration of significant financial relationships in determining whether it would be misleading to exclude certain organizations. However, the board requested that the “or incomplete” from the “misleading or incomplete” criterion be eliminated from the proposal.

The board tentatively agreed to language clarifying that funds of blended component units are subject to the same requirements and constraints as funds of the primary government. GASB also

tentatively agreed that when the primary government acquires 100 percent of the net assets of a corporation, the acquired entity would be reported as a *blended* component unit.

### ***Conceptual Framework—Recognition and Measurement Attributes***

At the October meeting in Norwalk, the board considered issues associated with interperiod equity to serve as a basis for developing recognition concepts for deferred inflows and outflows of resources. The board tentatively decided that the following circumstances *may* give rise to deferred inflows or outflows:

- Outflows of resources that are intrinsically related to future services.
- Time restrictions on inflows of resources when the transaction does not meet the definition of a liability.
- A sale of resources that are not currently recognized in the financial statements (future resources).
- Changes in the value of recognized assets when conditions exist such that there is little likelihood of realization of the gain or loss.

### ***OPEB Implementation Issues***

At the October meeting in Norwalk, the board reviewed and discussed comments received in response to an exposure draft of the proposed statement, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The board tentatively decided to retain in the final statement a proposed amendment to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, that would permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates.

To conform with the proposed change to Statement 45, the board also tentatively decided to retain the proposal to amend GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, to permit an agent multiple-employer plan to meet its disclosure requirements by presenting aggregated individual-employer plan information resulting from a combination of actuarial valuations and measurements using the alternative measurement method, in cases in which the individual-employer plan is eligible.

In addition, the board considered comments received in response to the proposal in the exposure draft to clarify the requirements in Statements 43 and 45 that the employers in an agent multiple-employer plan obtain actuarial valuations as of the same date and at the same minimum frequency as the plan. After considering the views of the respondents, the board tentatively decided to retain this clarification in the final statement.

The board also discussed the proposed effective date of the final statement. The exposure draft proposed that the statement's provisions be effective “for actuarial valuations first

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### 2010 NASC Annual Conference ■ March 24-26, 2010 ■ Des Moines, Iowa



Join NASC president Calvin McKelvogue (IA) for the twenty-ninth annual conference of the National Association of State Comptrollers. The Program Committee is currently working to finalize the agenda.

Find details about the conference hotel – The Embassy Suites Des Moines on the River – and the agenda (as it becomes available), visit [www.nasact.org](http://www.nasact.org).

Other meetings that will be held on March 23 in conjunction with the conference include:

- NASACT's Executive Committee
- NASC's Committee on Accounting and Financial Reporting
- NASC's Executive Committee

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

reported in OPEB plan or employer financial statements for periods beginning after June 15, 2010," with earlier application encouraged. After deliberating on this proposal, the board tentatively decided that (1) the provisions of the final statement related to the alternative measurement method should be effective immediately upon the issuance of the statement and (2) the provisions of the final statement related to the coordination of actuarial valuation dates should be effective for actuarial valuations first used to report funded status information in agent multiple-employer plan financial statements for periods beginning after June 15, 2011.

#### **Chapter 9 Bankruptcies**

At the October meeting in Norwalk, the board discussed comment letters received in response to the exposure draft for Chapter 9 bankruptcies. The board began redeliberations by discussing the measurement approaches presented in paragraphs 6 and 7 of the exposure draft, as well as alternative views. The board also considered the appropriateness of having consistent measurement approaches in those paragraphs without reaching any tentative decisions.

At the October teleconference meeting, the board continued redeliberations of the measurement approaches presented in paragraphs 6 and 7 of the exposure draft, as well as the alternative views. Paragraph 6 requires measurement to be based on the payment terms specified in the confirmed plan of adjustment. Paragraph 7 states that if the plan of adjustment does not indicate whether it reduces the principal amount or interest

payments, then the debt should be adjusted, and a gain reported, by an amount equal to the difference between the present value of the future payments under the confirmed plan of adjustment and the carrying amount of the pre-petition debt. The board also considered the appropriateness of having consistent measurement approaches in paragraphs 6 and 7, and tentatively decided to leave the measurement provisions as proposed in the exposure draft.

In discussing the interest rate to be applied if paragraph 7 is used, the board tentatively decided to leave the interest rate provisions as proposed in the exposure draft—that is, the present value of the future payments should be computed using the effective rate of interest for the original debt.

#### **Service Concession Arrangements**

At the October meeting in Norwalk, the board reviewed a high-level overview analysis of comment letters received to date in response to the exposure draft. The board made note of confusion some respondents expressed over the definition of service concession arrangements and over the scope of the potential standards. The board then discussed the need for a more robust definition of SCAs as well as, potentially, the need for a definition of related service and management arrangements. The board will begin its formal review of comment letters at its November meeting. ■

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

### State Fiscal Outlook Remains Bleak

In a preliminary report released jointly by the National Governor's Association and the National Association of State Budget Officers, the news is bleak; states are or could be in one of the worst fiscal situations since the Great Depression.

The report is a preliminary review of the "Fiscal Survey of States," which provides a biannual snapshot and narrative analysis of trends and significant developments on the fiscal condition of the states. The preliminary review shows that states' fiscal situation will continue to deteriorate in 2010 and likely even into 2011 and 2012. States are expected to reduce general fund expenditures by at least four percent in 2010 and this following the 4.8 percent reduction in 2009. In fiscal year 2009,

states underwent a 7.5 percent decline in revenue based in part on the national recession and on a decline in tax revenue.

The report also notes that the funds made available by the American Recovery and Reinvestment Act helped states avoid making draconian cuts and also helped states maintain critical funding for education and human services. ARRA assistance, however, will not solve the budget crisis, and states will still need to cut spending, use rainy day funds, and examine revenue increases.

In a news release on the findings, NGA Executive Director Raymond Scheppach stated that the length and depth of the economic downturn and the projected slow recovery and overhang of unmet needs will cause states to continue to struggle over the next decade. ■

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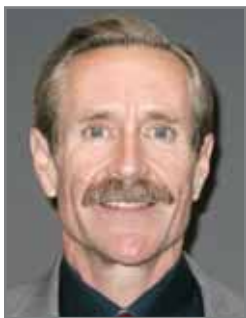
### Pew Releases State Budget Report

The Pew Center on the States recently released its latest fiscal survey on the health of states. The report, entitled *Beyond California: States in Fiscal Peril*, paints a bleak picture for a select group of states: Arizona, Florida, Illinois, Michigan, Nevada, New Jersey, Oregon, Rhode Island and Wisconsin. The writers state that "While not a comprehensive diagnosis of states' fiscal health, this study begins to help us understand why some states are suffering more acutely from the nation's economic crisis than others—and which may have the toughest time regaining their footing." These 10 states account for more than a

third of America's population and economic output.

Using California's problems as a baseline for comparison, the report reviews the ten states using the following factors: (1) high foreclosure rates; (2) increasing joblessness; (3) loss of state revenues; (4) the relative size of budget gaps; (5) legal obstacles to balanced budgets—specifically, a supermajority requirement for some or all tax increases or budget bills; and (6) poor money management practices. The report also contains a nationwide map showing the status of each state in relation to the economic crisis, with a visual on page 64 entitled "How does your state compare with California?"

The full report can be viewed at [http://archive.stateline.org/images/2009\\_Nov\\_11-BeyondCalifornia/BeyondCalifornia.pdf](http://archive.stateline.org/images/2009_Nov_11-BeyondCalifornia/BeyondCalifornia.pdf). ■



### California DOF Joins NASACT

NASACT is pleased to welcome to its ranks a new member—the California Department of Finance. Representing the California DOF will be Fred Klass, chief operating officer of the department.

Mr. Klass has been in the DOF for 20 years. The DOF has a number of responsibilities, including maintaining the state's chart of accounts, managing SWCAP, leading internal audit functions, and developing state accounting policy.

Mr. Klass formerly served as a consultant to members of the state Senate Budget Committee. He has also served as vice chancellor for governmental relations for the Chancellor's Office of the California Community Colleges. Additionally, he spent four years evaluating governmental program effectiveness and efficiency for the Commission on California State Government Organization and Economy (Little Hoover Commission).

Mr. Klass holds a master's degree in public administration from California State University, Sacramento, and a bachelor's degree in political science from the University of California, Berkeley. ■

### Louisiana's Steve Theriot to Retire

Louisiana's legislative auditor, Steve Theriot, is set to retire effective November 20. Daryl G. Purpera, first assistant to the legislative auditor, will serve as Mr. Theriot's temporary replacement until the position is permanently filled.

Mr. Theriot has served as legislative auditor since 2004. He began his public service on the Jefferson Parish Home Mortgage Authority. He was also a member of the Jefferson Parish School Board from 1983-1987 where he served as Finance Committee chairman. Theriot served in the state's House of Representatives from 1988 until 1996.

Mr. Purpera has been with the auditor's office since 1985 and previously worked as an auditor for the Louisiana Department of Agriculture. A graduate of LSU, he is a member of the American Institute of Certified Public Accountants, the Louisiana Society of CPAs and the Association of Certified Fraud Examiners. In August, 2009, he was appointed to the AICPA State and Local Government Expert Panel. He also serves on the LCPA's Accounting and Auditing Standards Committee and the Government Accounting and Auditing Committee.

The position of legislative auditor is elected by a majority of the elected members of the state's House and Senate. ■

## Fraud News to Use

Provided courtesy of the Oregon State Controller's Office

### Payroll Fraud Tests

One of the most common payroll fraud devices is the use of "ghost employees."

#### Ghost Employees

Ghost employees are on the payroll but do not actually work there. In most cases, ghost employees are recently terminated employees, fictitious persons, or the friends or family members of the perpetrator. Some warning signs that your payroll may harbor ghost employees include:

- Employees with no taxes or benefits.
- Invalid Social Security numbers.
- Frequent employee address changes.
- Employees with P.O. boxes, drop box addresses, or no home address.
- Unusual work locations, no work phone number.
- No annual or sick leave used over a reasonable period.
- No evaluations, raises, or promotions.
- More than one pay increase/change in the last year.
- Paychecks issued after termination dates.
- Gross pay adjustments.
- Employees with the same address in the same unit.
- Excessive overtime or continual pattern of overtime.
- Excessive comp time accruals.

### Fraud Case Overview

This case study involves a ghost employee scheme in which a payroll specialist for a non-profit organization embezzled \$112,000 over a two-year period to cover medical costs.

The employee's duties included posting time and attendance to the computer system and preparing payroll disbursements summaries. He was not responsible for adding or deleting employees from the master file; this was the responsibility of another employee. The organization also had a process in place for a supervisor to approve all

payroll disbursements, and direct deposit was used for all payroll disbursements.

The perpetrator employed several techniques in order to circumvent the internal controls in place. He obtained his co-worker's user ID and password in order to obtain access to add employees to the master file. In addition, he knew that tax deductions were programmed for employees within a given range of employee numbers, so he intentionally assigned the fictitious employees numbers higher than that range. This ensured that the ghost employees did not have deductions taken from their checks. Once the ghosts were in the system, he was able to enter their false wage information and arranged to have the checks direct deposited into his own account. Finally he prepared his own false payroll summary for the supervisor's signature. The perpetrator was a trusted and valued employee, and as such, the supervisor did not check his work carefully and failed to notice that the fraudulent documentation had been printed with a different typeface from the legitimate reports. The employee also created fake file copies of the ghosts' paychecks using white paper instead of yellow, which was typically used for the legitimate checks.

The scheme was discovered when an auditor noticed the white copy of one of the fraudulent checks during routine transaction-testing of the payroll account.

The employee entered a plea bargain agreement and served no jail time, but was sentenced to 15 years of probation and ordered to pay restitution.

### Payroll Fraud Uncovered

Some simple but effective techniques to prevent or detect ghost employee schemes include:

- Ensuring that payroll preparation, disbursement and distribution functions are segregated.
- Looking for paychecks without deductions for taxes or Social Security.
- Encouraging direct deposit; although this is not foolproof (as can be noted by the above case), it can reduce the risks of payroll fraud.
- Check payroll records for the presence of duplicate names and Social Security numbers.
- Be wary of budget variations in payroll expenses. ■

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

## Mark Your Calendar for These 2010 Events!

By Donna Maloy, Conference Manager

### **NASC Annual Conference ■ March 24–26, Des Moines, Iowa**

The conference year begins with the NASC Annual Conference in March. NASC's Program Committee, which is chaired by Clark Partridge, state comptroller, Arizona, is currently working on the technical program. A draft program agenda will be posted to NASACT's website in early January. The conference hotel, Embassy Suites on the River, is located in the heart of Iowa's capitol city.

### **NSAA/NASC Middle Management Conference ■ April 19–21, Oklahoma City, Oklahoma**

The 2010 annual NSAA/NASC Middle Management Conference is scheduled to be held April 19-21 at the Skirvin Hilton Hotel located in downtown Oklahoma City. The Skirvin is within walking distance to Bricktown Canal, the entertainment district in Oklahoma City.

### **NSAA Annual Conference ■ June 15–18, Carefree, Arizona**

The state auditors will have their annual conference in Carefree, Arizona, from June 15–18 at the Boulders Resort located in quaint downtown Carefree, Arizona. The conference hotel is just north of Scottsdale and only 33 miles from the Phoenix airport.

### **NASACT Annual Conference ■ August 7 – 11, Charleston, West Virginia**

The 2010 NASACT annual conference will be held August 7–11 in historic Charleston – the gateway to West Virginia. The Marriott Charleston Town Center has been selected as the host hotel; it is conveniently located just minutes from the state capitol and sits along the beautiful Kanawha river.

### **NASACT Training Directors Forum ■ Portland, Oregon**

The NASACT Training Directors Forum will be held in Portland, Oregon, in the fall of 2010. Definite dates have not yet been finalized. More information will be forthcoming.

### **NSAA IT Conference and Workshop ■ Tallahassee, Florida**

NSAA's IT Conference and Workshop will be held in Tallahassee, Florida, in late September or early October of 2010. Hotel and dates have not yet been determined. More information will follow.

For additional information on any of these conferences, please contact Donna Maloy at (859) 276-1147 or [dmaloy@nasact.org](mailto:dmaloy@nasact.org). ■

## NASACT News

### NOVEMBER 2009

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The next issue of *NASACT News* will be published in December 2009. To submit articles, photos or ideas, contact Glenda Johnson by December 11 at [gjohnson@nasact.org](mailto:gjohnson@nasact.org) or phone at (859) 276-1147.