It has been my honor to serve as president of NASACT during this past year. Any success that I might have enjoyed during my tenure is directly due to the support of NASACT’s staff and member agencies. I thank each of them for their help and support.

Several issues on which NASACT spent a great deal of time on behalf of its members were unresolved at the beginning of my term. One of these issues related to funding for the Governmental Accounting Standards Board and another was related to the Digital Accountability and Transparency Act. The DATA Act has passed the U.S. House of Representatives; however, as of the date of this writing, it has not been acted on by the Senate. I am pleased to report that the GASB funding issue has been resolved.

Earlier this year, the SEC approved the assessment of a GASB accounting support fee. Unfortunately, the SEC did not prohibit firms from passing the GASB support fee on to its customers, as was our desire. However, if the fee is passed on to customers, “the firms must properly disclose the fee including the fact that the fee is an estimate and that the firm may pay more or less than the fee charged to the customer.” In addition, the disclosure cannot be misleading and must conform to rules of the Financial Institution Regulatory Authority. The GASB support fee will be assessed and collected by FINRA each quarter from member firms who have reported trades to the Municipal Securities Rulemaking Board. Member firms are invoiced for the GASB support fee in January, April, July, and October of each year. The first invoices for the GASB accounting support fee were sent out in April 2012 and were based on trading activity that was reported in the first quarter of 2012.

I want to commend NASACT for all of its efforts in providing support and advocacy for its members. NASACT’s staff has been vigilant in monitoring the activities of the GASB, the U.S. Office of Management and Budget, and other federal regulatory agencies. They continue to be the first source in providing invaluable information to the members and soliciting input from the membership on the information, and when warranted, preparing responses that incorporate the members’ views on the questions and issues raised.

During the current year, NASACT enlisted the support of its members and prepared seven responses to preliminary views documents and exposure drafts from GASB and 13 responses to proposed congressional and regulatory rules and regulations. Copies of these responses are available on NASACT’S website.

Notable among the GASB preliminary views documents to which NASACT responded was the PV on Economic Condition Reporting: Financial Projections. This was a very controversial issue, and the staff at NASACT did an outstanding job in pulling together a consensus position. Some but not all of the views expressed in our response follows. Although fiscal sustainability is considered to be important to a government’s financial statements, and decision makers and stakeholders need forward-looking information such as projections and estimates, we are overwhelmingly opposed to providing this information in a government’s basic financial statements or as required supplementary information. We believe that this information is

(continued, next page)
best communicated in a government’s budgetary and similar documents. We further believe that the financial projections and forecasts proposed by the GASB are outside the realm of governmental accounting and the jurisdiction of the GASB.

In addition, NASACT also responded to proposed legislation of significance to member agencies. Of note, NASACT prepared the following responses expressing member concerns: urging the OMB to add a state and local representative to the proposed Council on Financial Assistance Reform; urging the House to support repeal of H.R. 674 to repeal the three percent withholding; responding to the U.S. Government Accountability Office’s survey on municipal market disclosure; and responding to the OMB’s grant reform ideas. As you can see NASACT’s staff has been very active during this year. It is through their efforts that the voices of NASACT’s members are heard, and they deserve our appreciation. Thank you Kinney, Cornelia, Donna and Sherri and others who work behind the scenes at NASACT for your hard work.

The staff at NASACT also provided tremendous support and assistance in planning NASACT’s conferences. They assisted the Program Committee in organizing and planning NASACT’s annual conference. This year’s annual conference will be held in Seattle, Washington, on August 11-15 at the Grand Hyatt Seattle. Washington State Auditor Brian Sonntag will be the lead host for this year’s conference. I want to thank NASACT’s staff and the members of the Program Committee under the direction of my co-chair, Linda Long, for their hard work in pulling together a wonderful technical program. Travel assistance is available again this year to principals or their designees under NASACT’s travel assistance program to help cover travel expenses to the conference. The 2012 NASACT Annual Conference promises to be an exciting one, and we sincerely hope that it provides something for everyone. I am excited about the conference, and I hope that you will join me there.

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**NASACT2012 Annual Conference: Schedule at a Glance**

**Friday, August 10**
- 4:00 - 8:00 p.m. Registration
- 4:00 - 9:00 p.m. Hospitality Suite

**Saturday, August 11**
- 10:00 a.m. - 5:00 p.m. Registration
- 6:00 a.m. - 3:30 p.m. Golf Tournament
- 4:00 - 10:00 p.m. Hospitality Suite

**Sunday, August 12**
- 6:30 - 9:00 a.m. 5K Fun Run/Walk
- 9:00 - 11:00 a.m. Brunch

**Monday, August 13**
- 8:45 a.m. - 3:00 p.m. Guest Program
- 8:15 a.m. - 3:35 p.m. Conference Sessions
- Awards Presentation at Lunch

**Tuesday, August 14**
- 8:45 a.m. - 4:00 p.m. Guest Program
- 8:35 a.m. - 3:50 p.m. Conference Sessions
- 4:00 - 5:00 p.m. NASACT Business Meeting (members only)
- 6:00 - 11:00 p.m. State Night Activities (Reception, Dinner, Banquet, Awards)

**Wednesday, August 15**
- 8:35 - 11:30 a.m. Conference Session
- Emerging Issues Roundtable

Register today at www.nasact.org!
Register Now for NASACT 2012 in Seattle!

Registration is available for the 2012 NASACT Annual Conference in Seattle, Washington, which will be held August 11-15. Find information about the conference hotel, special activities and more at www.nasact.org/conferences_training/nasact/conferences/AnnualConferences/2012AnnualConference/2012AnnualConference.cfm.

Special activities planned for the conference include a golf tournament, 5K fun run/walk, a reception at the world-famous Museum of Flight, and a dinner cruise on beautiful Elliott Bay. Don’t miss the premier NASACT event of the year!

General Session Highlights

Lessons from the Future: Navigating the 21st Century

Glen Hiemstra, Founder, Futurist.com

Futurist Glen Hiemstra will review key trends shaping the next decade and beyond, as we deal with the global economic re-set. He suggests that a new vision for a preferred future will emerge based on revised values, innovation, the network effects of advanced communication, and new technology. By acting wisely now, you can lead your enterprise to a more sustainable, higher-quality future.

Congressional Update: Another Impactful Year

David Quam, National Governors Association

Congress continues to be active in developing, debating and passing new laws that affect state governments. This session will address these new laws, passed and under consideration, as well as the implementing regulations that impact NASACT members and their respective states.

The Economy: Are We Turning the Corner?

William A. Longbrake, Ph.D., Executive in Residence, Smith School of Business, University of Maryland

The state of the U.S. economy is the number one concern for most Americans. The interplay between American and global markets has set the stage for one of the most precarious situations most living today have ever seen. How much of it is hype though, and how concerned should we be? This session will provide an economic update to help us figure it out.

Government IT Initiatives: Things You Can Expect

Kimberly T. Nelson, Executive Director of e-Government and Director of the U.S. Public Sector's State and Local Government Solutions Team, Microsoft

Exciting new technological developments in information technology are enabling governments to realize successes never before envisioned. Hear the latest success stories and learn how to leverage IT innovations in your state.

CFO Roundtable

Kim Wallin, State Controller, Nevada
John Chiang, State Controller, California
Danny Werfel, Controller, Office of Federal Financial Management, Office of Management and Budget
Michael Winchester, VP & CFO Airplane Programs Boeing Commercial Airplanes, Boeing

Top CFOs from the public and private sectors will share their thoughts on building a world-class financial management operation, including the CFO's role in enterprise-wide cost reduction and improved performance.

More! The technical agenda will also include sessions on topics such as standards updates, the "Cloud," budgetary issues, fraud and prevention, making ERP systems work for government, transparency, and emerging issues.

Don’t Forget the Travel Assistance Program!

NASACT principals (or their designees) in good standing are eligible to receive up to $1,000 in travel assistance to attend the annual conference. The funds may be used to cover registration or travel costs. Additionally, all new state auditors, state comptrollers and state treasurers will be offered up to $1,000 in travel assistance and complimentary conference registration (a $700 value). New members should call Donna Maloy at (859) 276-1147 to register.
The Senate Committee on Homeland Security and Government Affairs held a hearing this month to investigate current initiatives aimed at increasing transparency in federal spending. While the focus of the hearing was the current USAspending website, grant reform initiatives (from the U.S. Office of Management and Budget) and the U.S. Treasury’s payment data repository, the Digital Accountability and Transparency Act was also discussed. Panelists included Senator Mark Warner (D-VA), U.S. Comptroller General Gene Dodaro, Danny Werfel, OMB’s controller, and Richard Gregg, fiscal assistant secretary, Treasury.

Chairman Joseph Lieberman (I-CT) opened the hearing with a quote from Thomas Jefferson: “We might hope to see finances of the Union as clear and intelligible as a merchant’s books, so that every member of Congress and every man of any mind in the Union should be able to comprehend them, to investigate abuses, and consequently to control them.” The sheer magnitude of federal spending today, he explained, makes it more important than ever for the government’s spending to be transparent. Chairman Lieberman commended the Federal Funding Accounting and Transparency Act as being the first step toward allowing the public to see how taxpayer dollars are being spent, but he cautioned that the USAspending website has not achieved Congress’s vision for it. He also discussed the success of Recovery.gov and asked the panelists to give their impressions of the DATA Act, which seeks to model a new commission after the Recovery Accountability and Transparency Board.

Sen. Warner, author of the Senate DATA Act, spoke first, revealing that his vision for showing how taxpayer dollars are spent has changed since he originally introduced the DATA Act last summer. Sen. Warner does not believe that he should be duplicating efforts through legislation and noted that Congress should examine what is currently working and what needs to be fixed or done differently. He said that he intends to reintroduce a refined version of the bill very soon and that he no longer believes a separate entity is necessary to oversee transparency. Sen. Warner is a strong advocate for addressing the enormous federal deficit and noted that any efforts will be undermined if there is no transparency. He plans to refine the DATA Act to address a number of areas to:

- Use existing technology to collect data and connect it to funds spent.
- Develop consistent data standards so that comparisons can be made across agencies.
- Increase the accuracy of data so that it is easy to understand (currently there is no monitoring of compliance with USAspending, so the inspectors general and GAO should review the data).
- Stop unnecessary or duplicative reporting to ultimately have a single source of data.
- Make sure data is being used. Currently, the federal government seems to be adding to reporting but not subtracting.

Mr. Dodaro testified on GAO’s work reviewing USAspending and Recovery.gov. He noted that while FFATA was pioneering legislation, GAO has found that USAspending is plagued with data quality issues. Many of GAO’s recommendations, however, have been acted upon by OMB. Mr. Dodaro also specifically noted that the two-way communication and cooperation that occurred between federal, state and local governments were essential to the implementation of the Recovery Act. Mr. Dodaro believes that legislation is essential to have accurate and reliable information, and he noted four things that he believes legislation could address:

- The need for consensus on what should be reported.
- The need for data standards.
- The need for proper stakeholder involvement.
- The need to take advantage of the latest technology.

Mr. Werfel testified about a number of laws that have already been passed and other initiatives OMB has initiated that would meet the objectives of government accountability, performance and transparency. Specifically, he mentioned the Improper Payments Elimination and Recovery Act and another law that updates the Government Performance and Results Act, called the GPRA Modernization Act. In addition, OMB is implementing a series of administrative actions such as the “Do Not Pay” initiative. Mr. Werfel stated that all these efforts are linked to transparency.

Mr. Werfel also specifically provided an update on OMB’s efforts regarding FFATA, noting that OMB is looking at lessons learned from implementing USAspending and the Recovery Act. Mr. Werfel stressed that OMB’s central objective must be to ensure data reliability and quality. He said that he believes that OMB can leverage work currently being conducted to achieve better reliability in two ways. The first is to achieve better integration and reconciliation of data. OMB has taken the first step in this regard by requiring that federal agencies provide a schedule of spending which would make transparent information about where and how federal agencies spend tax dollars as reported on agencies’ annual audited financial statements. The second initiative includes improved standardization by building common linkages between the various data sets through the use of a common unified award framework.

Mr. Gregg spoke about recent Treasury initiatives to modernize financial systems and streamline payment processes. Mr. Gregg stated that Treasury’s new Payment Information Repository, or PIR, would make entries from the nation’s checkbook available, and that the data will be linkable to other government data, including USAspending.gov. According to Mr. Gregg, “the public should be able to follow a payment through the complete spending cycle—from appropriations to the disbursements of grants, contracts, and administrative spending.” Treasury has essentially restructured its data to allow for it to collect additional payment-related information from agencies, including contract, grant, recipient, recipient location data, and other program-related data. Reports should be available to the

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Senate Hearing on Transparency (cont.)

Testimony by the invited panelists was followed by a Q&A session where panelists were specifically asked about the DATA Act and if legislation was needed to achieve true transparency. Mr. Dodaro noted that it may be helpful for Congress to enact legislation to establish direction and to assure that agencies comply with data standardization, but he also said it is important for Congress to determine what spending information it wants to have available to the public before it determines what type of legislation would be the most beneficial. Mr. Werfel said that new legislation is not necessary to implement spending transparency, as the administration is already addressing the issue. He further stated that the DATA Act is wiping the slate clean and starting over with a whole new set of standards: “Architecturally it might make sense but it’s very expensive, and I worry we’ll lose a lot of time in tackling the specific challenges we have right now while we rebuild this building from the foundation.” Mr. Gregg said that legislation is not needed for financial transparency. When asked about the DATA Act’s impact on state and local governments, he exclaimed that the recipients shouldn’t be doing the work of the federal government, which has most of the information already. He thinks the leadership of the Executive Branch will be sufficient.

NASACT, the National Conference of State Legislatures, the International City/County Managers Association, the National Association of State Budget Officers, and the National Association of State Chief Information Officers submitted a statement for the record commending the committee for holding a hearing on current efforts before looking at whether legislation such as the DATA Act is necessary to achieve the desired outcomes. The statement further cautioned:

“...expanding ARRA-like reporting requirements to the entire universe of grants and contracts necessitates thoughtful investigation and careful consideration. Efforts by Congress to mandate additional reporting and oversight should consider the significant cost to be borne by the recipients and oversight professionals.”

A copy of the witness testimony is available on the committee’s website at www.hsgac.senate.gov/hearings/show-me-the-money-improving-the-transparency-of-federal-spending. NASACT’s statement for the record is available at: www.nasact.org/downloads/07_18_12-transparency_statement.pdf

Pew Report Focuses on State Pension/Healthcare Funding Gaps

Last month the Pew Center for the States released its report “The Widening Gap Update.” The report featured some negative news: in fiscal year 2010, the gap between states’ assets and their obligations for public sector retirement benefits was $1.38 trillion, with pension plans representing more than half of the retiree benefit funding shortfall (broken down as $757 billion for pension promises and $627 billion for retiree health care). Regarding life insurance and health care, the report found that:

“States have not done nearly enough to set aside money for their retirees’ health care and other non-pension benefits such as life insurance. As of fiscal year 2010, they had put away only five percent of their total bill coming due for those benefits. Seventeen states set aside no money, and only seven states had funded at least 25 percent of this long-term liability…”

The report also admonishes policy makers and elected state officials for their lack of planning and failure to take the situation seriously, noting that:

“Many states have not held up their end of the bargain when they should have been paying for the promises they made. All told, state and local governments participating in state-run retirement systems should have set aside $124 billion in fiscal year 2010 to pay the recommended contribution for their pension and retiree health care obligations... states drove up their pension liabilities by increasing employee benefits early in the decade, either without considering the price tag or assuming that market gains would cover the cost.”

Although the report highlights many of the current efforts that states have already undertaken to address this issue, it offers no recommendations to fix the problem. Examples of things states have tried include enacting benefit cuts or increasing employee contributions, increasing the age and years of service required before retiring, and cracking down on “spiking,” where the participant increases their final pay to get a larger pension check by including overtime pay and sick leave.

The full Pew report can be viewed at www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Pensions_Update.pdf

Call for Resolutions

Business meetings will be held for NASACT (on August 14), the National State Auditors Association (on August 13) and the National Association of State Comptrollers (on August 13) in conjunction with the upcoming 2012 NASACT Annual Conference in Seattle, Washington. Resolutions for consideration at any of these business meetings may be emailed to Glenda Johnson at gjohnson@nasact.org.
NSAA 2013 Committees Finalized

Elaine M. Howle, state auditor of California and president of the National State Auditors Association, recently finalized committees for 2012-13. Committee chairs and vice-chairs are listed below. Visit www.nasact.org/nsaa/committees/index.cfm for committee descriptions, current rosters, past meeting minutes and other resources. It’s not too late to join one of these committees; if you’d like to join, contact Sherri Rowland at srowland@nasact.org.

- **Executive Committee**
  - **President:** Elaine M. Howle, State Auditor, CA
  - **President-Elect:** Rebecca Otto, State Auditor, MN
  - **Secretary/Treasurer:** Thomas M. Salmon, State Auditor, VT
  - **Past President:** David A. Vaudt, Auditor of State, IA
  - Roger Norman, Legislative Auditor, AR
  - David W. Martin, Auditor General, FL
  - Paul V. Townsend, Legislative Auditor, NV

- **Audit Standards and Reporting**
  - **Chair:** Auston Johnson, State Auditor, UT
  - **Vice Chair:** Randy Roberts, Senior Technical Director, AZ

- **Auditor Training**
  - **Chair:** Glen Fowler, Recruiting and Training Manager, CA
  - **Vice Chair:** Kent McLamb, Director of Training and Recruiting, NC

- **E-Government**
  - **Chair:** Jonathan Trull, Deputy State Auditor, CO
  - **Vice Chair:** Chloe Haidet, Director, Technology Risk and Assurance, Department of Audits and Accounts, GA

- **Human Resources**
  - **Chair:** Rebecca Otto, State Auditor, MN
  - **Vice Chair:** Roger Norman, Legislative Auditor, AR

- **Peer Review**
  - **Chair:** Elaine M. Howle, State Auditor, CA
  - **Vice Chair:** Deborah Loveless, Assistant Director, Office of the Comptroller of the Treasury, TN

- **Performance Audit**
  - **Chair:** Steve Eells, State Auditor, NJ
  - **Vice Chair:** Paul V. Townsend, Legislative Auditor (NV)

- **Single Audit**
  - **Chair:** David W. Martin, Auditor General, FL
  - **Vice Chair:** Dianne E. Ray, State Auditor, CO
  - **Vice Chair:** Gerry Boaz, Technical Manager, TN

- **Auditor’s Education Foundation**
  - **Chair:** Thomas M. Salmon, State Auditor, VT

- **Annual Meeting Program**
  - **Chair:** Elaine M. Howle, State Auditor, CA

- **Excellence in Accountability Awards**
  - **Chair:** Walter J. Kucharski, Auditor of Public Accounts, VA
  - **Vice Chair:** Doris Flores Brooks, Public Auditor, GU

- **Nominations**
  - **Chair:** William G. Holland, Auditor General, IL

- **Resolutions**
  - **Chair:** William G. Holland, Auditor General, IL

- **Time and Place**
  - **Chair:** Rebecca Otto, State Auditor, MN

- **William R. Snodgrass Award**
  - **Chair:** Elaine M. Howle, State Auditor, CA

Register Today for the NSAA IT Workshop and Conference

The 2012 NSAA IT Workshop and Conference is scheduled for September 25-28, in Nashville, Tennessee. Don’t miss it! The conference will offer attendees the latest on topics such as auditing web-based applications, database controls, audit standards relating to IT work, mobile device security, and much more. The topic for the workshop is “Auditing Operating Systems Security: Windows, Oracle, SQL Server, and Unix.”

**General Information**

- **Location:** Nashville, Tennessee.
- **Date:** September 25-28.
- **Cost:** Registration for the workshop is $150 and $350 for the conference for governmental attendees ($450 for non-governmental attendees).
- **CPE:** Eight credits will be offered for the workshop; 19 credits for the conference.
- **Hotel:** The conference will be held at the DoubleTree Hotel in downtown Nashville. To book, call (615) 747-4814. The special rate for the conference is $129/night plus applicable taxes (the cut-off date for this rate is September 3, 2012).
- **Register:** Register today at www.nasact.org/conferences_training/events.cfm.
- **Questions:** Questions about the conference or workshop may be directed to Sherri Rowland at (859) 276-1147.
NASACT Signs New Contract With Hackett for Benchmarking Services

By Kim O’Ryan, NASC Association Manager

On June 29, NASACT and The Hackett Group signed a contract to offer benchmarking services to state governments for the following functions:

- Finance business processes
- Human resources (including payroll)
- Procurement
- Information technology

The contract is a result of an RFP issued by NASACT on November 15, 2011. The contract is for six years (three years, with options for three one-year extensions). NASACT is currently negotiating contracts for part B of the RFP for benchmark-related consulting services.

More information about this project is on NASACT’s website, where you may review the RFP and the signed contract at www.nasact.org/nasact/benchmarking/rfpcontract.cfm.

Pricing

In the sample Statement of Work attached to NASACT’s contract with Hackett is an outline of the cost of one or more benchmarks and optional additional services. The basic price structure is as follows (the state will also reimburse The Hackett Group for travel-related expenses, and NASACT will charge a three percent administrative fee):

<table>
<thead>
<tr>
<th>Benchmark for Finance, HR/Payroll, Procurement, and/or IT</th>
<th>Contract Fees</th>
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<td>1 Benchmark</td>
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How to Contract for Benchmarking Services

For information on benchmarking services, contact Kim O’Ryan at (859) 276-1147 or koryan@nasact.org or Kathy Zupo at (770) 225-7204 or kzupo@thehackettgroup.com.

Background on NASACT’s Benchmarking Program

NASACT began its benchmarking program on August 4, 2005. The project was conceived as a means by which states could procure benchmarking services and compare state programs and agencies to each other within a state and to those in other states. The project developed a common taxonomy to allow for equitable comparisons in the areas of finance, HR/payroll, procurement and IT. Since that time, 14 states have participated in one or more benchmarks. Additionally, through the program NASACT has offered executive advisory services for states wishing to obtain assistance in implementing recommendations resulting from their benchmark studies.

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<tr>
<th>State</th>
<th>Kickoff Date</th>
<th>Finance</th>
<th>HR/Payroll</th>
<th>Procurement</th>
<th>IT</th>
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**New at www.nasact.org**


- NASACT’s observations from meetings of the Governmental Accounting Standards Board (April 18-20 and May 30-June 1) at www.nasact.org/nasact/positions/GASB.cfm (members only content).

- The following NSAA technical inquiries are now available at www.nasact.org/nsaa/technical/index.cfm (members only content):
  - Travel and Entertainment Policies
  - Alternatives to TeamMate
  - Organizational Structure
  - Medicaid Audits
  - Publication of IT Security Related Findings

- The following NASC technical inquiries are now available at www.nasact.org/nasc/technical/index.cfm (members only content):
  - Pay for National Guard Members
  - CAFR Computer Software


**NASACT Seeks Input on GASB ED on Financial Guarantees**

On June 25, the Governmental Accounting Standards Board issued the exposure draft *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The ED provides guidance to state and local governments that offer nonexchange financial guarantees and for governments that receive guarantees on their obligations. The proposed statement requires a state and local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is “more likely than not” that the guarantor will actually make a payment to the obligation holders under the agreement. Additionally, the proposed statement would require:

- A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be paid. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization.
- An issuer government that is required to repay a guarantor to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation.
- A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees.

See page 11 of this newsletter for additional details about the ED. The ED is open for comment until September 28, 2012, and is available for review at www.gasb.org.

NASACT will be preparing an association position on this ED. Please send your comments for inclusion in NASACT’s response to Kim O’Ryan (koryan@nasact.org) or Sherri Rowland (srowland@nasact.org) by **Friday, September 7**. Questions may be directed to either Kim or Sherri at (859) 276-1147.

**Upcoming Information Sharing Calls**

**July**
- NSAA Human Resources Information Sharing – July 25

**August**
- NASC State Government Payroll Information Sharing – August 8
- NASACT Committee on Accounting, Reporting and Auditing – August 12 (this call is held on a Sunday at the 2012 NASACT Annual Conference, those wishing to participate by phone may still do so)
- NASC Travel and P-Card Information Sharing – August 22
- NASC Internal Control Information Sharing – August 23

**Get Involved!**
For information on participating in any of these calls, contact NASACT’s headquarters office at (859) 276-1147.
New Pension Standards

In June, the Governmental Accounting Standards Board approved two pronouncements aimed at improving the accounting and financial reporting of pension information by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.

The new standards establish a distinct shift from the current funding-based approach to an accrual accounting-based approach. Based on this approach, governments will be required to report their net pension liability in their statement of net position. This important change will more accurately represent the government’s financial position and place the pension liability on an equal footing with other long-term obligations.

Statement 67 replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans. Statement 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new standards also replace the requirements of Statement No. 50, Pension Disclosures, for those governments and pension plans.

The statements apply specifically to governments and pension plans in which a government’s contributions to the trust used to administer a pension plan are (a) irrevocable, (b) restricted to paying pension benefits, and (c) are beyond the reach of creditors. Pension benefits provided through trusts that do not meet those three criteria are not addressed in these new statements, and those pension benefits would continue to be accounted for and reported following Statements 25, 27, and 50.

Measuring the Total Pension Liability

The new pension standards change how governments will measure the total pension liability. The standards carry forward the general current practice of incorporating expectations of future employment-related events into projections of pension benefit payments (for example, projected salary changes and projected years of service). Provisions for automatic cost-of-living adjustments (COLAs) and other automatic benefits changes, which generally are written into the pension benefit terms, will continue to be included in projections. Ad hoc COLAs, which are made at the discretion of the government, also will be included if they occur with such regularity that they are effectively automatic.

To discount projected pension benefit payments to a present value, governments assume a discount rate. Standards now in effect require governments to apply a discount rate equal to the long-term expected rate of return on the investments of the pension plan. To the extent that a pension plan’s net position associated with present active and inactive employees is expected to fully cover projected benefit payments for those individuals and to be available to be invested long term, that rate will continue to be used. If there comes a point when the circumstances in the preceding sentence are no longer true, then from that point forward a government would be required to discount using a tax-exempt, 20-year general obligation bond yield or index rate with an average rating of AA/Aa or higher (including equivalent ratings).

The present value of benefit payments is allocated to past, current, and future periods. The new standards require all governments to use the entry age actuarial cost method to allocate present value, and to do so as a level percentage of payroll.

Under this method, projected benefits are discounted to their present value when employees first begin to earn benefits and are attributed to employees’ expected periods of employment.

Calculating Pension Expense

A government’s net pension liability changes from year to year for a number of reasons. When these period-to-period changes should be recognized as a cost of a government’s operations—as expenses in the accrual-based financial statements—is a key issue. To better align recognition of pension expense with the period in which the related benefits are actually earned, the new standards require several causes of change in the net pension liability (asset) to be factored into the calculation of pension expense immediately in the period the change occurs, including:

- Benefits earned each year.
- Interest on the total pension liability.
- Changes in benefit terms.
- Projected earnings on plan investments.
- Changes in plan net position not related to investments.

However, the effects on the total pension liability of (a) changes in assumptions and (b) differences between assumptions and actual experience are to be recognized initially as deferred outflows of resources or deferred inflows of resources and then introduced into the expense calculation systematically and rationally over the average remaining years of employment of employees (both active and inactive, including retirees).

The effects of differences between the expected earnings on plan investments and actual experience are to be recognized as deferred outflows of resources or deferred inflows of resources and included in expense in a systematic and rational manner over a five-year closed period.

Cost-Sharing Multiple-Employer Plans

Governments participating in cost-sharing multiple-employer plans currently are not required to present actuarial information.

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about the plan. Rather, information is required to be presented in the pension plan’s own financial statements for all of the participating governments combined.

Because the GASB determined that the needs of the users of financial statement information about cost-sharing plans and their participating governments are essentially the same as the needs of those interested in governments participating in single-employer and agent multiple-employer pension plans, the new standards require that cost-sharing governments report a net pension liability (asset), pension expense, and pension-related deferred inflows and outflows of resources in the statement of net position. These amounts would be based on their proportionate shares of the collective amounts for all the governments in the plan.

**Note Disclosures and Required Supplementary Information**

The GASB’s new standards contain requirements for disclosing information in the notes to the financial statements and presenting required supplementary information, or RSI, following the notes. All governments participating in a defined benefit pension plan will include the following information in their note disclosures:

- Descriptions of the plan and benefits provided.
- Significant assumptions employed in the measurement of the net pension liability.
- Descriptions of benefit changes and changes in assumptions.
- Assumptions related to the discount rate and the impact on the total liability of a one-percentage-point change in the discount rate.
- Net pension liability and deferred outflows of resources and deferred inflows of resources.

Governments in single-employer and agent multiple-employer plans also will be required to disclose, for the current period, the beginning and ending balances of the total pension liability, assets held for pension benefits, and the net pension liability, and the components of their changes during the period (such as the effects of service cost, benefit changes, and projected investment earnings).

Single and agent governments will present RSI schedules with the following information for each of the past 10 years (generally on a prospective basis):

- The beginning and ending balances of the total pension liability, the plan trust’s net position, and the net pension liability, and their components.
- (1) Total pension liability, (2) the plan trust’s net position, (3) the net pension liability, (4) a ratio of two divided by one, (5) covered-employee payroll, and (6) a ratio of three divided by five.

If a single, agent, or cost-sharing government has an actuarially determined annual pension contribution (or, if not actuarially determined, then statutorily or contractually determined), it also is required to present an RSI schedule with the following information for each of the past 10 years:

- (1) Total pension liability, (2) the plan trust’s net position, (3) the net pension liability, (4) a ratio of two divided by one, (5) payroll of employees covered by the plan, and (6) a ratio of two divided by four.

Governments will present notes to the RSI schedules regarding factors that significantly affect the trends in the schedules, as well as significant assumptions if not disclosed elsewhere.

**Special Funding Situations**

Special funding situations are circumstances in which (a) a nonemployer contributing entity (such as a state government) is legally responsible for contributions directly to a pension plan that is used to provide pensions to the employees of another government (such as school districts located within that state) and (b) one or both of the following is true:

1. The nonemployer is the only entity with a legal obligation to make contributions directly to the plan.
2. The amount of the contributions for which the nonemployer is legally responsible is not dependent upon one or more events unrelated to the pensions.

In a special funding situation, the nonemployer has essentially assumed a portion of the employer entity’s pension obligation as its own. Consequently, if the nonemployer is a government, it will recognize its proportionate share of the net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to the employer’s pensions in its own financial statements.

The government benefitting from the nonemployer’s contributions in a special funding situation will calculate its net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions prior to the nonemployer government’s support, but would recognize in its financial statements only its proportionate share.

**Defined Contribution Plans**

The new standards generally carry forward the existing requirements regarding defined contribution plans. Participating governments will report an expense equal to the amount they are required to contribute for employee service each year and a liability equal to the difference between the required and actual contribution. Governments also will make descriptive disclosures about the plan and its terms, and the method by which contributions to the plan are determined.

**Reporting by Pension Plans**

Statement 67 on plan reporting details guidance for financial reporting by defined benefit pension plans administered through trusts that meet the criteria described above. This guidance generally carries forward the present framework for the separately issued financial reports of defined benefit pension plans.
pension plans. Statement 67 will significantly improve related financial reporting through enhanced note disclosures and new RSI schedules. The statement also details note disclosure requirements for defined contribution pension plans administered through trusts that meet the criteria.

**Effective Dates**
Statement 67 will take effect for pension plans in fiscal years beginning after June 15, 2013. Statement 68 will take effect for employers and governmental nonemployer contributing entities in fiscal years beginning after June 15, 2014. However, the GASB encourages plans and governments to implement the new standards earlier.

*Keep an eye on the GASB website for additional information about the availability of both hard copies and free electronic versions of the new statements.*

**Exposure Draft on Financial Guarantee Transactions**

In June, the GASB approved for issuance an exposure draft of the proposed statement *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions*. The comment deadline is September 28.

The ED proposes guidance 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 to ensure payments on debt issued by other entities.

For the purposes of this proposal, a financial guarantee refers to a transaction that involves three legally-separate parties:

1. The guarantor or entity providing the guarantee of a separate entity’s legal obligation.
2. The issuer—the entity that issues the obligation that is being guaranteed.
3. The bondholder—the entities that purchase the obligation.

When a government is the guarantor, the guarantee represents potential claims on its resources. When an issuer receives a guarantee, the guarantee represents potential resources.

When a government guarantees the financial obligation of another government and the guarantor government does not receive equal value in return, the transaction is referred to as a nonexchange transaction. Guarantor governments typically enter into the kind of financial guarantees at issue here with a goal to assist other entities within their jurisdiction to reduce borrowing costs. Guarantees of this nature provide an additional assurance to bondholders and serve to minimize their credit risk. Many types of state and local governmental entities issue and receive financial guarantees, including general purpose governments, special-purpose governments, and governmental entities that engage in business-type activities.

**Existing Guidance**


This guidance was originally designed to address exchange transactions occurring in the private sector. Consequently, it addresses circumstances not typically encountered in the government environment. The guidance now proposed by the GASB, however, is expressly designed to address governmental entities. Specifically, the proposed guidance addresses nonexchange transactions in which the governmental guarantor is not receiving resources of equal value in return, which is typically the case for financial guarantees in the government environment.

Due to the increasing prevalence of these kinds of guarantees and the potential for them to result in claims due to the current economic climate, there is a need for clear and consistent recognition and disclosure guidance that derives from a single source and is designed specifically for nonexchange transactions that occur in the government environment.

**What Would the Proposal Require?**

The proposed statement would require a government that extends a financial guarantee to recognize a liability if and when qualitative factors indicate that it is more likely than not that the government will actually make a payment as a result of the guarantee agreement. Qualitative factors could include such events as the issuer: experiencing a significant financial hardship, like the loss of a major revenue source; breaching a debt contract, such as a failure to meet rate covenants; or initiating the process of entering into bankruptcy protection proceedings or a financial reorganization. In circumstances in which a government extends groups of similar guarantees, the proposed statement would require a government to assess qualitative factors and historical data on frequency of default in relation to the group of guarantees rather than each individual guarantee.

The amount of the liability to be reported would be the best estimate of the costs expected to be incurred. When there is no best estimate but a range of estimated costs can be established, the amount of the liability would be the minimum amount within the range.

The proposed statement would provide that an issuer should continue to report a liability until legally released as an obligor, if the issuer is required to repay a guarantor that has made a payment on a guaranteed obligation or legally assumed the guaranteed obligation. In situations in which an issuer is released

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News From Around the Nation

NASACT Lifetime Member
Robert G. Cronson, 87, Dies

Robert G. Cronson, 87, of Springfield, died at 9:20 p.m. on Tuesday, July 3, 2012, at St. John's Hospice after a lengthy illness. He was born December 23, 1924, in Chicago, the son of Berthold and Ethel Cronson. He married Agnes Kohorst on December 5, 1987.

After being honorably discharged from the U.S. Marine Corps in 1946, he earned a B.A. in economics from Dartmouth College. He then entered the University of Chicago Law School and was awarded a law degree in 1950.

Mr. Cronson was elected in 1974 to serve as Illinois’ first constitutional auditor general, a position he held faithfully for over 17 years. He retired in 1991.

Mr. Cronson served as president of the National State Auditors Association in 1980-81 and was also a member of the NASACT Executive Committee. He represented NASACT as a member of the Governmental Accounting Standards Advisory Committee.

Mr. Cronson was a member of the Executive Committee of the National Intergovernmental Audit Forum. In 1980, he received the Financial Management Improvement Award, presented by the U.S. Government in recognition of significant fiscal accomplishment. In 1983 he was the recipient of a Special Recognition Award for fostering excellence in government accountability from the Illinois Society of CPAs.

A memorial service was held on July 8. Memorial contributions may be made to the Animal Protective League, 1001 Taintor Rd., Springfield, IL 62702.

Idaho Governor Appoints Temporary Controller

On July 3, Idaho Governor C.L. “Butch” Otter appointed State Controller Donna Jones’ chief deputy, Brandon Woolf, to temporarily lead the Controller’s Office while Ms. Jones continues to recuperate from injuries sustained in a May 25th auto accident.

The temporary appointment, made at the request of State Controller Jones, ensures operations at her office continue uninterrupted as she continues the intensive rehabilitation phase of her recovery. It will remain in effect until she is ready to return to the office.

“Donna takes her oath of office to uphold the Constitution and faithfully discharge her duties very seriously,” Governor Otter said. “Above all things, she puts her responsibilities to the people of Idaho first. That’s why she requested that I appoint Brandon to temporarily lead the Controller’s Office—with all the duties, responsibilities and authority of that office—while Donna focuses on her physical rehabilitation and recovery.”

“The continued efficient operation of her office is incredibly important to State Controller Jones,” Woolf said. “I’m honored that Governor Otter and State Controller Jones trust me with the responsibility to continue processing payroll for the state’s employees, paying the state’s bills accurately and on time, and keeping the state’s largest data center online.”

Woolf, who is married with three children, earned a bachelor’s degree from Utah State University and a master’s degree in business administration from Boise State University. Over his 15-year tenure with the agency, he has worked for three state controllers, led the agency’s statewide payroll division, and served as the chief deputy controller.

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as an obligor, it would recognize revenue as a result of being relieved of the obligation.

Note Disclosures

The proposed statement would clarify the information required to be disclosed by governments that extend and receive financial guarantees as a result of nonexchange transactions. The disclosures proposed are designed to provide users with information about the nature and amount of the financial guarantees entered into by governments, including the parties to the agreement, and the period covered by the guarantee.

Proposed Effective Date

The requirements of the proposed statement would be effective for periods beginning after June 15, 2013. Early application would be encouraged.

Copies of the ED may be downloaded free of charge from www.gasb.org.

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The GASB Update is provided on a bi-monthly basis by staff from the Governmental Accounting Standards Board.
**Calendar of Events**

**2012**
- August 11-15  ■ NASACT Annual Conference, Seattle, WA
- September 19  ■ Webinar – NSAA’s 2012 Award Winning Audits/Projects
- September 25-28  ■ NSAA IT Workshop & Conference, Nashville, TN

**2013**
- March 20-22  ■ NASC Annual Conference, Columbia, SC
- April (dates TBD)  ■ Middle Management Conference, St. Paul, MN
- June (dates TBD)  ■ NSAA Annual Conference, CA
- August 10-14  ■ NASACT Annual Conference, Boston, MA

**NASACT Announces 2012-13 Corporate Associates Program Members**

By Donna Maloy, Conference Manager

NASACT wishes to thank the 2012-13 Corporate Associates Program members. These corporate partners are a valuable part of our organization. They not only provide financial support to the organization, but also their experience and expertise. Representatives from many of these companies will be present at this year’s annual conference in Seattle, Washington.

**Platinum Level**
- CGI
- Oracle

**Gold Level**
- Deloitte
- Microsoft
- Grant Thornton
- SAP

**Silver Level**
- Accenture
- CherryRoad Technologies, Inc.
- IBM
- KPMG
- Navigant Consulting
- Visa
- Bronner
- CliftonLarsonAllen
- ISG
- MasterCard
- US Bank
- Citi
- Foster Pepper PLLC
- Kronos
- Sjoberg Evashenk Consulting
- The Hackett Group

For those corporate associates who have participated over the years, thank you. For our new corporate associate members, welcome! We look forward to working with you during the coming year.

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Visit these corporate associates at www.nasact.org/nasact/corporate/index.cfm.

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**NASACT News**

**JULY 2012**

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The next issue of NASACT News will be published in August 2012. To submit articles, photos or ideas, contact Glenda Johnson by August 10 at gjohnson@nasact.org or phone at (859) 276-1147.