



## State Auditors Will Meet in Arizona Following a Year of Change

By Debbie Davenport, Auditor General of Arizona, and President of the National State Auditors Association, 2009-10

When I look back on the past year, I am amazed by the number of challenges we all experienced—professionally and personally—and the level of intensity of those challenges. And yet, we met those challenges—individually and collectively—head on. We didn't always know what might be coming next, what new things we'd be asked to do, or how much we'd have to give back or give up. But we didn't have to deal with these challenges alone. Collectively, through the National State Auditors Association, we were able to take the ups and mostly downs and demonstrate why what we do is especially important in these challenging times. It's one of the reasons why I feel privileged to have served this past year as president of the National State Auditors Association.

These are likely the most turbulent and devastating economic times that many of us have ever experienced. We have seen the impact on the entities we audit, but we also felt that impact in our own offices as our budgets were reduced and our staffing levels dropped. And we know that better times are coming, not in the short term, but more likely in the long run.

In the meantime, we were being asked to do more. Our legislators know that we are here to provide timely and accurate information that helps them decide how to navigate these tough times. But we were also deluged with new requirements for our audits as a result of the American Reinvestment and Recovery Act. With the unprecedented call for accountability and transparency, we were drawn into the fray as the ones who

can give the straight answer, provide objective information, and identify where things might go wrong, have gone wrong, or can be improved.

And while the economy and the Recovery Act were at the forefront, we still faced an onslaught of new auditing standards, new accounting standards, and increased federal oversight through Government Accountability Office reviews, Office of Inspectors General investigations, and Office of Management and Budget regulations.

This is where the energy, sharing, and strength of the National State Auditors Association came in. As a group, in addition to the normal technical activities like conferences, trainings, information sharing calls and responding to exposure drafts, we stepped up to provide information to federal, state, and local levels of government, we participated on federal task forces and committees that were and are shaping our audit requirements, and we shared ideas and solutions with each other. Without listing them all, here are a few of our efforts this past year that come to mind:

- NASACT staff organized regularly scheduled "ARRA calls," allowing us direct and first-hand contact with those in the OMB and the Recovery Accountability and Transparency Board.
- NASACT held webinars and audio conferences on subjects related to recovery, transparency, and auditing that were presented by state audit personnel or federal representatives.

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### NSAA President Debbie Davenport to Host 2010 Annual Conference

The 2010 NSAA Annual Conference will be held in Carefree, Arizona, June 15-18. Debbie Davenport and current president of NSAA, will host the event and conclude her year as NSAA's president. Ms. Davenport was appointed auditor general of Arizona in 1999. She has more than 29 years of experience in both the public and private sectors. She is very active in a number professional organizations. She received her B.S. from Arizona State University. She is a certified public accountant, certified government financial manager, and certified fraud examiner. Ms. Davenport is involved in various committees of NSAA and NASACT and serves on NASACT's Executive Committee.



## It's Not Too Late to Register for NSAA 2010 in Carefree, Arizona!

Join NSAA President Debbie Davenport for the 2010 NSAA Annual Conference in Carefree, Arizona, June 15-18. Visit [www.nasact.org](http://www.nasact.org) to view the agenda, find information about the conference hotel or to register. Please note that the cut-off date to receive the special rate of \$169 per night (plus taxes) is **Friday, May 21**. ■

- At our NSAA conferences, we discussed timely issues and possible solutions with representatives from the OMB, GAO and RATB.
- NASACT staff and state auditors participated on federal task forces whose objectives included increased Recovery Act auditing and single audit changes to address the Recovery Act and the Improper Payments Information Act.

This past year, as always, the NASACT staff did a great job to keep up on all that we faced in these turbulent times—I especially want to thank Kinney Poynter and Sherri Rowland for helping me during my year as NSAA President. I also want to thank the NSAA Executive Committee—Walt Kucharski, Russell Hinton, Janice Mueller, David Vaudt, and Elaine Howle, for their support and input. And it's the committees that really create our collective strength and knowledge to prepare us for, and enable us to meet, all the challenges we face. To all the committee chairs, and the committee participants, I really appreciate all your efforts.

I also want to take this time to welcome our newest state auditors:

- Steven Eells, State Auditor, New Jersey
- Mark Pattison, Executive Deputy Comptroller, New York
- Daryl Purpera, Legislative Auditor, Louisiana

Congratulations! I encourage each of you to get involved with NSAA and your peers. It is a wonderful opportunity for you and your staff to gather and share information and stories that will help you in your states.

Finally, I appreciate the opportunity to have served as the President of the National State Auditors Association this year. I'm proud of how we met the challenges of this year, and I look forward to being there with all of you as we successfully meet the challenges ahead of us. ■

**NSAA Committee Meeting Schedule:** The following NSAA committees will meet on Tuesday, June 15, in conjunction with the 2010 NSAA Annual Conference in Carefree, Arizona. All NSAA members are invited to attend these committee meetings. Conference call-in capability will also be offered. Those wishing to participate by conference call may join the meetings by dialing (512) 225-3050 (guest code 67981#). Meeting packets will be emailed to all committee participants prior to June 15. All meetings are listed in Mountain time (no daylight savings time). ■

■ 8:30 – 9:30 a.m.	Peer Review	Elaine Howle (CA), Chair
■ 9:30 – 10:30 a.m.	Audit Standards & Reporting	Randy Roberts (AZ), Chair
■ 10:30 – 11:30 a.m.	Single Audit	Dave Vaudt (IA), Chair
■ 11:30 – 12:30 p.m.	Performance Audit	Tom Marks (PA), Chair
■ 1:30 – 2:30 p.m.	E-Government	Karen Helderman (VA), Chair
■ 2:30 – 3:30 p.m.	Human Resources	Rebecca Otto (MN), Chair
■ 3:30 – 4:30 p.m.	Auditor Training	Glen Fowler (CA), Vice-Chair
■ 4:30 – 5:30 p.m.	NSAA Executive Committee	Debbie Davenport (AZ), President

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

- Visit [www.nasact.org/nasact/positions/congressional.cfm](http://www.nasact.org/nasact/positions/congressional.cfm) to view a letter in response to Notice 2009-93 from the Internal Revenue Service on truncating Social Security numbers on paper payee statements.
- 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:
  - 3% Withholding Implementation
  - Changing Pay Periods

## Input Needed on NASC Work Groups

NASC is investigating the level of interest among state comptroller offices in participating in work groups on the topics of debt collection and fee-for-service.

If you or staff within your office would be interested in either of these two groups, please email Kim O’Ryan at [koryan@nasact.org](mailto:koryan@nasact.org). If there is enough interest, information sharing groups will be formed.

## NSAA Issues Calls for Resolutions, Snodgrass Award Nominees

### Resolutions

The National State Auditors Association is currently accepting resolutions for consideration at the upcoming NSAA annual conference. Resolutions should be submitted to Resolutions Committee Chair Ron Jones (AL) at [ron.jones@examiners.alabama.gov](mailto:ron.jones@examiners.alabama.gov) or to Sherri Rowland at [srowland@nasact.org](mailto:srowland@nasact.org) **by Friday, May 21**.

### William R. Snodgrass Distinguished Leadership Award

Debbie Davenport (AZ), NSAA president and chair of the Snodgrass Award Committee, is currently accepting nominations for the 2010 William R. Snodgrass Distinguished Leadership Award. The winner of the award will be announced at the NSAA Annual Conference in June. Nominations will be accepted **until Tuesday, May 18, 2010**. To receive the criteria and application, email Sherri Rowland at [srowland@nasact.org](mailto:srowland@nasact.org).

## NASACT Seeks Input on GASB EDs

### Financial Reporting Entity Exposure Draft

On March 26, GASB issued an exposure draft on *The Financial Reporting Entity an amendment of GASB Statements No. 14 and No. 34*. This ED is intended to improve financial reporting of component units and proposes to modify the existing criteria for inclusion of organizations that are “fiscally dependent” on a government by adding a requirement that the potential component unit and the primary government also have a financial benefit or burden relationship. The proposed statement also would amend the criteria for “blending,” or the reporting of component units as if they were part of the primary government. Appendix C presents the proposed modifications in a markup format. A public hearing is scheduled during GASB’s regular meeting on August 3, 2010, in Norwalk, Connecticut.

The board has asked for comments on all matters in this proposed statement including comments on any aspects with which you agree as well as any with which you disagree. The board requests that you explain the reasons for your views, including alternatives that you believe should be considered.

The ED can be downloaded from the GASB’s website at [www.gasb.org](http://www.gasb.org).

NASACT will be preparing an association position on this ED. Please send your comments for inclusion in NASACT’s response **by Friday, June 4**, to Kim O’Ryan at [koryan@nasact.org](mailto:koryan@nasact.org) or Sherri Rowland at [srowland@nasact.org](mailto:srowland@nasact.org).

### 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 and 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). ■

## Association Notes

### Registration is Now Open for the NASACT Annual Conference!



Please join us in the beautiful state of West Virginia on August 7-11 for the 2010 NASACT Annual Conference!

With the heart of the Appalachian Mountains as a backdrop, there will be no end to the exciting adventures you will find in West Virginia. From rafting and climbing to spectacular golf and natural beauty, you will find it all. Explore the state's deep

and rich mining history or attend one of the numerous festivals and theatrical productions; it won't be hard to find something wonderful to see!

#### Conference Hotel

The conference hotel, the Marriott Charleston Town Center, is located in the heart of West Virginia's capitol city. The hotel is just minutes away from the capitol building, the Town Center Mall, Charleston's premier retail destination, and the Charleston Civic Center, a 14,000 seat music, arts and special events facility.

The negotiated conference rate is \$134/night single or double occupancy, plus applicable taxes. This rate is guaranteed until the cut-off date of July 16, 2010. After this date, rooms will be offered on a space and rate-available basis only. To book your room, call (304) 346-6500 and ask for the NASACT Annual Conference group rate. Visit the Marriott Charleston Town Center website for additional information at [www.marriott.com/hotels/travel/crwwv-charleston-marriott-town-center/](http://www.marriott.com/hotels/travel/crwwv-charleston-marriott-town-center/).

#### Registration Fees

Registration and additional information is now posted on NASACT's website at [www.nasact.org](http://www.nasact.org). Questions about the conference may be directed to Donna Maloy at [dmaloy@nasact.org](mailto:dmaloy@nasact.org) or (859) 276-1147. ■

### New This Year: Travel Assistance and New Member Programs!

NASACT's Executive Committee recently approved a travel assistance program for 2010 and 2011 to help principal members (or their designees) attend the annual conference. Each member can be reimbursed for up to \$1,000 to cover conference airfare, hotel or registration. New members will receive complimentary registration to the conference (a \$600 value). Watch for more details on these programs coming soon!

#### NASACT 2010: Featured Events

##### **Saturday, August 7**

- Golf Tournament at Stonehaven Golf Course
- Welcoming Open House at the Marriott Charleston Town Center

##### **Sunday, August 8**

- 5K Fun Run/Walk
- NASACT Executive Committee Meeting
- Sunset Cruise on the Kanawha River

##### **Monday, August 9**

- Conference Sessions

##### **Featured Keynote Speaker**

**Tom Ridge**, Former Governor of Pennsylvania and Former U.S. Secretary of Homeland Security

- Guest & Youth Program (Beckley Exhibition Coal Mine Museum)
- Reception at the West Virginia Cultural Center and Capitol Complex

##### **Tuesday, August 10**

- Conference Sessions

##### **Featured Keynote Speaker**

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

- Guest Program (Fenton Glass Factory Tour)
- Youth Program (Various Activities)
- NASACT Business Meeting
- State Night Dinner at The Clay Center

##### **Wednesday, August 11**

- The Economy, Post-ARRA Implementation and the States (half-day)

### Improper Payments Legislation Will Hold States Accountable

As previously reported in NASACT's *Washington Update*, H.R. 3393, The Improper Payments Elimination and Recovery Act of 2010, is making its way through Congress. The legislation is an amendment to the Improper Payments Elimination Act of 2002 and furthers the goal of the Obama Administration to boost transparency and hold officials accountable for improper payments.

An improper payment is any payment that is paid in the wrong amount, to the wrong person or at the wrong time. An estimated \$98 billion in improper payments was made by the federal government in 2009. The new legislation will require the head of each federal agency to account for risk factors that are likely to contribute to the susceptibility of significant improper payments, including whether payments or payment eligibility decisions are made outside of the agency, such as by a state or local government. The following language is of particular note to NASACT:

“With respect to any program or activity of an agency with estimated improper payments, the head of the agency shall

provide with the estimate **a report on what actions the agency is taking to reduce improper payments**, including a description of the steps the agency has taken to ensure that agency managers, programs, and, where appropriate, **states and localities are held accountable through annual performance appraisal criteria** for meeting applicable improper payments reduction targets, establishing and maintaining sufficient internal controls, including an appropriate control environment, that effectively prevent improper payments from being made; and promptly detect and recover improper payments that are made.” (Emphasis added.)

The legislation is just one of many initiatives to address improper payments. The President issued an Executive Order late last year establishing eight workgroups to investigate and make recommendations to address improper payments. As noted in past issues of *NASACT News*, NASACT is participating in two of the workgroups, one on improper payments and single audit and another on incentives. Workgroup recommendations are due to the U.S. Office of Management and Budget this month. Once the reports are publicly released, NASACT will distribute them and solicit comments from the membership. ■

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### Single Audit Roundtable Meets, Focus on ARRA Continues

The Single Audit Roundtable held its first meeting of 2010 in May. Attendees heard general updates from representatives of the U.S. Office of Management and Budget, U.S. Government Accountability Office, American Institute of Certified Public Accountants, and the federal inspectors general community. The group also discussed American Recovery and Reinvestment Act issues, including the auditor's role in the Recovery Act and recommendations stemming from a workgroup looking at single audit and improper payments.

The meeting began with a moment of silence for Hugh M. Monaghan, director of non-federal audits at the U.S. Department of Education and friend to many members of the single audit community, who passed away suddenly in April. Known to many members of NASACT, Hugh was a dedicated public servant, beginning his distinguished federal career in 1971.

Gil Tran of the U.S. Office of Management and Budget discussed upcoming changes to the 2010 compliance supplement, which OMB expects to be released by the end of May. Specifically, Mr. Tran commented on the effects of ARRA expenditures on major program determinations. For clusters of programs there is an exception for Student Financial Aid and Research and Development because ARRA is not separately identified. For Type A programs with ARRA expenditures, a program that otherwise meets low-risk criteria cannot be low risk if it contains ARRA expenditures: however an exception is provided. An auditor may consider a program to be low risk if all of the following criteria are met:

- The program or cluster had ARRA expenditures in the prior audit period.
- The program or cluster was audited as a major program in the prior audit period.
- ARRA expenditures in the current audit period are less than 20 percent of total program or cluster expenditures.
- The auditor has followed sections of OMB Circular A-133 and determined the program/cluster would otherwise be low-risk.

Mr. Tran said a draft of the compliance supplement will be available for the audit community soon for planning purposes; however, it should be noted that the draft may be subject to additional edits as it will not be final.

Mr. Tran further discussed the possibility of another addendum to be released in late June which will provide auditors with more guidance on ARRA Section 1512 jobs reporting. No further details were given.

John Higgins spoke on activities of the Recovery Accountability and Transparency Board. Mr. Higgins explained that the board is meeting with federal agencies to discuss the single audit as a risk management tool. Mr. Higgins indicated that the focus of the board is now to become a catalyst for better oversight and accountability.

Terry Ramsey gave an overview of work being conducted on improper payments and the single audit, the topic of one of the eight workgroups established by Executive Order to look at various aspects of improper payments. Kinney Poynter, executive director of NASACT, and several state auditors have been participating in the workgroup along with various

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## Single Audit Roundtable Recap

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federal representatives. The workgroup is exploring how single audit effectiveness can be measured and improved and if the single audit can assist in reducing improper payments and improving program accountability. Some of the workgroup's recommendations include:

- Instilling federal leadership by designating a management official at the policy level with assigned single audit responsibility, improving single audit interagency management coordination, conducting a study to determine appropriate single audit roles of agency management and the Office of the Inspector General, and clarifying with non-federal entities and auditors the federal expectations and federal points of contacts.
- Managing risks by shortening the single audit due date (will probably recommend a phase-in approach), enhancing federal agency oversight of the top tier of entities based on federal dollars, reducing single audit burden on non-federal entities with the least amount of federal dollars (potential two-tier approach), eliminating testing of the least valuable compliance

requirements, providing risk information identified in single audits to the improper payment process, and providing improper payment risk information to the single audit.

- Effectively using single audit reporting to refocus single audit follow-up to be on a whole federal program rather than by an audit/finding approach; standardize audit finding reporting to facilitate analysis and follow-up; expand the role of the federal audit clearinghouse to provide central support and tracking; establish an interagency single audit data analysis function in conjunction with the federal audit clearinghouse; shorten the audit resolution time; establish baseline, metrics and targets to track and report single audit effectiveness; and relate metrics of single audit effectiveness to routine Congressional and OMB oversight bodies.

A representative from GAO spoke broadly about upcoming changes to the Yellow Book, commenting that any changes are being made to promote and modernize high-quality standards and to streamline and make core audit standards consistent with other standard setters. The exposure draft is to be released in June with comments due in September. The group also heard updates from NASACT, the AICPA, and the Single Audit Clearinghouse. The next single audit roundtable will take place in the fall. ■

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## DOL Issues Davis Bacon Guidance

The Department of Labor has issued guidance highlighting the responsibilities of state and local government entities, contractors, and others for implementation of, and compliance with, Davis Bacon labor requirements for construction financed with proceeds of American Recovery and Reinvestment Act Section 1601 tax favored bonds. The following bonds were included in the guidance:

- Any new clean renewable energy bond (as defined in section 54C of the Internal Revenue Code of 1986) issued after the enactment of ARRA.
- Any qualified energy conservation bond (as defined in section

54D of the Internal Revenue Code of 1986) issued after the enactment of ARRA.

- Any qualified zone academy bond (as defined in section 54E of the Internal Revenue Code of 1986) issued after the enactment of ARRA.
- Any qualified school construction bond (as defined in section 54F of the Internal Revenue Code of 1986).
- Any recovery zone economic development bond (as defined in section 1400U-2 of the Internal Revenue Code of 1986).

The DOL guidance can be found at [www.dol.gov/whd/recovery/AAM208.pdf](http://www.dol.gov/whd/recovery/AAM208.pdf). The IRS also has ARRA bond guidance available at [www.irs.gov/taxexemptbond/article/0,,id=206034,00.html](http://www.irs.gov/taxexemptbond/article/0,,id=206034,00.html). ■

### Mark Your Calendar for These Upcoming Information Sharing Calls

#### National Association of State Comptrollers

- NASC Travel and Purchase Card – May 19
- NASC E-Commerce – May 26
- NASC Multi-State Consortium on Internal Control – May 27
- NASC Transparency – June 8
- NASC Statement 51 Work Group – June 10
- NASC ERP – August 5
- NASC Statement 54 Work Group – August 19

#### National State Auditors Association

- NSAA Human Resources – July 29

#### NASACT

- Committee on Accounting, Reporting & Auditing – May 18

*To join one of these groups, email  
Glenda Johnson at [gjohnson@nasact.org](mailto:gjohnson@nasact.org).*

# 2010 Middle Management Conference Recap

Below is a complete listing of sessions and speakers from the 2010 NASACT Middle Management Conference, held in Oklahoma City, Oklahoma, April 19-21. To download handouts or PowerPoint presentations from the conference, visit [www.nasact.org/conferences\\_training/JointMiddleManagement/management.cfm](http://www.nasact.org/conferences_training/JointMiddleManagement/management.cfm). Presentations from the past several years may also be found at this website.

NASACT wishes to thank the planning committees and hosts of the conference, as well as all the speakers and moderators.

The conference was planned by the Auditor Training Committee of the National State Auditors Association and the Middle Management Conference Committee of the National Association of State Comptrollers. NASACT wishes to especially thank Oklahoma hosts Brenda Bolander, state controller, and Steve Burrage, state auditor, and staff from each of their offices. The conference would not have been a success without their assistance in planning the technical sessions. Their warm welcome and hospitality was also greatly appreciated. ■

## MANAGING THROUGH TIMES OF ADVERSITY

- Vince Orza, Dean, Meinders School of Business, Oklahoma City University

## YELLOW BOOK UPDATE: 2010 EXPOSURE DRAFT

- Marcia Buchanan, Assistant Director, U.S. Government Accountability Office

## FINANCE ROUNDTABLE

- Moderator: Eric Berman, Deputy Comptroller, Massachusetts

## INTERPERSONAL DEVELOPMENT AND LEADERSHIP

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

## MASSACHUSETTS' FRAUD PREVENTION PROGRAM

- Eric Berman, Deputy Comptroller, MA

## SO...SHOULD WE CALL THE FEDS?

- Sheldon J. Sperling, United States Attorney - Eastern District of Oklahoma

## STATE OF THE STATES: STATE FISCAL OUTLOOK

- Scott Pattison, Executive Director, National Association of State Budget Officers

## GASB UPDATE 2010

- Frank Crawford, CPA, President, Crawford & Associates

## PERFORMANCE AUDIT ROUNDTABLE

- Moderator: Jeff Brown, Manager, Performance Audit Division, Office of the State Auditor and Inspector, OK

## AMERICAN RECOVERY AND REINVESTMENT ACT: ONE YEAR LATER

- Eric Thorson, Inspector General, U.S. Department of the Treasury

## LIFE AFTER ARRA: BALANCING THE IMBALANCE

- Steve Burrage, State Auditor and Inspector, OK

## EFFECTIVE COMMUNICATION THROUGH WRITING

- Kevin Dungey, Ph.D., Quality Communications Group, Inc.
- Harvey Lillywhite, Ph.D., Quality Communications Group, Inc.

## THE RISK PARADOX

- Payson Hall, Consulting Project Manager, Catalysis Group, Inc.

## DATA ANALYSIS

- Chris Pembroke, Deputy Director, Local Government and Special Services Division, Office of the State Auditor and Inspector, OK
- Hilaire Johnson, Supervisor, Performance Audit Division, Office of the State Auditor and Inspector, OK

## Is Your State Interested in Hosting Middle Management 2011?



Hosting the middle management conference is a great way to bring your staff to the conference without the expense of airfare and hotel. Hosting the conference involves limited assistance in identifying an appropriate conference hotel and support in the form of attendance by staff from the state auditor's and state comptroller's offices.

Would your office be interested in hosting the conference in April 2011? If so, please contact Sherri Rowland at [srowland@nasact.org](mailto:srowland@nasact.org) or Kim O'Ryan at [koryan@nasact.org](mailto:koryan@nasact.org) for additional details.



## GASB Update, May 2010

### GASB Relaunches Website

The Governmental Accounting Standards Board has relaunched its website, [www.gasb.org](http://www.gasb.org). Comments regarding the redesigned site should be directed to Kip Betz, GASB assistant project manager, at [jbetz@gasb.org](mailto:jbetz@gasb.org).

### Projects Added to Technical Plan

In April, GASB Chairman Robert H. Attmore added three projects to the board's technical agenda for the second-third of 2010. A practice issue project related to a statement of net position was placed on the current technical agenda, and projects addressing fiduciary responsibilities and financial guarantees were added to the research agenda. The members of the Governmental Accounting Standards Advisory Council rated the added projects at the top of their list of priorities for potential additions to the technical plan.

#### Statement of Net Position

GASB Concepts Statement No. 4, *Elements of Financial Statements*, included definitions of deferred inflows and deferred outflows of resources as elements separate from assets and liabilities. Several projects and recent pronouncements have proposed or required the reporting of deferrals in the statement of net assets. However, it is not clear, based on Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, where they should appear.

This project is intended to establish display guidance for deferred inflows and deferred outflows. If the deferred inflows and deferred outflows are to be displayed separately, then consideration will also be given to the term used to articulate the residual element presented that represents the difference between assets, deferred outflows, liabilities, and deferred inflows. In late summer 2010, after seeking input from constituents, the board will begin to deliberate various display alternatives.

#### Fiduciary Responsibilities

The objective of this project is to assess whether additional guidance should be developed regarding the application of the fiduciary responsibility criterion in deciding whether and how governments should report fiduciary activities in their financial reports. Existing standards do not provide a basis for a clear answer to those questions and thus there has been diversity regarding the interpretation of government's fiduciary responsibility.

#### Financial Guarantees

The objective of this project is to assess whether additional guidance should be developed regarding the recognition and disclosure of financial guarantees made and received by state and local governments. Governments typically provide several

types of financial guarantees, which are primarily associated with commitments related to debt issued by other entities. If the board concludes that guidance is warranted, the project could potentially result in a statement or an interpretation. A key research goal is determining what forms of financial reporting display and disclosures are necessary to meet financial statement user needs.

#### Demand Bonds

The chairman accepted the staff's recommendation not to move a project on demand bonds (a reexamination of Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities*) to the current technical agenda from the research agenda. The staff's evaluation of the interpretation found it basically sound, and therefore a reexamination did not rise to the level of a project for the board's current technical agenda.

### GASAC Meets in Norwalk

Members of the Governmental Accounting Standards Advisory Council met on March 31 and April 1 at the GASB's offices in Norwalk, Connecticut. The GASAC's agenda included updates on the activities of GASB and the Financial Accounting Foundation.

GASAC members provided feedback on current technical agenda projects, including those on pension accounting and financial reporting and service concession arrangements. Council members also provided input to the GASB regarding their priorities with respect to the GASB's technical plan. The project prioritization discussion of potential GASB projects ranked fair value measurement, government combinations, financial guarantees, fiduciary responsibilities, statement of net position, and demand bonds at the top of the members' priorities for addition to the current and research agendas.

The annual discussion about the relative priorities of potential projects for the GASB technical plan is an important part of the agenda formation process. The prioritization discussion is timed to take place shortly before the board's first consideration of the technical plan each year. As a result, the GASAC's input feeds directly into the GASB's consideration of the technical plan. Ultimately, such determinations are made by the GASB chairman.

The next GASAC meeting is scheduled for July 12 and 13 in Orlando, Florida, in conjunction with the professional development conference of the Association of Government Accountants.

### Recent GASB Activity

The GASB held a public meeting March 29–31 in Norwalk, Connecticut, and met via teleconference on April 20 to discuss the following projects: financial instruments omnibus; pension accounting and financial reporting; recognition and measurement attributes under the conceptual framework; service concession arrangements; and service efforts and accomplishments reporting.

#### Financial Instruments Omnibus

At the March meeting, the board initiated deliberation of due process comments received in response to the exposure draft *Financial Instruments Omnibus*. The board began by discussing

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the proposed amendments to the reporting guidance for unallocated insurance contracts, which would report these contracts at fair value. The board tentatively decided to revise the proposed amendment so that unallocated insurance contracts would be reported as interest-earning investment contracts according to the provisions of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. Based on this modification, the measurement attribute used to report these contracts would be based on whether a contract is participating (fair value) or nonparticipating (contract value).

The board then discussed the proposed amendments to Statement 31 that would include incorporating guidance currently found in the *Comprehensive Implementation Guide* concerning how to determine if an external investment pool is 2a7-like; that is, if the pool had registered with the U.S. Securities and Exchange Commission, its activities would satisfy all the related requirements. The board tentatively agreed that this guidance should be moved from the *Comprehensive Implementation Guide* to category (a) GAAP. No additional tentative decisions were reached, however, pending the staff's research regarding references to boards of directors as the term is used in SEC requirements.

Turning its discussion to the proposed amendments to guidance found in Statement No. 40, *Deposit and Investment Risk Disclosures*, regarding interest rate risk disclosures for mutual funds, the board tentatively agreed that interest rate risk disclosures for a government's investment in a mutual fund, external investment pool, or other pooled investment should be limited to an investment in a debt mutual fund, an external debt investment pool, or other pooled debt investment.

In considering the proposed amendments to Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the board tentatively agreed to generally adopt the exposure draft proposals in the final statement. Accordingly, both contracts that include nonperformance penalties and nonexchange-traded revenue-based contracts should be outside the scope of Statement 53. An element of the hybrid instrument guidance should be amended to indicate that an investor has the potential for at least a doubled yield. The board, however, did tentatively provide for modifications that would indicate that financial guarantees that meet the definition of an investment derivative instrument should be within the scope of Statement 53.

Finally, the board tentatively agreed that the effective date of the final statement should remain as periods beginning after June 15, 2010, with early implementation encouraged.

At the April teleconference, the board continued to discuss the issues surrounding 2a7-like external investment pools and tentatively decided that the organizational structure of such pools should include a group of individuals that fulfill the functions of the board of directors as described in SEC Rule 2a7. Importantly, the requirements of that structure can be satisfied in cases in which the chief administrative officer of the 2a7-like pool is an elected official. The board directed the staff to amend the text of the preballot draft of the final statement to reflect this.

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

Moving closer to its expected release in June, the board reviewed the first draft of the preliminary views document

*Pension Accounting and Financial Reporting by Employers* in the reexamination of the GASB's pension accounting and financial reporting standards. During the course of its review, the board provided comments and suggestions regarding the document's content, including requesting the addition of a chapter on issues relating to timing and frequency of pension measurements by employers, revised discussion of the objectives and background of the preliminary views, and discussion of the basis for certain tentative decisions, including the alternatives considered by the board.

The board discussed additional issues raised as a result of its tentative decisions at the February 2010 meeting regarding the financial reporting periods to which employee service cost and certain other components of pension cost should be attributed and whether the amortization period selected, for those components to which one applies, should be a specified period or a maximum period.

At the February 2010 meeting, the board had expressed interest in the possibility of harmonizing its tentative decisions regarding the financial reporting periods for attribution of employee service cost and the amortization period for recognition of the following types of changes in the pension liability as expense: differences between assumed and actual experience regarding demographic and economic factors affecting the measurement of the employer's pension liability; the effects of changes of demographic and economic assumptions about the future behavior of those factors; and the effects of benefit changes applied retroactively to plan members' past periods of service.

Previously, the board had tentatively decided that (1) employee service cost should be attributed to expense over the periods in which an individual employee's service or salary level is expected to have an incremental effect on the amount of pension benefits and (2) the latter types of changes should be allocated over an individual employee's expected remaining service life. At the March meeting, the board tentatively decided that all of the preceding should be recognized as components of pension expense over employees' remaining service lives to provide consistent recognition guidance.

The board also clarified that the attribution period tentatively decided upon—the remaining service lives of individual employees—establishes a requirement to apply a defined, or specified, period, rather than a maximum period.

After discussion of issues and alternatives with regard to the frequency and timing of pension measurements for employer accounting and financial reporting purposes, the board tentatively agreed that an employer should report its net pension liability—that is, both the liability and the plan-net assets components of the net pension liability—measured as of its fiscal year-end.

With regard to measurement of the liability component of the net pension liability, the board tentatively agreed that a full measurement of the liability component should be made at least every other year and that the initial measurement need not be as of an employer's fiscal year-end. The full measurement used as the basis for determination of an employer's net pension liability, however, should be as of a date no more than 24 months prior to the employer's fiscal year-end.

(continued, next page)

The board also tentatively agreed that if a full measurement of the liability component is not made as of the employer's fiscal year-end, it should be updated to that date. Updated measures should reflect the effects of all significant changes since the most recent full-measurement date. If conditions between the two dates were relatively stable, only a few adjustments may be needed. However, if (a) benefit changes that were not anticipated in the previous full measurement occurred or (b) there were other changes that if fully measured would significantly affect the employer's recognized net pension liability, pension expense, or deferred pension account balances, additional procedures may be necessary to reflect the effects of those events or other transactions. The board agreed that professional judgment should be applied to determine the additional procedures required to reflect the effects of such changes. Determination of the procedures needed in the particular facts and circumstances should include consideration of whether a new full measurement should be made.

At the April teleconference, the board continued its discussion of pension accounting and financial reporting issues associated with employers participating in cost-sharing multiple-employer pension plans. The board reconsidered its prior tentative decisions at the March 2010 teleconference regarding selection of a basis for proportionate allocation of cost-sharing employers' collective net pension liability, pension expense, and deferred pension outflows (inflows) to individual employers and financial statement recognition of the effects of a change in an employer's proportionate share from period to period.

The board determined it would not present specific tentative decisions on how these two issues in the preliminary views would be operationalized. Instead, the board wanted the discussion to focus on concept of proportional allocation and to solicit suggestions from constituents regarding the basis that should be adopted for determining each employer's proportionate share of the collective net pension liability.

The board also agreed to give further consideration to certain details of prior tentative decisions related to (1) the establishment of a corridor for purposes of recognizing as expense differences between actual and expected returns on plan net assets available for pension benefits and (2) the selection of an amortization period for purposes of recognizing expense arising from changes in an employer's total liability due to changes in assumptions, changes in benefits, or differences between actual and expected experience with regard to demographic and economic factors. Members of the board also expressed an interest in discussing further potential clarification of the definition of cost-sharing pension plans.

### **Recognition and Measurement Attributes Concepts**

At the March meeting, the board continued its discussion of the GASB's and the Federal Accounting Standards Advisory Board's drafts on measurement concepts, specifically on whether a section discussing specific measurement methods (for example, fair value and historical cost), as is included in the FASAB's draft, should be added to the GASB's draft measurement concepts.

To help inform its decision, the board directed the staff to draft a section describing measurement methods currently used in GASB literature as well as measurement methods that could be

applicable to governments, which would include a description of the circumstances surrounding when it may be best to use each method.

In addition, the board reaffirmed its interest in harmonizing terminology so that the same term is used in both documents when it has the same meaning and in continuing to coordinate with the FASAB on this project.

### **Service Concession Arrangements**

The central issue deliberated by the board at the March meeting in the service concession arrangements project involved the proper classification of the credit associated with the consideration recorded, if any, by a transferor at the inception of a service concession arrangement. Historically, such amounts—for example, an up-front payment—have been treated as liabilities for accounting purposes. With the advent of GASB Concepts Statement 4, which was highlighted in some constituent responses to the proposed statement, the board again reconsidered whether these transactions met the definition of deferred inflow of resources.

The board discussed at length whether such credits should be recorded as a liability, deferred inflow of resources, or a combination of the two elements, considering the nature of the transaction and the implications for other areas of governmental accounting and financial reporting. The board tentatively decided that the credit in these transactions should not be recorded as solely a liability but should instead be recorded as a deferred inflow unless the transferor has specific contractual obligations to sacrifice financial resources under the contract. The board indicated that specific criteria should be developed to indicate when it would be appropriate for a liability to be recorded and asked the staff to perform additional research in this area. The board also asked the staff to identify specific contractual obligations to sacrifice financial resources included in existing service concession arrangement contracts.

At the April teleconference, after discussing the extent of the changes made to the proposed statement since the issuance of the exposure draft, the board determined that it would be appropriate to issue a revised exposure draft. The revised exposure draft is scheduled to be issued in June.

In addition, the board deliberated the criteria for determining when a transferor's contractual obligations to sacrifice financial resources under a service concession arrangement should be recorded as liabilities by the transferor. The board discussed the three staff-proposed criteria, which relate to a transferor's ownership of a facility, responsibility to ensure that a facility is fit for use, and promises to provide services. The board directed staff to consolidate the criteria into no more than two categories.

### **Service Efforts and Accomplishments Reporting**

The board concluded its analysis of issues raised by respondents to the proposed suggested guidelines for voluntary reporting, SEA Performance Information, and called for the staff to make a number of clarifying edits to the proposal. These changes, in addition to all recommendations tentatively agreed upon by the board, will be reflected in a preballot draft of the suggested guidelines for voluntary reporting, SEA Performance Information, which the board considered at its public meeting in May. A final document is expected to be approved at the June meeting. ■

## 2010

- 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

## 2011

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

## Attention Corporate Associates: Join Us for the FY 2011 Program and the NASACT Annual Conference in August

by Donna Maloy, Conference Manager

**N**ASACT corporate partners—contact us today to find out how to join the NASACT Corporate Associates Program! The program offers your company various opportunities for exposure and participation at NASACT's annual conferences as well as other benefits throughout the year, including a company listing on NASACT's website. As a corporate associate, you will also receive copies of NASACT's publications and e-distributions.

Whether your goal is networking, staying informed about state government finance, or participating in one of the premier conferences of the year for state government officials, the corporate associates program will benefit your company. The program has four levels of participation: platinum, gold, silver and bronze.

Benefits associated with these levels vary. To view the complete brochure outlining the benefits and to see which companies are currently members, visit [www.nasact.org/nasact/corporate/index.cfm](http://www.nasact.org/nasact/corporate/index.cfm). Questions about the corporate associates program may be directed to Donna Maloy at [dmaloy@nasact.org](mailto:dmaloy@nasact.org) or (859) 276-1147. ■



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## NASACT News

### MAY 2010

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The next issue of *NASACT News* will be published in May 2010. To submit articles, photos or ideas, contact Glenda Johnson by May 7 at [gjohnson@nasact.org](mailto:gjohnson@nasact.org) or phone at (859) 276-1147.

# 2010 Middle Management Conference Recap



Brenda Bolander, Oklahoma's state controller, welcomed attendees to the conference. Ms. Bolander served as co-chair of NASACT's Middle Management Conference Committee.



Steve Burrage, Oklahoma's state auditor, welcomed attendees on Monday, April 19, and also spoke during a session about "Live After ARRA: Balancing the Imbalance."



Sheldon Sperling, U.S. attorney of Oklahoma's Eastern District, discussed the involvement of federal officials in fraud investigations.



Marcia Buchanan gave a Yellow Book update during her presentation. She warned attendees to expect an exposure draft in June 2010.



Vince Orza, dean of the Meinders School of Business at Oklahoma City University, discussed "Managing Through Times of Adversity."



Michelle Day, Oklahoma's deputy state auditor, was instrumental in planning the conference. She also served as a moderator during several sessions.