State Auditors Work Together to Address Challenges and Change

By Elaine M. Howle, State Auditor of California and President of the National State Auditors Association, 2012-13

Transparency. Accountability. Integrity. Do more with less. Buzzwords? Or life as we know it? Our profession—auditing—they say we count beans. We know otherwise. It is the independent state auditor that decision-makers and the public have come to know and rely upon to speak the truth—to examine, to determine, to assess, to report the facts and to recommend improvements. Across the country, state auditors are finding and reporting fiscal mismanagement, uncovering abuse and fraud, identifying potential savings, asking for automatic background checks to improve public safety, giving cities poor ratings, identifying weaknesses in the handling of money, calling out high salaries, and even identifying overspending in federal programs. We are holding managers accountable. We shine the light on issues and needed improvements in government operations. We do make recommendations for programs or entities to operate economically. We do tell it like it is. As President Truman said, “I never give them hell; I just tell the truth and they think it is hell.”

NSAA helps us capitalize on what each of us brings to the table; unify our positions and speak as a strong voice for our profession; and network and support each other. And, thankfully we do. Each year brings us many challenges, and this year was no different with the clarity standards and the 2011 revisions to Government Auditing Standards now taking effect. We have been working to address the full ramifications of those changes—in particular with peer review and the overhaul of NSAA’s Peer Review Manual. We all came together—conference calls, white papers, positions on various interpretations, and even selfless sharing of practices—and with the great NASACT staff, we accomplished so much. We took on the monumental task of updating the manual. Also, our association came together to provide our perspective on important issues such as the grants management process proposals from the Office of Management and Budget (including changes to the single audit) and the Financial Accounting Foundation’s proposals to change the agenda-setting process of the Governmental Accounting Standards Board.

While we are sad to see many of our colleagues—Russell Hinton (GA), Marion Higa (HI), David Vaudt (IA), Bruce Myers (MD), Neria Douglass (ME), Jack Wagner (PA), Auston Johnson (UT), Walt Kucharski (VA), Tom Salmon (VT) and Brian Sonntag (WA)—retire or venture into another phase of their journey, we are privileged and honored to have known and worked with them throughout these years. As with others in our profession, Marcia Buchanan and Bob Attmore in particular, we are grateful for their service and have learned much from what each has selflessly offered to our oversight community. We look forward to working with those who come in their place and welcome them into our NSAA family—Greg Griffin (GA), Jan Yamane (HI), Mary Mosiman (IA), Tom Barnickel (MD), Pola Buckley (ME), Eugene DePasquale (PA), John Dougall (UT), Martha Mavredes (VA), Doug Hoffer (VT) and Troy Kelly (WA). As we did with your predecessors, we will benefit from your insights and contributions as we all strive to strengthen and continue the tradition of excellence our
(artic continued, next page)
A Message From NSAA’s President

(continued from page 1)

association has to offer. My advice to those coming in is to take advantage of all the organization has to offer. Get involved and network with your colleagues—it is a great, knowledgeable and selfless group, eager to help and impart experiences to assist you as you take on the responsibilities of serving the citizens of your state, seeking the truth, and improving government operations to make your state more effective in economically serving your residents.

Thank you to all who dedicate and devote so much time and effort to furthering NSAA’s mission and contributing to the great work that comes from this organization—all the committee members and chairs and especially to the Executive Committee members—Rebecca Otto, Roger Norman, David Martin, Paul Townsend and David Vaudt. And, of course we would not be able to accomplish anything without the NASACT staff who keep the engine running: Kinney Poynter, Sherri Rowland and Cornelia Chebinou in particular, but also Glenda Johnson, Tanya Grayson, Donna Maloy, AJ Puryear, Kim O’Ryan and now Kathleen Young.

I am delighted to be hosting our annual NSAA conference here in California. I am excited about our agenda—as you will see our focus is on innovation, and we have a terrific lineup of speakers and panelists. My hope is that the conference will give you the opportunity to explore new ways to address the challenges that we undoubtedly will face and to learn from one another. I also hope you get a chance to see a little bit of what this great state I call home has to offer and understand why we love California. Learn, network and share experiences, ideas and know-how with each other as we’ve done in the past, because doing so strengthens each one of us in our role as independent state auditor. As Mark Twain said, “Success is a journey, not a destination. It requires constant effort, vigilance and reevaluation.” It has been an honor to serve as your president this past year, and I look forward to continuing our journey.

NSAA Committee Meeting Schedule:
The following NSAA committees will meet on Tuesday, June 11, in conjunction with the 2013 NSAA Annual Conference in Monterey, California. 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. All meetings are listed in Pacific time.

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<thead>
<tr>
<th>Time</th>
<th>Committee</th>
<th>Presiding</th>
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</thead>
<tbody>
<tr>
<td>8:30 – 9:30 a.m.</td>
<td>Auditor Training</td>
<td>Glen Fowler (CA), Chair</td>
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<tr>
<td>9:30 – 10:30 a.m.</td>
<td>E-Government</td>
<td>Chloe Haidet (GA), Chair</td>
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<td>10:30 – 11:30 a.m.</td>
<td>Single Audit</td>
<td>David W. Martin (FL), Chair</td>
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<tr>
<td>11:30 a.m. – 12:30 p.m.</td>
<td>Peer Review</td>
<td>Elaine M. Howle (CA), Chair</td>
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<td>1:30 – 2:30 p.m.</td>
<td>Audit Standards and Reporting</td>
<td>Randy Roberts (AZ), Chair</td>
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<td>2:30 – 3:30 p.m.</td>
<td>Performance Audit</td>
<td>Paul Townsend (NV), Chair</td>
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<tr>
<td>3:30 – 4:30 p.m.</td>
<td>Human Resources</td>
<td>Rebecca Otto (MN), Chair</td>
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<tr>
<td>4:30 – 5:30 p.m.</td>
<td>NSAA Executive Committee</td>
<td>Elaine M. Howle (CA), President</td>
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It’s Not Too Late to Register!

2013 NSAA Annual Conference
June 11-14 ■ Monterey, California ■ The Portola Hotel

Travel Assistance
NASACT members in good standing (or any new state auditor) are eligible to receive up to $750 in travel assistance to attend the 2013 NSAA Annual Conference. The travel assistance may be used by the state auditor or a designee. The assistance will be provided as a reimbursement following the conference. The travel assistance form is available at www.nasact.org/conferences_training/nsaa/conferences/AnnualConferences/2013AnnualConference/2013AnnualConference.cfm.

Registration and More Information
Visit www.nasact.org to register and find additional details! Questions may be directed to Sherri Rowland at srowland@nasact.org or (859) 276-1147.
A Message From the GASB
Chairman By Robert H. Attmore, CGFM, CPA

The views expressed in this article are those of the author only. Official GASB positions are determined only after extensive due process and deliberations.

It has been both a challenge and an honor to serve as chairman of the Governmental Accounting Standards Board for the past nine years. Working with the dedicated professionals who make up the GASB Board and staff on efforts designed to improve accounting and financial reporting in the government environment has been very gratifying. It has also been a privilege to have the opportunity to continue working with NASACT members and staff. On a personal level, NASACT is an organization I was an active member of for many years. As a former president of the National State Auditors Association and a NASACT Executive Committee member, I know that NASACT is an organization of financial professionals dedicated to assisting state leaders to enhance and promote improved financial management of government resources. It should come as no surprise that, whenever possible, I’ve taken advantage of the opportunity to participate in NASACT events.

Having now issued 25 new GASB statements during my tenure as GASB chairman, I believe that we have made significant progress. One of the keys to that progress has been the high caliber of input we have received from constituents and constituent groups in general and from NASACT and its members in particular. I believe that NASACT has responded to every proposal the GASB has issued while I have served on the Board. I am grateful for that participation, and I think our due process and the resulting standards are better for having received the benefit of your thinking.

As you already know, David A. Vaudt—the now former auditor of state for the state of Iowa—will be my successor at the GASB. Dave is an experienced, highly capable leader, whom I fully expect to guide the Board with great success in working to further advance financial reporting that will enhance accountability and inform decision making. Currently, Dave and I are working together on transition issues as we prepare for my June 30 departure. Please do not hesitate to let Dave know what is on your mind and what you consider to be the key issues that the GASB should address from the perspective of state financial officials.

I want to assure you that your views are valued by all of the Board members, so I encourage NASACT members to continue to actively participate in the GASB due process and to comment on GASB proposals. In the past, your feedback has made a real difference in shaping GASB standards; it can do so in the future as well.

Looking ahead, I would like to briefly mention two projects on the GASB’s current technical agenda that I expect to play a significant role in further improving financial reporting: other postemployment benefits (OPEB), and fair value measurement and application. Both projects are likely to present challenges. Just as GASB’s 2012 pension standards represented needed advancements that will soon allow users of government financial reports to assess pension information that is more transparent, consistent, and comparable than has ever been reported before, I expect the OPEB project to ultimately result in revised standards that will bring about similar benefits in that area. As evidenced by the constant coverage in the media of pension and OPEB issues, users are seeking more robust information about these obligations. Once new pension and OPEB standards are both in place, I believe they will go a long way toward providing users (including lawmakers) with the kind of information that meets their needs.

The Board is still at a fairly early stage in its work to further develop issues related to fair value in the government environment, including the methods used to measure and apply it, and potential related disclosures. This spring, the Board decided to take the extra step of issuing a Preliminary Views to allow for additional consideration of the proposals. Consequently, it is particularly important that the GASB has the benefit of NASACT members’ points of view at this earlier stage. I encourage you to share your thoughts on fair value by commenting on the Preliminary Views, which is scheduled to be approved for issuance this June.

As a standards-setter, I found it important to always remember the basics of financial reporting by focusing on a few key questions, including (1) Why are these financial statements being prepared? (2) Who are they prepared for? and (3) What are the objectives of financial reporting? Keeping the answers to those basic questions in mind helped me to maintain an appropriate perspective when developing standards and I think would be helpful for preparers and auditors also.

Due to the ongoing emergence of new transactions, financial innovations, and changes in the governmental environment, improving financial reporting will always remain something that we strive for rather than achieve once and for all. I am confident that the dedicated team of professionals at the GASB, led by the new chairman, and working in concert with its constituent groups, is well equipped to address the challenges that lie ahead. Having been a part of the GASB team for the past nine years has been a highly rewarding experience and one that I will always treasure. I say farewell for now and extend my thanks and best wishes to all of my NASACT colleagues and friends.

Robert H. Attmore began his term as chairman of the GASB effective July 1, 2004. Prior to joining the GASB, Mr. Attmore worked for New York State for more than 23 years, including serving as deputy state comptroller and state auditor from 1986 until 2003. Mr. Attmore served as president of NSAA in 1993-94. He is a certified public accountant and a certified government financial manager.
Single Audit Roundtable Meets – NASACT Member Input Needed on Changes to SF-SAC Form

The Single Audit Roundtable, a forum for discussion of single audit topics, held its first meeting of the year. Topics of note included an update on grant reform proposals, changes to the 2013 Compliance Supplement, an audit standards update, and significant changes to the SF-SAC form.

Norman Dong, deputy controller of the U.S. Office of Management and Budget, provided an overview of OMB’s efforts to reform grants management and to reduce improper payments. Mr. Dong outlined five priorities for the efforts to reform grants management:

1. Targeting risk and minimizing burden.
2. Standardizing business processes and data elements.
3. Spending transparency.
4. Qualified grants personnel.
5. Strong program oversight.

Gilbert Tran of OMB’s Office of Federal Financial Management expanded on Mr. Dong’s overview, explaining how OMB’s current reform proposals meet the described priorities. Earlier this year, OMB issued a request for comment on proposals to grant circulars covering three areas: (1) administrative requirements, (2) cost principles and (3) single audit. The deadline for comments was extended until June 2. The final reform notice is expected to be released after September 30, 2013, but before December 20, 2013. Mr. Tran also told the group that OMB hopes the 2013 Compliance Supplement will be released before Memorial Day, but he could not provide an exact date for the release.

Jim Dalkin from the U.S. Government Accountability Office reviewed revisions being made to the Green Book, which provides standards for internal controls in the federal government and which could be used as a framework for state and local governments. The changes adapt the standards to a more global, complex and technological environment and are specifically written for government, leveraging the COSO framework. GAO hopes to have the revision out for a 90-day public comment period this summer.

Mr. Dalkin also reviewed two draft interpretations relating to Government Auditing Standards. They will be posted on GAO’s website when final.

The first interpretation provides guidance on assessing and reporting on the results of peer reviews in government. The new report ratings (pass, pass with deficiencies, and fail) do not change the thresholds for deficiency reporting. Matters identified during a peer review that are not deficiencies may be communicated orally or in writing. The second interpretation provides guidance on consistency of use of the conceptual framework for independence for performance and attest engagements. Specifically, the guidance relates to GAGAS paragraph 3.47 and:

- Allows auditors to perform some otherwise-prohibited non-audit services if they do not relate to the audit.
- Clarifies that attest and performance audit independence requirements are parallel.
- Does not apply to financial statement audits.
- Still requires auditors to always assess independence using the conceptual framework.

Paul Fite of the Federal Audit Clearinghouse also provided an overview of changes to the SF-SAC form, which is used to report audit results, audit findings and questioned costs as required by the Single Audit Act Amendments and OMB Circular A–133. The proposed changes are to revise some existing data elements on the form and add other data elements that would make it easier for federal agencies to identify the types of audit findings reported in audits performed under the Single Audit Act. The proposed revised Form SF–SAC will replace the current form for audit periods ending 2013, 2014 and 2015.

The Federal Register notice, the form and instructions, and a summary of the revisions are available on OMB’s website under “Recent News” at www.whitehouse.gov/omb/financial_default.

NASACT Member Input Requested on SF-SAC Form

NASACT requests that members review the proposed revised SF-SAC form carefully, as the proposed revisions add additional data elements. NASACT will be drafting an association response on the proposed changes. Comments on the revisions are due to NASACT by Friday, June 21 and to OMB by Monday, July 8. Comments for inclusion in NASACT’s response should be submitted to Sherri Rowland at srowland@nasact.org. Questions may be directed to Sherri at (859) 276-1147.

NASACT produces a weekly Washington Update, which can be found at www.nasact.org/washington/washingtonupdate.cfm.
Joint Committee on Tax Releases Report on Tax Reform

Earlier this year, House Ways and Means Committee Chairman Dave Camp (R-MI) and ranking member Sander Levin (D-MI) formed working groups to look at comprehensive tax reform. The working groups were divided into 11 areas of federal tax law:

1. Charitable/exempt organizations.
2. Debt, equity and capital.
3. Education and family benefits.
4. Energy.
5. Financial services.
6. Income and tax distribution.
8. Manufacturing.
10. Real estate and small business.

Their charge was to review current law, research relevant issues and gather input from interested stakeholders. The list of comments and not recommendations or support from the working group or the JCT.

Although the report seems to serve as a reference guide rather than a findings document, both House and Senate committee chairs continue to push for reform. Just recently Chairman Camp and Senate Finance Committee Chairman Max Baucus (D-MT) launched TaxReform.gov, a new website dedicated to obtaining input from the public on tax reform.

Developed in partnership with the JCT, TaxReform.gov will serve as a platform for individuals and groups to weigh in on tax reform. The site also incorporates Twitter into the submission process via @simplertaxes. TaxReform.gov also contains a link to the JCT report.

GAO Looks at State Finances and Improper Payments in Medicaid

Two reports from the U.S. Government Accountability Office were released last month: one on the long-term fiscal outlook for the state and local sector and one on payment error rates in Medicaid.

In the first report GAO examined the state and local finance sector in aggregate. The report found that the state and local government sector will continue to face near- and long-term fiscal challenges which add to the nation’s overall fiscal challenges. GAO concluded: “The state and local sector faces a gap between revenue and spending and long-term fiscal challenges that grow over time. The fiscal position of the sector will steadily decline through 2060 absent any policy changes.”

Noting specific challenges, GAO found that rising health-related costs of state and local expenditures on Medicaid and the cost of health care compensation for state and local government employees and retirees will present a serious challenge. The report also found that declines in state and local pension asset values stemming from the 2007-2009 economic recession could also affect long-term fiscal positions. GAO was unable to determine the impacts that the Patient Protection and Affordable Care Act (PPACA) would have on the long-term state and local fiscal outlook. The PPACA allows states to expand Medicaid coverage for millions of lower income individuals and create health insurance exchanges, which will go into effect January 1, 2014.

The full GAO state outlook report can be found at www.gao.gov/products/GAO-13-546SP.

In the second report GAO examined how states and the federal government are addressing improper payments in Medicaid. The report focused on the use of the Centers for Medicare and Medicaid Services’ (CMS) Payment Error Rate Measurement (PERM) program, which was designed to estimate improper payments and contains reporting requirements for the Medicaid program. Using PERM, CMS places states in one of three cycles, and each year one of the cycles reports new state-level data based on the previous year’s samples. CMS then calculates the national Medicaid program improper payment estimate using these new data for one-third of the states and older data for the other two-thirds of the states. CMS’s estimated national improper payment error rate for fiscal year 2011 for the Medicaid program was 8.1 percent, or $21.9 billion.

GAO then looked at where improvements were needed in CMS’s written guidance to states on Corrective Action Plans (CAPs) to ensure proper actions to reduce improper payments:

- CMS’s PERM manual did not clearly identify the circumstances under which states should consider (and if cost effective, include) nonpayment errors (such as certain coding errors that could have but did not result in a payment error) and minimal dollar errors in their CAPs.
- The PERM manual and the associated website did not provide complete and consistent information on the required elements to include in a state CAP.
- CMS guidance did not clearly delineate CMS officials’ roles and responsibilities for conducting oversight of (1) state CAP submissions to ensure that they contained all of the required elements and adequately addressed errors identified in the PERM reviews and (2) state progress in implementing CAP corrective actions.

The GAO PERM report can be found at www.gao.gov/products/GAO-13-229.
News From Washington / Association Notes

Chairman Issa Releases DATA Act Discussion Draft

Darrell Issa (R-CA), chairman of the House Committee on Oversight and Government Reform, has released a new version of the Data Accountability and Transparency Act, better known as the DATA Act. While the new version is very similar to earlier versions of the legislation in establishing government-wide data standards for federal awards, the new version does not create new reporting requirements or add to the compliance burden for recipients of such awards.

The discussion draft also continues the work of the Recovery Accountability and Transparency Board established by the American Recovery and Reinvestment Act. The board would continue to review federal spending and collaborate with federal inspectors general in running the current Recovery Operations Center and also run the consolidated recipient reporting pilot called for by the legislation.

NASACT and other state and local groups opposed earlier versions of the legislation that sought to impose Recovery Act-like reporting requirements on recipients due to the administrative cost and complexities involved with expanded reporting for all grants and contracts.

A copy of the discussion draft and a one-page comparison of the old and new versions can be found on NASACT’s homepage at www.nasact.org.

NASACT Welcomes New Members

Colorado

Robert “Bob” Jaros was selected to serve as Colorado’s new state controller, effective May 1. Mr. Jaros replaces David McDermott, who retired from the position. Beginning August 1, Mr. McDermott will serve as director of the Colorado Financial Reporting System Implementation, overseeing its modernization through go-live in July 2014.

Mr. Jaros has served as deputy state controller since 2006. Mr. Jaros is a CPA and a licensed attorney in Colorado. He has a bachelor of arts degree from Rutgers University, an M.B.A. from Columbia University Graduate School of Business, and a J.D. from the University of Detroit. He serves as a representative on the IRS Advisory Committee on Tax Exempt and Governmental Organizations.

Mr. McDermott was an active member of the National Association of State Comptrollers and NASACT, serving on the executive committees of both associations. He was a recipient of the NASACT and NASC President’s Award and also recently received the NASC Distinguished Service Award.

Iowa

On May 13, Iowa Gov. Terry Branstad named Mary Mosiman, CPA, as Iowa’s new auditor of state, following the recent announcement by David Vaudt that he was resigning to become the new chairman of the Governmental Accounting Standards Board. Mr. Vaudt’s last day was May 3. Ms. Mosiman, who was serving as deputy secretary of state, became auditor of state effective May 13. Ms. Mosiman is a graduate of Iowa State University with a degree in accounting. She is a member of the Iowa Society of CPAs, a past president of the Nevada Rotary, and an active member of the Gilbert Education Foundation.

Mr. Vaudt was an active member of the National State Auditors Association and NASACT. He is a past president of NSAA and previously served on NASACT’s Executive Committee.

New Hampshire

Karen Benincasa was recently selected to serve as state comptroller of New Hampshire. She replaces Edgar Carter.

Mr. Carter was a member of NASC and NASACT; and previously served as co-chair of NASC’s Pension Work Group. He recently received the NASC President’s Award.

Is Your Office Headed in the Right Direction?

NASACT’s Benchmarking Program Can Help You Find Out!

NASACT’s program offers benchmarking services in four areas: (1) financial management, (2) information technology, (3) human resources/payroll, and (4) procurement. States can compare themselves to other states and the private sector. The program also allows comparisons of agencies within the state to each other and to agencies within other states. Additional executive advisory services are also available through the program. To find out more, email Kim O’Ryan at koryan@nasact.org.
Plan Now to Attend NASACT 2013!

Join NASACT president Martin J. Benison and our other Massachusetts hosts for the 2013 NASACT Annual Conference in Boston, Massachusetts, this August 10-14. The NASACT Training and Professional Development Committee is currently working to develop the technical agenda, which should be available online soon.

Conference Hotel

The conference will be held at the Seaport Hotel which is located on the bustling Boston waterfront in the Seaport District and offers dazzling city and harbor views. This year’s conference rate is $185/night plus applicable tax. To reserve your room, call (617) 385-4000 and ask for the NASACT Annual Conference group rate. The deadline to receive the conference rate is July 9. You are encouraged to make your hotel reservations early, as sometimes the room block sells out.

Special Activities

Our hosts are planning a number of special activities, including a reception at the John F. Kennedy Presidential Library and Museum and a BBQ at Fenway Park. A guest program will also be offered where guests will be treated to some of Boston’s rich history and a lunch cruise on Boston harbor.

Travel Assistance for Members

This year NASACT’s travel assistance program has been expanded to offer members (or their designees) a free registration to attend the conference (a $700 value) and up to $1,000 in travel assistance. Take advantage of this program to attend NASACT’s premier event of the year (or use the program to bring someone else from your office to participate too!).

More Information

Watch for more details coming soon! Questions about the conference may be directed to Donna Maloy at dmaloy@nasact.org or (859) 276-1147.
New at www.nasact.org

The following new items have been posted on NASACT’s website:

- NASACT’s response to the Financial Accounting Foundation’s proposal to change the Governmental Accounting Standards Board’s agenda-setting process at www.nasact.org/downloads/GASB/LOC/05_13_GASBAgenda-SettingResponse.pdf.

- NASC technical inquiry on the following topic at www.nasact.org/nasc/technical/index.cfm (members only content):
  - Financial Preparation and Reporting


NSAA Seeks Member Input

The National State Auditors Association is seeking member input on the following:

SAS Using the Work of Internal Auditors

The American Institute of Certified Public Accountants’ Auditing Standards Board has released for comment an exposure draft of a proposed Statement on Auditing Standards entitled Using the Work of Internal Auditors. The proposed SAS can be found at www.aicpa.org/Research/ExposureDrafts/AccountingandAuditing/Pages/ExposureDrafts_ASB.aspx.

Through the Audit Standards and Reporting Committee, NSAA will be responding to this exposure draft. Please send your comments on the ED to Sherri Rowland at srowland@nasact.org by Monday, June 24. The ASB’s comment deadline is July 15.

When preparing your comments, please address the Issue for Consideration as well as the four questions under the Guide for Respondents. Comments are most helpful when they refer to specific paragraphs, include the reason for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

AICPA Revised Code of Professional Conduct

The AICPA’s Professional Ethics Executive Committee has released for comment an exposure draft of a revised AICPA Code of Professional Conduct (a.k.a. Ethics Codification Project). The exposure draft proposes a revised AICPA Code that has been restructured into several parts that are organized by topic and edited using consistent drafting and style conventions. The exposure draft can be found at www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/Pages/ExposureDrafts.aspx.

At this time NSAA does not plan on responding to this exposure draft, as an initial review of it disclosed no changes to the requirements relating to government.

However, NSAA members believing that the association should respond should contact Sherri Rowland at srowland@nasact.org by Friday, July 19.

Upcoming Information Sharing Calls

May
- NASACT Committee on Accounting, Reporting and Auditing – May 21
- NASC Travel and P-Card Information Sharing (representatives from MasterCard and Visa will participate) – May 22

June
- NASACT Pension Standards Implementation Work Group – June 19

July
- NSAA Human Resources Information Sharing – July 31

August
- NASC Payroll Information Sharing – August 21
- NASC Travel and P-Card Information Sharing – August 28

Get Involved!
For information on participating in any of these calls, contact NASACT’s headquarters office at (859) 276-1147.
NASACT Responds to FAF Proposal to Change GASB Agenda-Setting Process

Recently the Financial Accounting Foundation issued a proposal regarding changes to the agenda-setting process for the Governmental Accounting Standards Board. The FAF proposed that the FAF trustees should make the final determination about potential agenda items that did not clearly fall within or outside of GASB’s purview (a “Group 2” item). NASACT members were asked to provide input on the proposal, and the association drafted a consensus position on the matter. The letter can be found at www.nasact.org/downloads/GASB/LOC/05_13_GASBAgenda-SettingResponse.pdf.

There was not an overwhelming consensus either for or against the FAF’s proposal. However, NASACT did suggest that if the FAF moves forward with the proposal that one significant modification be made. As proposed, final authority on adding a Group 2 item to the GASB’s agenda would rest with the FAF’s Standard Setting Oversight Committee, and ultimately with the FAF trustees. Of the 21-member FAF board, only three trustees represent government. NASACT suggested that if the FAF proceeds with its proposal, that the government trustees play a more prominent role in making decisions about the agenda items for the board setting standards for governments. The following excerpt from NASACT’s letter details the suggestion:

...should the FAF decide to move forward with its proposed change to the GASB standard-setting process, we believe one significant modification should be made. We believe the three FAF government trustees should play a more prominent role since GASB’s agenda is the subject of this proposed process. We urge that the FAF adopt a process similar to that used by the Appointments and Evaluations Committee when selecting a GASB board member. That is, we believe that all three government trustees should either serve on the Standard Setting Oversight Committee or serve ex-officio in those cases where a GASB agenda item is under consideration. Additionally, similar to chapter A, article I-A, section 8 of the FAF bylaws, the Standard Setting Oversight Committee should not make a recommendation to the trustees about a GASB scope issue unless at least two of the three government trustees agree with the recommendation. This important modification will ensure that the decision is reached by individuals having the requisite experience and knowledge of governmental accounting issues to ensure a judicious review of whether potential projects are categorized in their appropriate groups.

Questions about NASACT’s response to the FAF proposal may be directed to Kinney Poynter at kpoynter@nasact.org.

NASC Announces 2013-14 Committee Chairs

NASC President Kim Wallin, state controller of Nevada, has named leaders for NASC’s 2013-14 committees and information sharing groups. To see descriptions and member rosters, visit www.nasact.org/nasc/committees/index.cfm. To indicate your interest in serving on a committee or group, email Kim O’Ryan at koryan@nasact.org.

Committees

Executive Committee
President: Kim Wallin (NV)

Advisory Committee for State Comptrollers: Technical Activities and Functions
Chair: Kathy Ross (OR)

Committee on Accounting and Financial Reporting
Chair: Alan Skelton (GA)
Vice-Chair: Stacy Neal (MO)

Committee on the Financial Plan
Chair: John Reidhead (UT)

Committee on Outreach
Chair: Anna Maria Kiehl (PA)

Constitution and Bylaws
Chair: Calvin McKelvogue (IA)

Middle Management Conference
Co-Chair: Stacy Neal (MO)
Co-Chair: TBD - host state

Nominating
Chair: Richard Eckstrom (SC)

Program
Chair: David Von Moll (VA)
Vice-Chair: John Reidhead (UT)

Resolutions
Chair: Ed Ross (KY)

Site
Chair: Brandon Woolf (ID)

Information Sharing Groups

State Government Payroll
Co-Chair: Ruth Duquette (MI)
Co-Chair: Vicki Smith (TX)

Travel and Purchase Card
Co-Chair: Patti Everill (ID)
Co-Chair: Marie Walker (FL)

Visit www.nasact.org/nasc/committees/index.cfm to view committee rosters, meeting minutes and resources (minutes and resources are members only content).
Register Now for NASACT’s Next Webinar: GASB Review—2013

As fiscal year-end for most state governments quickly approaches and a new year begins, it is an opportune time for financial statement preparers and auditors to get a refresher on standards that will be effective for June 30, 2013, financial statements as well as recently released statements from the Governmental Accounting Standards Board that will require attention in fiscal year 2014.

NASACT’s next webinar will provide “must know” guidance from recently-issued GASB statements including:

- Statement No. 69, Government Combinations and Disposals of Government Operations.

Also included will be coverage on previously-issued GASB statements that are effective for June 30, 2013 and 2014. For 2013, these statements include:

- Statement No. 60, Service Concession Arrangements.
- Statement No. 62, Codification of AICPA and FASB Pronouncements.

Statements effective for 2014 are:

- Statement No. 65, Items Previously Reported as Assets and Liabilities.
- Statement No. 66, Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62.

Join GASB Chairman-Elect David A. Vaudt, GASB, Director of Research David R. Bean, and other GASB staff for this informative two-hour training session, which will include Q&A during the last 25 minutes.

This webinar is presented by NASACT in conjunction with the Association of Government Accountants and the Association of Local Government Auditors.

Wednesday, July 10  ■  GASB Review—2013  ■  2:00 - 3:50 p.m. ET

CPE: Two credits
Cost: $299.00 per group (unlimited attendance) or $50 per person
Register: Register at www.nasact.org

NASACT Completes 32nd Annual Government Auditor Tennessee Training Seminar Series

Each year, NASACT works with the Tennessee Comptroller of the Treasury to plan and conduct the Tennessee Government Auditor Training Seminars Program. This year marked the thirty-second year for this successful training series, with 624 attendees. The seminars are conducted in four cities across Tennessee—Nashville, Jackson, Chattanooga and Morristown—during the months of April and May and cover topics as diverse as:

- An update on activities of the Governmental Accounting Standards Board and the American Institute of Certified Public Accounting.
- An update on the 2011 revision of Government Auditing Standards and on single audit/A-133 issues.
- Case studies of fraud, waste and abuse.

The seminars are specifically designed to enhance the skills of auditors in CPA firms that conduct local government audits as well as accountability professionals working in government.

Start a Government Auditor Training Series in Your State!

Would a program like the Tennessee Training Seminars help improve government auditing in your state? To explore the possibilities, contact Kinney Poynter at kpoynter@nasact.org or (859) 276-1147.
Statement No. 70 on Nonexchange Financial Guarantees Issued

The GASB recently approved Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. That statement provides accounting and financial reporting guidance to state and local governments that offer or receive nonexchange financial guarantees.

Governments provide several types of financial guarantees, which are primarily associated with commitments to ensure payments on debt issued by other entities. When a government is the provider of a financial guarantee, the guarantee represents a potential claim on its resources. When a government receives a guarantee, the guarantee represents potential resources.

When a government guarantees the financial obligation of another entity and the guarantor government does not receive equal or approximately equal value in return, the transaction is referred to as a nonexchange financial guarantee. Guarantor governments typically enter into these types of financial guarantees 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 serves to minimize their credit risk.

What Does the Statement Require?

The statement requires a government that extends a financial guarantee to recognize a liability when qualitative factors indicate that it is more likely than not that the government will actually be required to 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 statement requires a government to assess qualitative factors and historical data, if any, on frequency of default in relation to the group of guarantees rather than each individual guarantee.

The amount of the liability reported by the guarantor should be the discounted present value of 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 should be the minimum amount within the range.

The statement provides that a government should continue to report a liability until legally released as an obligor if it is required to repay a guarantor for making a payment on a guaranteed obligation or for legally assuming the guaranteed obligation. In situations in which a government is released as an obligor, the government recognizes revenue as a result of being relieved of the obligation.

Note Disclosures

In addition, the statement enhances the information required to be disclosed by governments that extend and receive financial guarantees as a result of nonexchange transactions. The disclosures are designed to provide 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. The disclosures also identify the amounts that have been paid by guarantors on guaranteed obligations.

Effective Date

The requirements of the statement are effective for periods beginning after June 15, 2013. Early application is encouraged.

Projects Added to Current Technical Agenda

The Board recently voted to add projects addressing leases and a technical correction to GASB Statement No. 68, Accounting and Financial Reporting for Pensions, to the current technical agenda.

Leases

The objective of the leases project is to reexamine issues associated with lease accounting and to consider improvements to the existing guidance within the context of the government
environment. This project will provide a basis for the Board to consider whether current leases meet the definitions of assets and liabilities.

A major focus of the leases project will be on the forms of financial reporting display and disclosure that would meet the essential needs of financial statement users. Areas of particular emphasis will include potential changes to the current model of classifying leases into operating and capital categories (and the different associated accounting treatments); the evaluation of existing lease guidance against the revised definitions of assets and liabilities; and consideration of whether the current treatment of leases is consistent with those financial statement elements.

Board deliberations on the project are due to begin in June with an overview of the FASB proposed lease accounting standards that are expected to be reexposed for comment in May 2013.

Pensions—Technical Correction

The objective of this narrowly scoped practice project is to address an issue in Statement 68 for which the Board believes a technical correction is needed.

Board deliberations on the project, which are intended to address and resolve the related inconsistency in the statement, are due to begin in May. An exposure draft is scheduled for issuance in June. A final statement is expected to be issued prior to the end of 2013.

Recent GASB Activity

The GASB met by teleconference on March 11 and April 22 and in Norwalk, Connecticut, on April 2–4.

Conceptual Framework—Measurement

The Board reviewed a preliminary draft of proposed measurement concepts and made clarifying edits. As a next step in the project, the staff will prepare a preballot draft of the measurement exposure draft for the Board’s review.

Fair Value Measurement and Application

The Board deliberated issues on the topics of fair value disclosures, conforming changes with other GASB literature, and the type of due process document that will be issued. With respect to disclosures, the Board tentatively agreed to propose the following:

- The determination of appropriate classes and types of assets and liabilities should be made on the basis of the nature, characteristics, and specific types of risks of the asset or liability, as well as the level of the fair value hierarchy within which the fair value measurement is categorized.
- A more general disclosure regarding investment class and type, leaving disaggregation up to professional judgment.
- Additional disclosures for investments in certain entities that calculate net asset value per share should be required.
- All disclosures required for a recurring fair value measurement generally would be required for a nonrecurring fair value measurement.

Next, the Board addressed areas within current GASB literature that may need revision to conform to the tentative proposals and tentatively agreed to propose the following:

- Guidance for donated works of art, historical treasures, and similar assets and guidance for capital assets acquired through a nonexchange transaction would be amended so that fair value is replaced with acquisition value, consistent with the tentative decision to measure donated capital assets at acquisition value.
- For assets received in a nonmonetary transaction, when the value of the asset received is more clearly evident than the fair value of the asset surrendered, fair value would be replaced with acquisition value for measuring the value of the asset received.
- Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, would be revised so that transferor governments measure a capital asset received through a service concession arrangement at its acquisition value when placed in operation.
- When prior-period adjustments are recorded and financial statements are presented only for a single period, the disclosure of the effects of such restatement should be limited to the effects on the beginning balance of net position.
- Investment in would be revised to ownership of in the GASB guidance for investment in common stock in Statement 62.

In deliberating investments in common stock, concentrating on criteria for application of the equity and cost methods found in Statement 62, the Board tentatively decided to propose that investments in certain entities that calculate net asset value per share not be eligible for the equity method. Likewise, common stock investments held by endowments would not be eligible for the equity method. These foregoing investments would be measured at their fair values.

Reversing a previous tentative decision, the Board tentatively agreed not to replace the term investment and related terms. Instead, the Board proposed that clarifying language be added to Statement 62. If a government owns common stock that meets the criteria for the equity method and that ownership does not meet the definition of an investment, the equity method may nevertheless be applied. The Board also tentatively decided to propose the elimination of the cost method from GASB guidance for investments in common stock.

Next, the Board tentatively decided to reverse two other previous tentative decisions. First, the proposal would remain silent as to whether split-use property should be allocated according to its uses to be consistent with a previous tentative decision not to bifurcate assets to determine if the definition of investment would apply. Second, the proposal would provide no specific guidance on present value techniques. Guidance is expected to be provided in a future project that specifically addresses present value.

(article continued, next page)
The Board also tentatively decided to propose that transaction costs be reported as period costs and not be taken into account in fair value measurements. To be consistent with this tentative position, the existing provisions for defined benefit pension and other postemployment benefit (OPEB) plans—in which transaction costs currently reduce fair value measurements—would be proposed to be changed accordingly. The Board considered transition guidance and tentatively agreed to propose that the transition provision be prospective application with an option to apply fair value retrospectively.

After considering the potential benefits of conducting further constituent outreach activities that would result from an additional step to the project’s due process, the Board tentatively decided to issue a preliminary views—rather than an exposure draft—in June 2013.

GAAP Hierarchy

After adding a second level to the authoritative section of the GAAP hierarchy at the February 2013 meeting, the Board tentatively agreed to propose retaining GASB technical bulletins in this level.

The Board also addressed the placement of the Comprehensive Implementation Guide (CIG) and tentatively decided to propose the promotion of the CIG to the second level of authoritative literature. The Board also tentatively agreed to propose that technical bulletins and the CIG remain staff documents subject to clearance by the Board.

Based on the revised methodology for analyzing the CIG on an individual question-and-answer (Q&A) basis identified at the February 2013 meeting, the Board reconsidered specific questions in the chapters on cash flows reporting, risk financing and related insurance issues, and the financial reporting entity. The Board concluded by providing comments and suggestions regarding the staff analysis of the chapters on the statistical section and other implementation guidance (Chapter Z) on an individual Q&A basis.

Implementation Guide—Financial Reporting for Pension Plans

The Board evaluated a list of potential illustrative material to accompany the illustrations originally presented in Statement No. 67, Financial Reporting for Pension Plans, in an implementation guide to that statement. The Board tentatively agreed that the following illustrations should be included:

- An expansion of the illustration of the discount rate “crossover” calculation that was presented in Statement 67 to present data for all years of the calculation.
- A crosswalk showing the relationship between amounts displayed in plan financial statements and the amounts used as the beginning and ending fair values of investments in the calculation of the money-weighted rate of return on pension plan investments.

Other Postemployment Benefits

In the discussion of issues related to the timing and frequency of the measurement of a single or agent employer’s defined benefit OPEB liability, the Board tentatively decided to propose that an employer’s net OPEB liability be measured as of a date no earlier than the single or agent employer’s prior fiscal year-end, consistently applied from period-to-period. The Board also tentatively decided to propose that the frequency of actuarial valuations used to determine a single or agent employer’s net OPEB liability be at least biennial. In addition, the Board tentatively decided to propose that the timing of actuarial valuations used to determine a single or agent employer’s net OPEB liability be no more than 30 months and 1 day earlier than the employer’s most recent fiscal year-end. In circumstances in which the actuarial valuation date is not the measurement date, the Board tentatively decided to propose that update procedures be used to roll forward the information to the measurement date.

Next, the Board discussed issues related to the recognition of expense related to a single or agent employer’s defined benefit OPEB obligations. The Board tentatively decided to propose that contributions to an OPEB plan trust from an employer be considered a liquidation of the employer’s liability. The Board also tentatively decided to propose that the difference between the projected and actual investment return on OPEB plan assets be recognized as a deferred outflow of resources or deferred inflow of resources and be recognized as OPEB expense over a closed five-year period, beginning in the current period.

Regarding the effects of changes in the total OPEB liability on the measurement of a single or agent employer’s net OPEB liability, the Board tentatively decided to propose that (1) differences between expected and actual experience with regard to economic or demographic factors and (2) changes of assumptions about future economic or demographic factors or of other inputs be recognized as deferred outflows of resources or deferred inflows of resources. The Board tentatively decided to propose that deferred outflows of resources and deferred inflows of resources resulting from differences between expected and actual experience and changes in assumptions be recognized as OPEB expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all OPEB plan participants, determined as of the beginning of the measurement period. The Board tentatively decided to propose that the effects of all other changes in the total OPEB liability on the measurement of the net OPEB liability be recognized in OPEB expense in the current reporting period.

Finally, the Board tentatively agreed to propose that contributions to an OPEB plan from a single or agent employer subsequent to the measurement date of the net OPEB liability and before the end of the employer’s reporting period be reported as a deferred outflow of resources.

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The GASB Update is provided bi-monthly by the Governmental Accounting Standards Board.
Mark Your Calendar for These Upcoming Conferences!
By Donna Maloy, Conference Manager

NSAA Annual Conference
There is still time to register for the NSAA Annual Conference. The conference will be held at the Portola Hotel in Monterey, California, on June 12-14, 2013, with committees meeting on June 11. NASACT principals or their designees are eligible for up to $750 in travel assistance to attend this conference.

NASACT Annual Conference
Join NASACT President Martin Benison and our Massachusetts hosts for the 2013 NASACT Annual Conference in Boston, Massachusetts. The conference will be held August 10-14 at the Seaport Hotel and World Trade Center. The conference hosts have developed a slate of social activities that highlight Boston and its rich history. The technical program is being developed now, and a draft will be posted to NASACT’s website soon. NASACT principals or their designees are eligible for a free registration and up to $1,000 in travel assistance to attend.

NSAA IT Workshop and Conference
Plan to attend the 2013 NSAA IT Workshop and Conference. This year’s IT conference will be held September 30–October 3 at the Sheraton Raleigh Hotel in Raleigh, North Carolina. Additional details, including hotel information can be found on NASACT’s website.
Below is a complete listing of sessions and speakers from the 2013 NASACT Middle Management Conference, held in Saint Paul, Minnesota, on April 18-19. To download handouts or PowerPoint presentations from the conference, visit www.nasact.org/conferences_training/JointMiddleManagement/management.cfm. Presentations from the past several years may also be found at this web address.

NASACT wishes to thank the planning committees: the Auditor Training Committee (Glen Fowler, California, chair) of the National State Auditors Association and the Middle Management Conference Committee (Jeanine Kuwik, Minnesota, chair) of the National Association of State Comptrollers. Additionally, NASACT wishes to thank the Minnesota hosts for their time to help plan the conference and their warm welcome and hospitality to the attendees. Special thanks go to Rebecca Otto and Cecile Ferkul.

Questions may be directed to Sherri Rowland at srowland@nasact.org or Kim O’Ryan at koryan@nasact.org.

Is Your State Interested in Hosting Middle Management 2014?

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 state be interested in hosting the conference in April 2014? If so, please contact Sherri Rowland at srowland@nasact.org or Kim O’Ryan at koryan@nasact.org for additional details.
Middle Management Conference Recap

Deputy Legislative Auditor Cecile Ferkul, State Auditor Rebecca Otto, and Management and Budget Commissioner James Schowalter welcomed attendees to Minnesota.

Courtney Carraway (center, NC), moderated the “Training Issues Roundtable.”

Chris Buse, Minnesota’s chief information security officer, presented a session on “Mobile Device Management.”

Over 100 were in attendance at this annual conference, which is designed for management-level staff within member offices.

A lively group participated in the “Performance Audit Roundtable” session.

On the last day of the conference, Nathan Abbott (TN) shared with attendees audit tools for effective data analysis.