NASACT National Association of State Auditors, Comptrollers and Treasurers

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Washington Update

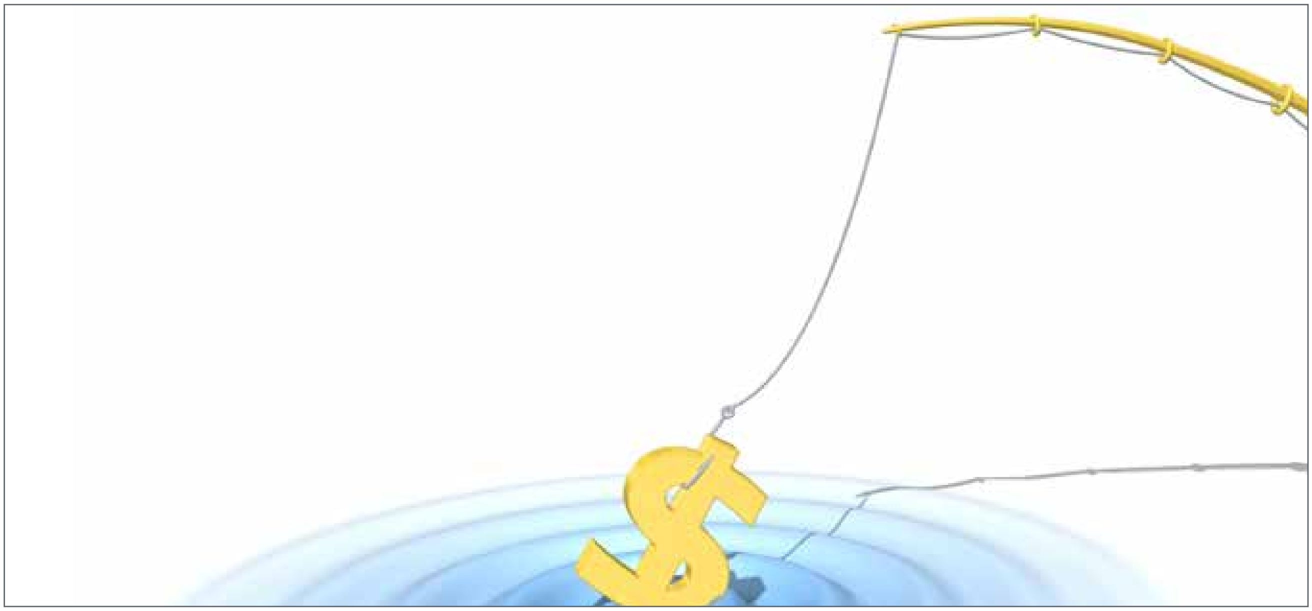
IRS WARNS OF PHISHING SCAM AGAINST STATES

The Internal Revenue Service has issued an alert to payroll and human resource professionals to beware of an emerging phishing email scheme appearing to come from company executives requesting personal information on employees. This scheme is part of the surge in phishing emails seen this year. It has already claimed several victims, as payroll and human resource offices have mistakenly emailed payroll data, including W-2 forms containing Social Security numbers and other personal information, to cyber-criminals posing as company executives.

> "This is a new twist on an old scheme using the cover of the tax season and W-2 filings to try tricking people into sharing personal data. Now the criminals are focusing their schemes on company payroll departments," said IRS Commissioner John Koskinen. "If your CEO appears to be emailing you for a list of company employees, check it out before you respond. Everyone has a responsibility to remain diligent about confirming the identity of people requesting personal information about employees."

This phishing variation is known as a "spoofing" email. It may contain the actual name of the company chief executive officer. In this scam, the cyber-criminal sends an email posing as the CEO to the company payroll office requesting a list of employees and information including SSNs. Fraudsters often use fake email addresses to look like they're from real businesses or government agencies. This is a common way fraudsters try to steal personal information.

The full IRS alert can be found at https://www.irs.gov/uac/Newsroom/IRS-Alerts-Payroll-and-HR-Professionals-to-Phishing-Scheme-Involving-W2s.



SEC FINES ISSUER FOR FAILING TO PROVIDE ACCURATE FINANCIAL INFORMATION

The U.S. Securities and Exchange Commission has charged California's largest agricultural water district with misleading investors about its financial condition as it issued a $77 million bond offering. The Westlands Water District entered into a settled administrative proceeding with the Commission, including agreeing to pay $125,000 to settle the charges, making it only the second municipal issuer to pay a financial penalty in an SEC enforcement action. Details from the case include the following:

- Westlands agreed in prior bond offerings to maintain a 1.25 debt service coverage ratio, which is a measure of an issuer's ability to make future bond payments.
- Westlands learned in 2010 that drought conditions and reduced water supply would prevent the water district from generating enough revenue to maintain a 1.25 ratio.
- In order to meet the 1.25 ratio without raising rates on water customers, Westlands used extraordinary accounting transactions that reclassified funds from reserve accounts to record additional revenue.
- When Westlands issued a $77 million bond offering in 2012, it represented to investors that it met or exceeded the 1.25 ratio for each of the prior five years.
- Not only did Westlands fail to disclose that wouldn't have been possible without the extraordinary 2010 accounting transactions, but also omitted separate accounting adjustments made in 2012 that would have negatively affected the ratio had they been done in 2010.
- Had the 2010 reclassifications and the effect of the 2012 adjustments been disclosed, Westlands' coverage ratio for 2010 would have been only 0.11 instead of the 1.25 reported to investors.

Following the settlement, director of the SEC Enforcement Division, Andrew Ceresney, stated:

"The undisclosed accounting transactions, which a manager referred to as 'a little Enron accounting,' benefited customers but left investors in the dark about Westlands Water District's true financial condition. Issuers must be truthful with investors and we will seek to deter such misconduct through sanctions, including penalties against municipal issuers in appropriate circumstances."

SLGE ISSUE BRIEF PUTS NUMBERS ON OPEB LIABILITIES

The Center for State and Local Government Excellence (SLGE) has released a new issue brief that examines the unfunded liabilities of retiree health benefits to state and local governments. The brief attempts to answer the following question: How big of a burden are OPEB (Other Post-Employment Benefits) to state and local governments? The research estimated that:

- The aggregate unfunded OPEB liabilities are $862 billion.
- Two thirds of the liabilities are held by local governments.
- These liabilities are equivalent to 28 percent of unfunded pension liabilities.

The full issue brief can be found at http://slge.org/wp-content/uploads/2016/03/16-03-SLGE-OPEBweb.pdf.

THE WEEK AHEAD: SEC COMMISSIONER NOMINATIONS

On Tuesday, the Senate Banking, Housing, and Urban Affairs Committee will hold a hearing to examine the nominations of Lisa M. Fairfax and Hester Maria Peirce to be members of the Securities and Exchange Commission.

- http://www.banking.senate.gov/public/index.cfm/hearings?ID=93B444BA-3FEC-4646-A054-BCE0AFFFD19E

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