

ABOUT OUR UPCOMING EVENTS

MARCH 13-15, 2006
TCTC 2006

AT THE HOLIDAY INN TURF, 205 WOLF ROAD, COLONIE, NY

MARCH 24, 2006 AND
MARCH 31, 2006

BOWL-A-THON FOR BIG BROTHERS
BIG SISTERS

AT LATHAM BOWL / BALLSTON SPA LANES

APRIL 24, 2006

THE BREAKFAST CLUB WITH GASB
CHAIRMAN ROBERT H. ATTMORE

AT A SECRET LOCATION TO BE ANNOUNCED

MAY 10, 2006

AUDIO CONFERENCE - PERFORMANCE
AUDITING

AT KPMG OFFICES, 515 BROADWAY,
 ALBANY, NY

RESERVATIONS: ONLINE AT
 WWW.AGANYCAP.ORG OR CONTACT KAREN
 LYDON AT (518) 286-2622 x 100 OR
 REGISTRAR@AGANYCAP.ORG
 NO-SHOWS WILL BE BILLED THE
 FULL COST OF THE EVENT.



Driver's License or National ID Card?

by Dawn Kawamoto, CNET News.com

Motor vehicle agencies must link their databases together, and perhaps implant chips in driver's licenses, as necessary steps to ease the way for a national ID card, the head of a group of motor vehicle officials said.

Technology that may be used for a national ID card could take the form of a chip loaded onto a driver's license, said Linda Lewis-Pickett, chief executive of the American Association of Motor Vehicle Administrators.

Lewis-Pickett was one of several panelists addressing the controversy over the National ID System, during the RSA Conference 2006 here.

"The DMV is in differing aspects of readiness and it would need to make a quantum leap to get to the point of issuing national ID cards," Lewis-Pickett said. She added that the various states need to develop a method of interoperability to share information that could be used for a national ID system.

The panel unanimously agreed that a national ID system will fail to fight terrorism, one of the intents of the "National ID cards on the way? — Monday, Feb 14, 2005" Real ID Act that passed last year and is slated to take affect in 2008.

The act will affect Americans in a number of ways, requiring a federally approved ID card to board an airplane, collect social security payments or use virtually any government service.

"We don't have a field in the database system that will say you're an evildoer," said Bruce Schneier, chief technology officer of Counterpane Internet Security.

A national ID system may create other security concerns beyond an inability to fight terrorism, the panelists noted, pointing to potential exploitation of the information in the database, as well as to commercial harvesting of information every time a national ID card is used.

"This is a rules problem, not a technology problem. We need rules on who has access to the information," said James Lewis, senior fellow and director of technology and public policy for the Center for Strategic and International Studies, a Washington, D.C., think tank with close ties to the military.

The process for issuing the cards is another area that requires great scrutiny, the panelists warned. "It doesn't matter how good the card is if the issuance process is flawed," Schneier said. A national ID card may soon find itself used for other purposes than verifying credentials of Americans, the panelists warned.

The issue of "function creep" could arise, much like it has with the use of driver's licenses, said Paul Kocher, president and chief scientist of Cryptography Research. He noted that driver's licenses are used for more than just verifying the ability of a person to drive a car—they're also used as a form of ID when writing a check and as a way to verify that a person is old enough to drink alcohol.

Lawmakers are already keenly aware that secondary uses may be found for the card, as companies seek to commercialize the data gathered when cards are used. California lawmakers, for example, floated a bill to put restrictions on use of identification devices in all state-issued ID documents.

CAPITAL IDEAS

PUBLISHED BY: NEW YORK CAPITAL CHAPTER
ASSOCIATION OF GOVERNMENT ACCOUNTANTS

PRESIDENT

JAMES NELLEGAR

PRESIDENT-ELECT

MARCELLA JUNCO

VICE PRESIDENTS

ANN MARSH
ROGER MAZULA
SANDRA SCHLEICHER
NANCY VARLEY
AMANDA ZIBELLA
LINDA ZINZOW

TREASURER

BRIAN GEE

SECRETARY

SHELLY TALEPOROS

DIRECTORS

MICHAEL ABBOTT
JAMES COX
JILL FLINTON
RANDALL GRIFFIN
J. DWIGHT HADLEY
RAYMOND HARRIS
WILL REYNOLDS
JOHN SAMANIUK
KIRK SCHANZENBACH
KAREN STACKROW

IMMEDIATE PAST PRESIDENT

LORI VACCARO

CHAPTER HISTORIAN

KATIE MEYER

WEBSITE COORDINATOR

LAURA BROWN

CAPITAL IDEAS IS PUBLISHED BY THE
NEW YORK CAPITAL CHAPTER OF THE
ASSOCIATION OF GOVERNMENT
ACCOUNTANTS
P.O. Box 1923
ALBANY, NY 12201



President's Message

from
Jim Nellegar



If you attended the November Fraud Conference, or have been to our web site in the last several months, you know that the Chapter Executive Committee (CEC) recently asked for member input on the possibility of transitioning to an electronic newsletter. Our chapter currently spends between \$4,000 and \$5,000 per year on printing costs and the potential cost-savings were proposed as a way to allow us to upgrade future educational events.

While over eighty percent of those responding to our survey said they would support the transition to an e-newsletter, we did receive a significant number of comments from members expressing a desire to maintain a printed version for purposes of convenience, promoting secondary readership and avoiding problems with e-mail systems that block correspondence from commonly used domains (such as EarthLink), domain types (such as .org) or a specific URL address. The CEC discussed these results at its January 10, 2006 meeting and decided to continue publishing a hard copy newsletter, albeit briefer and on non-gloss paper. Cost savings are estimated to be 25 – 33 percent annually.

Certification

The AGA has declared March CGFM month. Last year brought a record 50 percent increase in applications nationally, a 73 percent increase in new CGFMs and 96 percent retention rate of current CGFMs!

Community Service

Our community service volunteers have been busy providing income tax assistance through the Internal Revenue Services' Voluntary Income Tax Program (VITA) and also paid a visit to the Stratton Veteran's Hospital in Albany to distribute packaged valentines and cookies to our veterans. As always, our thanks to go out to all of the volunteers that spend their time and energy to provide a helping hand to members of our community.

Our next event is the "Bowl for Kids Sake" bowl-a-thon to benefit Big Brothers / Big Sisters of the Capital Region. We have two dates to choose from, March 24th at Latham Bowl and March 31st at Ballston Spa Lanes. To learn more about this event, please visit: www.aganycap.org/community/main.htm.

Useful Website for the Non-Techie

Need to translate the latest techno-terms into plain English? Try the Free On-line Dictionary of Computing (FOLDOC) at: <http://reference.modemhelp.net/foldoc/index.html>

As always, we welcome your feedback on all of our programs, events and activities —as well as the new format for our newsletter. Please feel free to contact me, or any of our officers, with your comments, ideas or suggestions. A listing of chapter officers, and contact information, is included on our website at: www.aganycap.org/chapter_governance/officers.

SPECIAL NOTICE

For BONUS newsletter content, get the digital version of *Capital Ideas* at the Chapter's Internet website: <http://www.aganycap.org>

Five Generational Differences Shaping Leadership

www.merrillassociates.net

Our youngest leaders matured in the glow of computer screens; our oldest in the shadow of the Depression and World War II. (Bennis & Thomas, 2002)

For Generations X and Y, the old command and control leadership is passé. The top down leadership style that grew from a military model is not effective in today's world of rapid change. Today's young leaders act first and evaluate later, because a leader cannot afford to carefully evaluate first in the high-speed environment of today.

This rapid response decision-making is a characteristic of today's young people. They have been taught to act fast. Consider the video games young people have grown up with. They have played with simulations since they were very small, and have learned to act fast, watch what happens, and adapt. I remember a very early game my children played where a frog had to hop across the river without falling in the water or being eaten by the alligators. Do you remember Frogger?

I was never good at the game because I was cautious, watching, observing and waiting for the right moment to hop forward. My children were proficient at this game, because they moved fast and didn't worry about making the best move. They would lose the frog, but remember the lesson and adapt their moves during the next round. Young people have grown up with simulations we never imagined. SimCity lets you build and operate a city and war games let you experience combat and team work. We have trained this generation to make quick decisions.

This shift in leadership style started with Generation X and has continued to become more pronounced in Generation Y. I think it is sometime hard for those of us of in an older generation to respect the quick, decisive leadership style we see in young people. I think we tend to question how much they really know, and we de-value their ability to make decisions based on limited experience. We grew up in a time when you worked your way up to leadership roles. Often we don't think of younger volunteers or colleagues as collaborators, because we assume they are inexperienced. But young people today know more that we

knew at their age. The World Wide Web and instantaneous access to news and information has made knowledge much more available at an earlier age.

Allow me to highlight five differences between generations and indicate how these differences contribute to new patterns of leadership: career, speed, loyalty, balance, and heroes.

The concept of **career** has changed. Young people today talk more about jobs and skills than they do about career paths. They don't see the need or the benefit of picking a single career. Increasingly young people talk about having parallel careers. Many say they expect nine different careers in their lifetime. For them life is more like the video game SimLife, than the board game of Life. In video games roles are less defined and you learn through experimentation. And if it doesn't work, you can reboot and start again.

Life in the new millennium is all about **speed**. Young people not only live with speed and chaos, they thrive in it. In a climate of rapid change the young generations knows you have to act fast to win or stay in the game. If you proceed slowly and cautiously, you lose. The patient are glanced over, passed over and run over. The great depression taught people to make sacrifices and be patient, but the Information age has taught a generation that you never have to wait for anything. They are looking for opportunities to gain twenty years of experience in two year. Computer simulations allow them to formulate ideas, test them, retest, refine and move forward. They believe in just doing it.

Loyalty has new meaning among young people who saw their parents downsized, reengineered and layoff off. They know the days of corporate loyalty to employees are long gone. Young people look after themselves first. They exhibit little loyalty to anyone other than friends and family. Loyalty is highly valued, and given only to a few friends and colleagues after they have earned it. When they feel respected and

valued they will be loyal to the cause or organization and become great assets and advocates.

Balance is a fundamental value in the younger generations. As children of workaholic baby boomers, they view time, commitments and career advances through the lens of balance. In the workplace young people have been termed slackers because they don't work late, or don't come in on the weekend or they refuse to attend those extra meeting. They expect time off for family functions and don't understand why they have to stick around if they've finished all that was expected of them. But it is not an aversion to work that prompts their actions. It is a commitment to family and friends—a commitment to having a balanced life in which work is only one segment of a full life.

For many of us in older generations, **heroes** contributed to our ideals and values. I grew up with the words of John Kennedy: "Ask not what your country can do for you, but rather what you can do for your county." Past generations had many heroes that shaped and influenced them. They were the icons, the people we looked to for inspiration and leadership.

When I talk with Xers and Y's about public heroes and figures they admire and look up to, they struggle to find a name and often tell me they do not have "public" heroes. They may consider parents, friends and coworkers as people they admire, but most often they say they have no real models of leadership, no people they look up to outside of their immediate circle. At first I found this disturbing (being of the Boomer generation with lots of heroes) but have come to realize the whole concept of heroes has changed. Every time someone gets nominated to be a hero someone else comes along and reveals a dirty secret about them. Information makes heroes temporary or passing figures. Consider all the books that have been written about the Kennedy's, Martin Luther King or Princess Diana.

Continued on page 5.

Association of Government Accountants New York Capital Chapter Chapter Executive Committee February 14, 2005 Meeting Highlights

National Items: The listing of upcoming deadlines was reviewed. CGFM Month plans are started – they are consulting with the New York City Chapter on the prospect of the Governor’s proclamation applying to both chapters. National Chapter Education Award nomination is being forwarded by Jim Cox to Jim Nelligar for final review; suggestions for other National Awards were discussed. It was decided to hold the nomination for Diana Ritter until the fall nominations. Chapter Recognition Program Points – Currently at Platinum – Two categories not at maximum points are Education (will reach max this period) and Membership.

Regional Items: The Regional/Sectional Chapter Officers Workshop was discussed. They are thinking of replacing the Regional Chapter Officer Workshop (RCOW) two-day event in April next year with Chapter Presidents and Regional representatives –

Sectional Officer’s Workshop (SOW). Also in the process of proposing a sectional officer workshop (May 12 & 13, 2006) in Columbus, Ohio.

Nominations: Marcella distributed a listing of the slate of officers and discussed open positions. Thalia Davis was discussed as the Vice President of Membership and Sandra was discussed as a board member. Dan Towle was also discussed as either a board position or the Vice President of Marketing. There was discussion around publishing the slate, since it was announced to the membership pool that nominations were open, but it was decided that the slate did not need to be published in the newsletter.

Audit Committee: Jill presented the revised Audit Committee Policy and it was discussed. Some changes were suggested including: GAAP and GAAS references; three-year rolling terms for Audit Committee members, and potential to make it a standing committee. Jim thanked Jill for all of her efforts with the audit and developing the new policy this past year.

Newsletter: With the proposed changes in the newsletter format to eight pages, the cost of the newsletter should be between 25 percent and 33 percent of the previous

newsletter costs. The next newsletter should be sent before TCTC.

Certification: 70 people attended the Certification Information Seminar. Some discussion surrounding the format for next year was discussed. Also, the potential for raffling off a study guide was considered.

Student Membership: Discussed having a student membership price at training events. It was decided that there would not be a separate student newsletter due to cost constraints, but that there could be a student section of the current newsletter. Also, it was discussed presenting an early careers/student recruitment package to the CEC for next year.

Education: Technology Conference had 140 attendees – evaluations were not available yet for discussion. SOX Audit Conference – 25 people were registered to date. May 10 Audio Conference on Performance Auditing will be announced by National AGA. TCTC – at least 242 unique on-line registrants with a large number of off-line group registrants. Possibility of doing a “Breakfast Club” in April or May with Bob Attmore as the guest.

PDC Policy: A draft of the Professional Development Conference Policy was distributed and discussed.

CGFM Corner Annual CGFM Renewal Time! by Katya Silver AGA Director of Professional Certification Administration

AGA National is getting ready to send you an annual renewal invoice for your CGFM certification and/or AGA membership. If your address has recently changed, please be sure to update your contact information with AGA and pay your dues in the “Members only” section of AGA website (www.agacgfm.org).

Below you’ll find answers to frequently asked questions about CGFM renewal:

Q: How often do I have to renew my CGFM designation?
A: CGFM certification is renewed on an annual basis. A renewal invoice is sent out in February and the payment is due by March 31st. If you do not receive an invoice by mid-March, please call AGA at 1.800.AGA.7211.

Q: What are the requirements for maintaining the CGFM certification?

- A: To maintain the designation, a CGFM holder must:
1. Pay the CGFM renewal fee at the beginning of every year.
 2. Adhere to the AGA Code of Ethics.
 3. Every two years complete at least 80 hours of continuing professional education (CPE) in government financial management topics or related technical subjects (with at least 20 in each year).
 4. Maintain and, if requested by AGA, provide detailed information on CPE hours completed.

If you did not renew your CGFM certification last year or have not earned 80 CPE hours in your last two-year CPE cycle, please contact the Office of Professional Certification at 1.800.AGA.7211 (703.684.6931), ext. 305.

Q: I just retired. Do I need to do anything to adjust my CGFM status?

A: Yes. If you have recently retired from AND are no longer substantially working in the government financial management community, please notify AGA of your change of status to “retired” by fax (703-562-0361) or email (agacgfm@agacgfm.org).

Should you return to work (substantial employment or contracting) in the government financial management community, please contact AGA to change your CGFM status back to “Active.”

Association of Government Accountants New York Capital Chapter Chapter Executive Committee January 10, 2006 Meeting Highlights

Nominating Committee – The current newsletter contains a call for nominations for positions in the CEC for the upcoming year. If there is any interest in any of the positions, please notify Marcella Junco. An accelerated time-line for the nomination of officers/board members was suggested for the following year. For example, the slate of officers should be provided to the membership in November and the final slate should be announced in December.

Chapter Audit – This is the first year the AGA has had a full audit and the audit report showed a clean opinion. Brian Gee and Jill Flinton are working to address the issues brought up in the management letter.

Budget/Finance Committee – The CEC adopted the “Event Attendance Policy” presented by the Budget/Finance Committee. The policy allows for the president, as well as the vice president, event organizers (maximum of two) and registrars (maximum of two) directly responsible for the Chapter event to attend the event without having to pay for it from personal funds. The

policy is not intended to include multi-day training events other than the TCTC.

Quarterly fiscal reports show that the chapter is very close to the budget set in the beginning of the year. Any deficits may be made up with TCTC revenue, since the revenues from TCTC are expected to be higher than budgeted.

Education – The fraud conference was successful, however all of the evaluations have not been tallied yet. Upcoming events include the Certifications Panel on February 2, 2006 and the Sarbanes-Oxley audio conference on March 1, 2006. Postcards will be mailed to members referring them to the website address for the TCTC program and registration.

Awards Committee – Nominations for 10 National Awards that are available through AGA National are due March 3, 2006. The award descriptions can be found on the AGA National website. All are encouraged to review the awards and provide the nominations committee with potential nominees. Jim Cox will present the nominations at the next CEC meeting.

Communication Committee – The Chapter has been

considering for some time a change in the distribution and content of the Chapter newsletter. The primary reason for the change is to save costs. Roger Mazula presented the CEC with results from the membership survey on the topic as well as various ways the newsletter could change. The majority of the CEC preferred to distribute the newsletter in a hybrid format that was both paper and electronic. The hardcopy newsletter would be reduced to eight pages and possibly use lower-quality paper. The first newsletter in the new format would include an acknowledgement and description of the changes in the President’s Message. The CEC will vote on the new format as well as an implementation schedule at the next CEC meeting in February. After implementing this change and letting it settle for a number of issues, later on the CEC will re-visit the issue and consider further changes (e.g., an opt-in implementation for the hard copy version) based on additional information and discussion.

Advancing Government Accountability

Surf over to the New York

Capital Chapter’s Website

<http://www.aganycap.org>



Generations

Continued from page 3.

The young generation does not look for a Lone Ranger form of leadership. They don’t believe that a larger-than-life individual can ride in, gives directions and leads the way to great accomplishments. They also do not view age, seniority and rank as measures of accomplishment or expertise. Unlike an earlier time when people admired their elders and followed them to victory, this generation does not see age as a dominant characteristic for leadership.

In an era of complexity and change, young people look for leaders who work with followers as intimate allies. They want colleagues who will develop relationships that build intimacy and show trust and respect for them, their abilities and their ideas.

advertisement

Serving Government Agencies

Single Audits Contract Audits Cost Studies



BST ADVISORY NETWORK, LLC

Bollam, Sheedy, Torani & Co. LLP, CPAS*
Oxford Associates, LLP
HR Consulting, LLC

BST Valuation & Litigation Advisors, LLC
Healthcare Business Advisors, LLC
BST Advisors, LLC

*Approved contractor on the NYS OGS Audit Services Backdrop Contract Group #79037, Award #00939

26 Computer Drive West
Albany, NY 12205
Tel: 518-459-6700

1285 Avenue of the Americas, 35th Flr.
New York, NY 10019
Tel: 212-586-5986/800-724-6700

www.bstadvisorynetwork.com

Membership News

Welcome New Members

We wish to welcome the following new members to the New York Capital Chapter who joined during the last two months:

- **Andrew M. Chwick** from the Internal Revenue Service
- **Saeed A. Siddiqui** from the New York State Department of Transportation
- **Pat J. Bryant, William A. Goldberg,** and **Julie Sharenko** from KPMG LLP
- **Blessilda J. Naclerio** from Lumsden and McCormick, LLP
- **Shakesha Coleman, Wendy Matson, Joseph E. Nopper,** and **May J. Wong** from the New York State Office of the State Comptroller
- **Robert Borchers** and **Martin G. Dale, Jr.** from the New York State Office of Mental Retardation and Developmental Disabilities
- **Benedict J. Conboy, Maureen A. Denison,** and **Daniel P. McCarthy** from the New York State Division of Criminal Justice Services
- **Christine Lee Consolato, Chase Drossos, Tai H. Ham,** and **Micaela Martinez**

And we wish to thank their sponsors:

- **Thalia J. Davis** (1 member)
- **Deanna Dowd** (1 member)
- **Marcella Junco** (1 member)
- **Emily Kunchala** (1 member)
- **Sandra Maria Schleicher** (1 member)
- **Daniel C. Towle** (3 members)
- **Suzanne Trzcinski** (1 member)
- **Daniel Tworek, CGFM** (1 member)
- **Linda C. Zinzow, CGFM, CPA** (1 member)

See You in San Diego!

Make plans now to attend AGA's 55th Annual Professional Development Conference & Exposition (PDC). With the theme "Navigating the Way to Citizen-Centered Government," the PDC promises to be an excellent learning and networking opportunity for government financial managers and accountability professionals.

Education sessions will provide technical training, emerging trend snapshots and leadership secrets from the best in the business. Speakers will explain current regulations, describe future challenges, and share lessons learned in disaster recovery and finance, among many other topics. Concurrent sessions will be organized around the following six tracks:

- Envisioning 2015: The Future of the Accountability Profession
- Building and Sustaining Strong Internal Controls
- State and Local Governments – Challenges, Strategies and Innovations
- Improving Public Performance: Transforming Data into Results
- Intergovernmental Financial Management: Collaboration or Frustration?
- Technology, Tools and Techniques for the 21st Century

In addition to an outstanding technical program, AGA's PDC provides unparalleled opportunities to network, exchange ideas with your peers and meet new friends. The Exhibit Hall connects you with the industry's leading suppliers, eager to showcase cutting-edge technologies, products and services to help you to become more effective.

Register today and secure your place at the government financial management education event of the year!

Association of Government Accountants Group A – 300 or more members Membership Statistics as of February 7, 2006

	Beg		End		Percent of Goal		
	Bal	+/-	Bal	Growth	Base	New Mbr	Retention
Washington DC Chapter	1,471	-11	1,460	90%	54%	98%	
Northern Virginia Chapter	851	+18	869	93%	52%	102%	
New York Capital Chapter	448	-27	421	85%	55%	92%	
Central Ohio Chapter	423	-22	401	86%	40%	96%	
Nashville Chapter	381	-10	371	87%	29%	102%	
Montgomery/P.G. Chapter	361	+4	365	92%	54%	100%	
Mid-Missouri Chapter	320	-24	296	84%	28%	97%	
Baltimore Chapter	314	-29	285	83%	29%	95%	

The New York Capital Chapter remains to be the third largest Chapter in the Association! Keep up the good work and help to recruit additional colleagues.



“Member Items”

Chapter Secretary Shelly Taleporos and her family were joined by their new arrival, Alex Grace, last month.



AGA’s Chapter Recognition Program New York Capital Chapter 2005-06 as of Third Quarter

Section

Chapter Leadership, Planning and Participation	3,300	3,000
Education and Professional Development	4,600	4,000
Certification	8,750	4,000
Communications	4,450	3,000
Membership *	625	3,000
Community Service	5,025	2,000
Awards	<u>5,900</u>	1,000
Total	<u>32,650</u>	
Goal	10,000	
Percent of goal	326.5%	

AGA New York Capital Chapter Financial Condition As of February 26, 2006

Assets		
Checking/Savings		\$18,005.60
Accounts Receivable		686.23
Other Current Assets		<u>2,560.72</u>
Total Assets		<u>\$21,252.55</u>
Liabilities and Equity		
Accounts Payable	\$0.00	
Prepaid Discount	0.00	
Prepaid Revenue	<u>0.00</u>	\$0.00
Equity		
Retained Earnings	26,423.68	
Net Income	<u>-5,171.13</u>	<u>21,252.55</u>
Total Liabilities and Equity		<u>\$21,252.55</u>

	<u>Total</u>	<u>Maximum</u>
Chapter Leadership, Planning and Participation	3,300	3,000
Education and Professional Development	4,600	4,000
Certification	8,750	4,000
Communications	4,450	3,000
Membership *	625	3,000
Community Service	5,025	2,000
Awards	<u>5,900</u>	1,000
Total	<u>32,650</u>	
Goal	10,000	
Percent of goal	326.5%	

* Note that most membership points are determined by National based on membership metrics at year end.

Community Service Events

February: Cookies for Veterans

AGA Community Service Event –Valentines and Cookies to Veterans at the Stratton V.A. Medical Hospital was a great success thanks to the efforts of Karen Cushman who coordinated the event, Mary Peck, Teresa Strife, and Holly Reilly who baked cookies, and Deborah Harrington and Ann Marsh who delivered the cookies and valentines. The Veterans as always were very appreciative and enjoyed the cookies and valentines that children made. Thanks again to everyone who made it possible.



Dear Ann and all:

I wanted to thank you all for your efforts at this years Capital Lights in the Park. It was a huge success by all standards, not one person left unhappy that I'm aware of and it's because of people like you and your group of accountants.

When I think of groups that have come to volunteer their time during the holiday season I'm overwhelmed by the energy, spirit, and soul that you people bring during that time of year. It's amazing. On behalf of Capital Lights in the Park and P.A.L., I want to thank you and AGA for all your help this year. I hope you all have a happy and health 2006.

*Thank you,
Claudia Wolfgang
Capital Lights in the Park*



NONPROF ORG
U S POSTAGE
PAID
PERMIT NO. 651
ALBANY, NY

ADDRESS SERVICE REQUESTED

Association of
Government
Accountants

PO Box 1923
Albany, NY 12201

*Advancing
Government
Accountability*

Visit us on the World Wide Web:
<http://www.aganycap.org>

AGA New York Capital Chapter 2005-2006 Officers and Directors

Michael Abbott, CGFM
Board of Directors - 2007
NY State Education Department
Office: (518) 474-5917
e-mail: mabbott@mail.nysed.gov

James Cox, CGFM
Board of Directors - 2006
US Dept of Health and Human Services
Office: (518) 437-9390 x222
e-mail: james.cox@oig.hhs.gov

Jill Flinton
Board of Directors - 2006
US Dept of Health and Human Services
Office: (518) 437-9390 x241
e-mail: jill.flinton@oig.hhs.gov

Brian Gee
Treasurer
Office of the NY State Comptroller
Office: (518) 486-6494
e-mail: bgee@osc.state.ny.us

Randall Griffin
Board of Directors - 2007
NYS Health Department
Office: (518) 473-3778
e-mail: rhg01@health.state.ny.us

J. Dwight Hadley
Board of Directors - 2007
Albany Airport Authority
Office: (518) 242-2205
e-mail: cfojdh@albanyairport.com

Raymond Harris, CGFM
Board of Directors - 2007
AGA National
Office: (518) 280-6317
e-mail: rharris@agacgfm.org

Marcella Junco
President-Elect
KPMG, LLP
Office: (518) 427-4753
e-mail: mjunco@kpmg.com

Ann Marsh
Vice President - Community Service
NY State Education Department
Office: (518) 473-2020
e-mail: ammarsh@mail.nysed.gov

Roger Mazula, CGFM
Vice President - Communications
Office of the NY State Comptroller
Office: (518) 474-9466
e-mail: rmazula@osc.state.ny.us

Will Reynolds
Board of Directors - 2006
Bollam, Sheedy, Torani & Co.
Office: (518) 459-3188 x 305
e-mail: wreynolds@bstcol.com

Katie Meyer, CGFM
Chapter Historian (ex officio)
NYS Office of Temp & Disability Assist
Office: (518) 474-9466
e-mail: katie.meyer@dfa.state.ny.us

James Nellegar, CGFM
President
NYS Department of Taxation & Finance
Office: (518) 457-3124
e-mail: James_Nellegar@tax.state.ny.us

John Samaniuk, CGFM
Board of Directors - 2006
NYS Department of Transportation
Office: (518) 457-4680
e-mail: jsamaniuk@dot.state.ny.us

Kirk Schanzenbach
Board of Directors - 2007
Office of the NY State Comptroller
Office: (518) 473-2662
e-mail: kschanzenbach@osc.state.ny.us

Sandra Schleicher
Vice President - Membership
NYS Office of Alcoholism & Substance Abuse
Office: (518) 485-1109
e-mail: SandraSchleicher@oasas.state.ny.us

Karen Stackrow
Board of Directors - 2006
NYS Department of Labor
Office: (518) 457-9016
e-mail: usakcs@labor.state.ny.us

Shelly Taleporos
Secretary
NYS Department of Labor
Office: (518) 457-2708
e-mail: shellya@nycap.rr.com

Lori Vaccaro
Immediate Past President
New York Presbyterian Hospital
Office: (212) 297-4592
e-mail: lvaccaro5@nyc.rr.com

Nancy Varley
Vice President - Marketing
Office of the NY State Comptroller
Office: (518) 474-3271
e-mail: nvarley@osc.state.ny.us

Amanda Zibella
Vice President - Certification
Office of the NY State Comptroller
Office: (518) 486-1240
e-mail: azibella@osc.state.ny.us

Linda Zinzow, CGFM
Vice President - Education
NYS Department of Transportation
Office: (518) 457-4700
e-mail: lzinow@dot.state.ny.us

Caveat Auditor

by Jim Nellegar, CGFM, CIA

Failures in protecting sensitive data continue — even among companies that specialize in technology and the accountability professionals that serve them. As reported on CNET.com, the external auditor for McAfee Associates (a manufacturer of anti-virus and internet security software) lost a CD in December 2005 with information on thousands of current and former McAfee employees, putting those employees at risk of becoming victims of consumer fraud due to identity theft. The United Kingdom technology web site *The Register* reported in late February 2006 that the external auditor for Sun Microsystems failed to disclose a high profile loss of social security and other personal information after the theft of a laptop computer. Rumored to be among the lost data was personal information belonging to Sun's Chief Executive Officer, Scott McNealy.

Loss of sensitive data can result in much more than a public relations nightmare for organizations and those that audit them. It can result in costly compliance issues, significant fines and civil litigation that is expensive to defend and could result in sizeable damage awards. In late February of this year, CardSystems Solutions, Inc. and its successor, Solidus Networks, Inc., agreed to settle Federal Trade Commission (FTC) charges that CardSystems' failure to take appropriate security measures to protect sensitive consumer information was an unfair practice that violated federal law and resulted in millions of dollars in fraudulent purchases. As part of its settlement with the FTC, CardSystems agreed to implement a comprehensive information security program and obtain audits by an independent third-party security professional every other year — **for 20 years**. In addition, CardSystems faces potential liability for millions of dollars in private lawsuits for those losses.

These stories underscore the need for all levels of an organization — and the parties they do business with — to recognize and understand that the risk of losing sensitive information continues to escalate with technological advances in data transmission and storage. And those risks only increase as personal entertainment and communication devices assimilate those functionalities and are becoming increasingly affordable. It's only a matter of time until we read about a major loss of sensitive data that was stored on a flash drive, IPOD/MP3 player or new-wave cell phone/MP3

player and it is reported that the data was not at (at least) password protected. Responsible professionals have to consider the possibility that, as the cost for those devices drop, the risk that of losing control of sensitive information is increasing exponentially and — someday soon — the government and the courts may have no recourse but to extend accountability for securing sensitive information to the individual level, including auditors that are entrusted with that data.

“The nine most terrifying words in the English language are: ‘I’m from the government and I’m here to help.’”

- Ronald Reagan

We won't
always be
able to discern
the fate of
sensitive data
that leaves
our control.

We should all be aware, too, that if recent legislation is any indicator, the courts may not view simple password protection of a data file as adequate when evaluating whether due diligence was exercised in protecting sensitive information. In August of 2005, New York State passed *The Information Security Breach and Notification Act* (Act), requiring any state agency or business that owns or licenses a computerized database which includes personal information to disclose any breach of security where *unencrypted* data may have been acquired by an

unauthorized party. The language used in the Act recognizes that only organizations that encrypt data will be viewed as having exercised the due diligence necessary to safeguard it.

We won't always be able to discern the fate of sensitive data that leaves our control. It is in the best interest of our organizations, our customers and ourselves that we be able to demonstrate our diligence in protecting sensitive information that we own or otherwise receive, hold, transport, share and archive in the course of business.

You can read more about the stories described above, and New York's information security breach and notification act, at the following links:

- http://news.com.com/Auditor+loses+McAfee+employee+data/2100-1029_3-6042544.html
- http://www.theregister.co.uk/2006/02/25/ernst_young_mcenealy/
- http://www.ftc.gov/opa/2006/02/cardsystems_r.htm
- <http://assembly.state.ny.us/leg/?bn=A04254>

Accounting Rates Sixth in Majors with Highest Average Starting Salary Offers

In a job market that is seeing higher starting salary offers to new college graduates, engineering majors can expect to see the highest offers, on average, according to a report by the National Association of Colleges and Employers (NACE). Engineering majors garnered the four highest starting salary offers and five of the top-10 spots.

“Seven of the top-10 majors with the highest starting salary offers saw increases in their offers over last year,” says Marilyn Mackes, executive director of NACE, of the organization’s Winter 2006 issue of *Salary Survey*. “Engineering remains strong, and another high point comes for economics/finance graduates, who saw a spectacular 11-percent increase to their average starting salary offers.”

The following majors have the highest salaries paid to 2005-06 graduates (average salary offers are in parentheses):

1. Chemical engineering (\$55,900)
2. Computer engineering (\$54,877)
3. Electrical/electronics and communications engineering, (\$52,899)
4. Mechanical engineering (\$50,672)
5. Computer science (\$50,046)
6. Accounting (\$45,723)
7. Economics/finance, including banking (\$45,191)
8. Civil engineering (\$44,999)
9. Business administration/management (\$39,850)
10. Marketing/marketing management, including marketing research (\$36,260)

(Note: The top-10 list only includes majors that received 45 or more starting salary offers.)

NACE will continue to track the job market for the college Class of 2006 through additional surveys and reports. In April, NACE expects to release an update on employer hiring intentions and a new salary report.

About *Salary Survey*: *Salary Survey* is a quarterly report of starting salary offers to new college graduates in 70 disciplines at the bachelor’s degree level. The survey compiles data from college and university career services offices nationwide. *Salary Survey* is issued in Winter, Spring, Summer, and Fall, with the Fall issue serving as the year-end report. (Salaries reported in this press release reflect offers to bachelor’s degree candidates.)

A Proclamation

WHEREAS, the Association of Government Accountants (AGA) is a professional organization with a network of 14,000 members in the United States and around the world representing state, federal, local and private sector government accountability professionals, and

WHEREAS, AGA members have responded to AGA’s mission of Advancing Government Accountability, as it continues its broad educational efforts, with emphasis on high standards of conduct, honor and character in its *Code of Ethics*, and are making significant advances both in professional ability and in service to the citizens by mastering increasingly technical and complex requirements, and

WHEREAS, the Certified Government Financial Manager (CGFM) Program of AGA provides a means of demonstrating professionalism and competency by requiring CGFM candidates to have appropriate education and professional experience, to abide by AGA’s *Code of Ethics* and to pass three examinations requiring expertise in Governmental Environment, Governmental Financial Management and Control, and Governmental Accounting, Financial Reporting and Budgeting, and requires each CGFM to maintain certification by completing at least 80 hours of continuing professional education in government financial management topics or related technical subjects every two years.

NOW, THEREFORE, William L. Taylor, CGFM, Chair of the Professional Certification Board, and Sam M. McCall, CGFM, AGA National President, do hereby proclaim the month of March 2006 and the month of March of each year going forward as

CERTIFIED GOVERNMENT FINANCIAL MANAGER MONTH

William L. Taylor, CGFM
Chair, Professional Certification Board

Sam M. McCall, CGFM
AGA National President

Stopgap Accord Sought on Voting System

By Michael Cooper

New York Times, February 28, 2006

ALBANY, Feb. 27 — With the federal government threatening to sue New York for failing to modernize its voting system, state officials said on Monday that they are trying to avoid a lawsuit by negotiating a stopgap approach that would leave the current system intact for this fall's elections but improve access for disabled voters.

Top state election officials now acknowledge that it is unlikely that many of the state's 62 counties will be able to upgrade their voting systems by the fall, when New Yorkers will elect a United States senator, a governor, an attorney general, a comptroller and all 212 members of the Legislature.



So the state has begun negotiations with the federal government to head off a lawsuit with a temporary solution that would improve access to the polls for disabled voters.

The Justice Department has threatened to sue, warning in a letter to state officials last month that New York had fallen "further behind" every other state in complying with the Help America Vote Act, which was passed after the 2000 presidential election.

The negotiations have been secretive and, it appears, tense.

"The Department of Justice has been telling us every day for the last three weeks that they're going to sue us tomorrow if we don't agree to the last version of the consent order," said Douglas A. Kellner, a co-chairman of the Board of Elections.

The state missed its Jan. 1 deadline for creating a database of registered voters and has yet to come up with statewide standards dictating what types of machines county election officials will be allowed to buy.

So far, New York has received \$220 million from the federal government to overhaul its voting system, and the state could stand to lose some of that money if nothing happens.

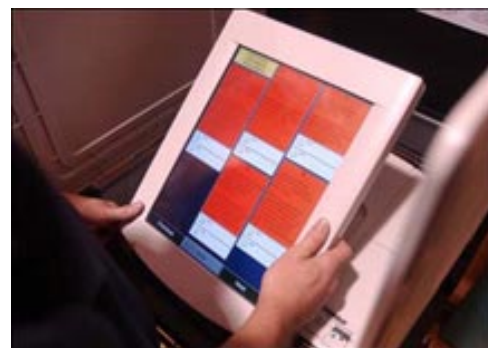
On Monday, the board closed part of its meeting to the public, saying that members planned to discuss the proposed settlement with the federal government and that the Justice Department had requested secrecy. Asked the reason for the request for secrecy, Eric Holland, a department spokesman, declined to comment.

Mr. Kellner said the negotiations centered on the federal law's requirement that state voting systems be accessible to disabled voters. Since the counties will probably not have time to buy new systems by the fall, he said, the current proposal is for each county to ensure access for the disabled at each poll site.

Proposals under discussion involve machines that would print out ballots, which could then be marked, and a system that would permit disabled people to cast votes by phone.

Mr. Kellner said that he does not understand the need for secrecy, and that even if the state and the federal government agree on a settlement, he will not vote on it until a week after a draft of the order has been released to the public.

"So if they want to take the position that all the negotiations have to go on behind closed doors, then they have to realize that it's going to be another week before they're going to get me to vote yes," he said. "And if that's a problem, then they'll have to sue us. We don't want to be sued. We believe New York really is committed to implementing the Help America Vote Act."



Accountants' Offices Have High Germ Levels

AccountingWEB.com - The latest installment of *Germs in the Workplace* indicates that the offices of accountants are in the top germ bracket, having nearly seven times the germ levels of lawyers' offices. Only classrooms were found to have higher germ levels than accountants' offices.

"TV producers, consultants, and lawyers ranked on the low end of the germ spectrum," Dr. Charles Gerba of the University of Arizona and the study's leading researcher said. "We were pleased to find a decrease in bacteria levels. Perhaps people are becoming more aware of germs in their office and doing something about it."

The study was sponsored and funded by Clorox Company. Samples were collected from 616 private offices and cubicles in Tucson, Arizona, and Washington, D.C. during the fall of 2005 and analyzed at the University of Arizona laboratories. The study compared germ levels of professions as well as surfaces within the profession's offices. Results indicate that the "germiest" jobs are:

1. Teacher
2. Accountant
3. Banker
4. Radio DJ
5. Doctor
6. Television Producer
7. Consultant
8. Publicist
9. Lawyer

Additionally, the telephones, computer keyboards and computer mouse of teachers and the desks and pens of accountants had the highest levels of surface germs. The desks and pens of lawyers had the lowest levels of germs, as did the telephones of publicists, the computer keyboards of bankers and the computer mouse of TV producers. Dr. Gerba recommends frequent hand-washing and the daily use of disinfecting wipes on surfaces to kill illness causing germs, including those that can cause colds and the flu.

"Desks are really bacteria cafeterias," Dr. Gerba says. "They are breakfast buffets, lunch tables and snack bars, as we spend more and more hours at the office."

The New York Capital Chapter has submitted the following three nominations for national awards:

- Education - Linda Zinzow
- Community Service - Ann Marsh
- Chapter Service - James Cox

AGA Community Service Event

Bowl-A-Thon for Big Brothers Big Sisters

Date: Friday, March 24th at Latham Bowl or Friday, March 31st at Ballston Spa Lanes.

Time: 6:00 p.m.

Please join the AGA team to raise funds for Big Brothers Big Sisters in support of its mission to help children reach their potential through professionally supported, one-to-one relationships. BBBS currently serves over 450 children in Albany, Schenectady, Saratoga, and Rensselaer Counties and is committed to providing "Biggs" to 1,000 children by 2008. To register for the March 24th date at Latham Bowl go to www.bbbscr.org/bfks and sign up under the AGA team. If interested in participating on March 31st at Ballston Spa, please contact Jill Flinton at jill.flinton@oig.hhs.gov or 437-9390 ext 241. For pledge forms please contact Ann Marsh at amarsh@mail.nysed.gov or 473-2020 or Thalia Davis at tdavis@osc.state.ny.us or 486-6497. Thank you!

Pictures from Certification Panel



Following Benford's Law, or Looking Out for No. 1

By Malcolm W. Browne

(From *The New York Times*, Tuesday, August 4, 1998)

Dr. Theodore P. Hill asks his mathematics students at the Georgia Institute of Technology to go home and either flip a coin 200 times and record the results, or merely pretend to flip a coin and fake 200 results. The following day he runs his eye over the homework data, and to the students' amazement, he easily fingers nearly all those who faked their tosses.

"The truth is," he said in an interview, "most people don't know the real odds of such an exercise, so they can't fake data convincingly."

There is more to this than a classroom trick.

Dr. Hill is one of a growing number of statisticians, accountants and mathematicians who are convinced that an astonishing mathematical theorem known as Benford's Law is a powerful and relatively simple tool for pointing suspicion at frauds, embezzlers, tax evaders, sloppy accountants and even computer bugs.

The income tax agencies of several nations and several states, including California, are using detection software based on Benford's Law, as are a score of large companies and accounting businesses.

Benford's Law is named for the late Dr. Frank Benford, a physicist at the General Electric Company. In 1938 he noticed that pages of logarithms corresponding to numbers starting with the numeral 1 were much dirtier and more worn than other pages.

(A logarithm is an exponent. Any number can be expressed as the fractional exponent — the logarithm — of some base number, such as 10. Published tables permit users to look up logarithms corresponding to numbers, or numbers corresponding to logarithms.)

Logarithm tables (and the slide rules derived from them) are not much used for routine calculating anymore; electronic calculators and computers are simpler and faster. But logarithms remain important in many scientific and technical applications, and they were a key element in Dr. Benford's discovery.

Dr. Benford concluded that it was unlikely that physicists and engineers had some special preference for logarithms starting with 1. He therefore embarked on a mathematical

analysis of 20,229 sets of numbers, including such wildly disparate categories as the areas of rivers, baseball statistics, numbers in magazine articles and the street addresses of the first 342 people listed in the book "American Men of Science." All these seemingly unrelated sets of numbers followed the same first-digit probability pattern as the worn pages of logarithm tables suggested. In all cases, the number 1 turned up as the first digit about 30 percent of the time, more often than any other.

Dr. Benford derived a formula to explain this. If absolute certainty is defined as 1 and absolute impossibility as 0, then the probability of any number "d" from 1 through 9 being the first digit is $\log_{10}(1 + 1/d)$. This formula predicts the frequencies of numbers found in many categories of statistics.

Probability predictions are often surprising. In the case of the coin-tossing experiment, Dr. Hill wrote in the current issue of the magazine *American Scientist*, a "quite involved calculation" revealed a surprising probability. It showed, he said, that the overwhelming odds are that at some point in a series of 200 tosses, either heads or tails will come up six or more times in a row. Most fakers don't know this and avoid guessing long runs of heads or tails, which they mistakenly believe to be improbable. At just a glance, Dr. Hill can see whether or not a student's 200 coin-toss results contain a run of six heads or tails; if they don't, the student is branded a fake.

Even more astonishing are the effects of Benford's Law on number sequences. Intuitively, most people assume that in a string of numbers sampled randomly from some body of data, the first non-zero digit could be any number from 1 through 9. All nine numbers would be regarded as equally probable.

But, as Dr. Benford discovered, in a huge assortment of number sequences — random samples from a day's stock quotations, a tournament's tennis scores, the numbers on the front page of *The New York Times*, the populations of towns, electricity bills in the Solomon Islands, the molecular weights of compounds the half-lives of radioactive atoms and much more — this is not so.

Given a string of at least four numbers sampled from one or more of these sets of data, the chance that the first digit will be 1 is not one in nine, as many people would imagine; according to Benford's Law, it is 30.1 percent, or nearly one

in three. The chance that the first number in the string will be 2 is only 17.6 percent, and the probabilities that successive numbers will be the first digit decline smoothly up to 9, which has only a 4.6 percent chance.

A strange feature of these probabilities is that they are “scale invariant” and “base invariant.” For example, it doesn’t matter whether the numbers are based on the dollar prices of stocks or their prices in yen or marks, nor does it matter if the numbers are in terms of stocks per dollar; provided there are enough numbers in the sample, the first digit of the sequence is more likely to be 1 than any other.

The larger and more varied the sampling of numbers from different data sets, mathematicians have found, the more closely the distribution of numbers approaches what Benford’s Law predicted.

One of the experts putting this discovery to practical use is Dr. Mark J. Nigrini. Dr. Nigrini gained recognition a few years ago by applying a system he devised based on Benford’s Law to some fraud cases in Brooklyn. The idea underlying his system is that if the numbers in a set of data like a tax return more or less match the frequencies and ratios predicted by Benford’s Law, the data are probably honest. But if a graph of such numbers is markedly different from the one predicted by Benford’s Law, he said, “I think I’d call someone in for a detailed audit.”

Some of the tests based on Benford’s Law are so complex that they require a computer to carry out. Others are surprisingly simple; just finding too few ones and too many sixes in a sequence of data to be consistent with Benford’s Law is sometimes enough to arouse suspicion of fraud.

Robert Burton, the chief financial investigator for the Brooklyn District Attorney, recalled in an interview that he had read an article by Dr. Nigrini that fascinated him.

“He had done his Ph.D. dissertation on the potential use of Benford’s Law to detect tax evasion, and I got in touch with him in what turned out to be a mutually beneficial relationship,” Mr. Burton said. “Our office had handled seven cases of admitted fraud, and we used them as a test of Dr. Nigrini’s computer program. It correctly spotted all seven cases as “involving probable fraud.”

One of the earliest experiments Dr. Nigrini conducted with his Benford’s Law program was an analysis of President Clinton’s tax return. Dr. Nigrini found that it probably contained some rounded-off estimates rather than precise numbers, but he concluded that his test did not reveal any fraud.

The fit of number sets with Benford’s Law is not infallible.

“You can’t use it to improve your chances in a lottery,” Dr. Nigrini said. “In a lottery someone simply pulls a series of balls out of a jar, or something like that. The balls are not really numbers; they are labeled with numbers, but they could just as easily be labeled with the names of animals. The numbers they represent are uniformly distributed, every number has an equal chance, and Benford’s Law does not apply to uniform distributions.”

Another problem Dr. Nigrini acknowledges is that some of his tests may turn up too many false positives. Various anomalies having nothing to do with fraud can appear for innocent reasons.

For example, the double digit 24 often turns up in analyses of corporate accounting, biasing the data, causing it to diverge from Benford’s Law patterns and sometimes arousing suspicion wrongly, Dr. Nigrini said. “But the cause is not real fraud, just a little shaving. People who travel on business often have to submit receipts for any meal costing \$25 or more, so they put in lots of claims for \$24.90, just under the limit. That’s why we see so many 24’s.”

Dr. Nigrini said he believes that conformity with Benford’s Law make it possible to validate procedures developed to fix the Year 2000 problem — the expectation that many computer systems will go awry because of their inability to distinguish the year 2000 from the year 1900. A variant of his Benford’s Law software already in use, he said, could spot any significant change in a company’s accounting figures between 1999 and 2000, thereby detecting a computer problem that might otherwise go unnoticed.

“I foresee lots of uses for this stuff, but for me its just fascinating in itself,” Dr. Nigrini said. “For me, Benford is a great hero. His law is not magic, but sometimes it seems like it.”

AGA NY Capital Chapter More Upcoming Chapter Events

- April 11, 2006: Chapter Executive Meeting at 50 Wolf Road
- May 9, 2006: Chapter Executive Meeting at 50 Wolf Road
- June 7, 2006: *Annual Awards Celebration Luncheon* at the Marriott Hotel, Wolf Road, Colonie, NY
- June, 2006: Golf Tournament to Benefit Albany Medical Center Children’s Hospital
- June, 2006: Volunteer at Ronald McDonald House

Hospitality Fraud: A Glimpse from The Internal Auditor's Office

By Robert W. Rudloff, Jr., CIA, CFE, Vice President of Internal Audit, MGM Mirage, Las Vegas, NV

Among the major reasons that hospitality companies are exposed to high levels of fraud is that the industry's culture frequently emphasizes customer service over the internal controls that go into running a hotel, resort or restaurant.

No problem with that, right? Better customer service equals more repeat business, means bigger profits. But it comes with a hefty price. When line employees, supervisors, managers and senior executives are focused so narrowly on getting customers to come back, financial controls inevitably get short-changed.

A good hotel manager naturally wants to spend most of his or her time meeting and greeting guests than authorizing guest refund requests? monitoring check-in procedure? or verifying employee time card accuracy.

Result: Dishonest employees, guests, vendors and passers-through often have numerous opportunities to exploit missing or flawed anti-fraud controls. Losses to fraud are the inevitable result.

Example: Hotels are often vulnerable to a scheme whereby "guests" make reservations for same-day check-in, using a stolen credit card and expecting that the fraud won't be discovered until after they've checked out.

Problem: The front desk clerks are the first line of defense, so if they're aren't thoroughly trained to ask for and scrutinize all same-day guests' driver's licenses or other acceptable ID, chances are the fraudster will get away with the crime. Though we've all heard about the magical high-tech tools for creating phony ID cards, passports, birth certificates, etc., there is still almost always something that doesn't quite add up-be it the spelling of the person's name?suspiciously vague photos?imperfect lamination, etc. However, only trained eyes and constant attention to detail will catch the red flags.

More Hospitality Vulnerabilities?

Bogus travel agencies.

Reservation agents at large hotels or in centralized reservation centers process a huge volume of reservations each day. Some of those reservations originate from legitimate travel agents who have done business with the company for a while and are on the list of pre-approved agents that the hotel will accept reservations from...and pay commissions to.

Problem: When a dishonest reservations agent has been around long enough to know the ropes, he or she can easily set up a phony travel agency with their home address or PO Box for receiving commission checks.

The property does not require management approval of new additions to the list of approved travel agents, the dishonest reservationist is unhindered in bypassing the approved list or can even add his or her bogus travel agency to the list without a hitch.

Helpful: The International Air Travel Association (IATA) offers a software package that enables management to monitor legitimate travel agency numbers. Booking activity can also be analyzed to flag anomalies.

"Comp" fraud. These schemes are endemic in the casino-hotel environment. There are countless ways for employees to steal by abusing their privileges for giving out complimentary goods or services. Examples:

[] In one actual case, multiple servers in a casino coffee shop stole cash by switching underused comp slips with separate high-dollar guest checks that had been paid in cash when settling the guest checks. They then applied the cash payments to the smaller (comp) check and pocketed the difference.

The best way to prevent this type of fraud is to pre-number comp slips and require restaurant hostesses to write the comp slip number on the guest check and the check number on the comp slip and then staple the two together. Unless the hostess is dishonest, it will be hard for servers to get away with this form of comp fraud.

[] Casino hostesses, restaurant managers or others with comp privileges simply "over-comp"? giving away more than they're supposed to and receiving cash payments from the guests in return.

Refund fraud. In one instance, a hotel accounts receivable clerk who had been recently passed over for a promotion, was found to have been fraudulently processing guest refund requests by forging the hotel manager's signature, and having the refund money credited to her own credit card account. She would then use the ATM machine in the hotel's lobby to withdraw the misappropriated funds.

This scam was allowed to continue to the tune of \$45,000 because the hotel manager failed to comply with the rule requiring him to review the listing of guest refunds paid? the controller neglected to review the refund requests prior to payment? and the refund process allowed refunds to be credited to credit card numbers that didn't belong to the legitimate guests.

Lessons learned: Properly designed internal controls can never be tight enough in a hospitality property. Dishonest hotel, restaurant and bar employees and guests seem to always find new ways to steal. The company's audit and accounting departments, in cooperation with management, must continuously review existing controls? improve on them and

carefully screen for new tricks that employees and outsiders are inventing to steal their money.

The bottom line: While customer service is indeed the ultimate factor determining if a hospitality property sinks or swims, neglecting anti-fraud controls is bound to shrink the bottom line?no matter how wonderful guests think their visits are.

The challenge is to achieve balance. Balance between the quest for premium customer service and the unavoidable necessity to keep hard-earned revenues from flowing out through exploitation of inadequate internal controls.

GAO Issues Financial Report of the United States

The U.S. Government Accountability Office recently issued its report on the federal government's consolidated financial statements. For the ninth year, GAO has been unable to express an opinion on the consolidated financial statements due to material deficiencies in financial reporting. Four of the 24 Chief Financial Officers Act (CFO) agencies received disclaimers of opinion on their 2005 financial statements.

GAO is required to audit the U.S. government's financial statements that are submitted annually to the President and Congress by the secretary of the treasury, in coordination with the director of the U.S. Office of Management and Budget. According to a statement issued by Comptroller General David Walker, "the federal government did not maintain effective internal control over financial reporting (including safeguarding assets) and compliance with significant laws and regulations as of September 30, 2005."

Walker describes several obstacles to issuing an opinion, including a serious financial management problem at the Department of Defense and the federal government's inability to reconcile and account for intergovernmental activity and balances between agencies.

Not surprising is Walker's discussion of the nation's long-term fiscal outlook.

Walker notes that the deficit for 2005 is lower than 2004 but still significantly high

considering the overall federal spending. Walker also cites the impending retirement of the baby boom generation and its impact on Social Security, stating that with "these and other factors, it seems clear that the nation's current fiscal path is unsustainable and that tough choices by the President and the Congress are necessary in order to address the nation's large and growing long-term fiscal imbalance."

Also noted was the continued use of restatements by federal agencies. After significant restatements by several agencies to their fiscal 2003 financial statements, GAO made several recommendations to improve internal controls and audit procedures in an effort to minimize similar errors in the future. However, the material weaknesses identified by the 2005 report increase the risk of additional errors that could result in restatements. Walker believes regular restatements undermine public trust.

Limitations on the scope of work resulted not only from material weaknesses but also from inadequate representations regarding the U.S. government's consolidated financial statements by Treasury and OMB, primarily as a result of insufficient representations by two CFO Act agencies. Some of the noted material weaknesses have existed for years and include, but are not limited to, unsatisfactory reporting of property, plant, and equipment and inventories and related property; inadequate support for certain liabilities; inadequate reconciliation of disbursement activity; and

inability to reconcile and account for intergovernmental activity and balances between agencies.

It is GAO's opinion that the federal government did not maintain effective internal control as of September 30, 2005, resulting in the federal government "not providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis." For internal controls to be effective, they must assure that "transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and stewardship information in conformity with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and that transactions are executed in accordance with laws governing the use of budget authority and with other significant laws and regulations that could have a direct and material effect on the financial statements and stewardship information."

For a copy of the full audit report and the federal government's fiscal 2005 financial statement, go to www.gao.gov/financial/fy2005financialreport.html.

Final Report of the Independent Inquiry Committee on the Oil-for-Food Program

The Independent Inquiry Committee (IIC) led by former Federal Reserve Chair Paul Volcker, released its final report into its inquiry regarding allegations stemming from the Oil-for-Food Program (OFFP) on October 27, 2005. Previous reports focused on the program contractors and the management of the program; this report provides detailed information regarding the more than 2,000 companies that were involved with illicit payments to the regime of Saddam Hussein during the life of the program.

Surcharges and Kickbacks

The report finds that “Iraq’s largest source of illicit income from the Programme came from “kickbacks” paid by the companies that it selected to receive contracts for humanitarian goods under the Program. The Hussein regime was able to divert \$1.8 billion in illicit surcharges and kickbacks from the companies that participated in the OFFP. The companies involved in illicit kickback schemes on humanitarian goods came from 66 UN Member States. Forty companies were involved in making illicit payment on oil surcharges.

The report finds that Iraq’s policy of kickbacks began in mid-1999 but by the fall of 2000, additional companies had to be found that were willing to pay the increasing surcharges. The Committee found that, as the price went higher, “Oil sales increasingly took the form of contracts with front companies, backed financially and technically by several international trading companies willing to facilitate surcharge payments.” The report examines and provides case studies for twenty-three companies which participated in the scheme of kickbacks on the humanitarian contracts related to the program.

Generally, four types of companies participated in the scheme:

- (1) Iraqi front companies;
- (2) major foodstuff providers,
- (3) major trading companies and;
- (4) major industrial and manufacturing companies.

Details of the actions of individual companies can be found in tables prepared by the IIC and released with this final report.

The Iraqi government was also found to have highly politicized choices for trading partners based on countries

and individuals that were deemed “friendly” or “unfriendly” to Iraq or to companies and individuals deemed to have particular influence over opinions regarding the country. As such, American, British, and Japanese companies were routinely denied oil allocations because these countries remained steadfast in maintaining the sanctions against Iraq. France, Russia, and China were routinely favored by Iraq in oil allocations because all were permanent members of the Security Council and were perceived as more favorably inclined toward lifting the Iraq sanctions.

Role of Banque Nationale de Paris S.A. Questioned

The IIC raises serious questions about the dual role played by Banque Nationale de Paris S.A. (BNP) which served as the escrow bank to receive and disburse all funds related to program transactions. BNP was clearly conflicted throughout the program by its role and responsibility to the UN while also protecting its individual clients. In this capacity, the IIC found that “BNP was clearly inhibited from disclosing fully the firsthand knowledge it acquired of the true nature of financial relations that fostered the payment of illicit surcharges.” And in its report it further underscored that “BNP’s loyalties were divided between serving the interests of the United Nations to promote the transparency of transactions conducted under the Programme and serving the interests of its private clients to maintain the confidentiality of their business and financing arrangements.”

Blame is Shared

The report makes it clear that there is much blame to go around regarding the failure to stop these surcharge and kickback practices from taking place. While many of the shortcomings are placed on the program management and the UN Secretariat, the Committee also points out that the Member States of the Security Council and its 661 Committee shared responsibility for the program’s oversight. In addition, the Permanent Missions to the United Nations “were responsible for approving their national companies to do business with the Programme.” However, in its final report, the Committee did not find evidence that two of the Program’s Humanitarian Coordinators—Hans von Sponeck and Tun Myat—violated existing UN staff regulations and rules. It also did not find evidence that former UN Secretary-General Boutros-Ghali either was party to or was aware of these activities.

Oil Smuggling: Principal Source of Illicit Income

In this report, in its earlier interim reports, and in comments from Chairman Volcker, the IIC has made it clear that by far the largest amount of illicit revenue gained by Saddam Hussein during the program's existence was from illegal oil smuggling outside of the purview of the UN's mandate—rather than from transactions through the Oil-for-Food Program. The report states:

“Saddam Hussein's regime derived far more revenues from smuggling oil outside the Programme than from its demands for surcharges and kickbacks from companies that contracted within the Programme...UN inspectors were charged only with the inspection of oil and goods financed under the Programme and the Security Council failed officially to recognize the problem and authorize an effective response. The value of oil smuggled outside of the Programme is estimated by the Committee to be nearly USD 11 billion as opposed to an estimated USD 1.8 billion of illicit revenue from Saddam Hussein's manipulation of transactions occurring under the Programme.”

Moving Forward with Reform

Secretary-General Annan remains committed to reforming management and auditing functions of the UN to achieve greater transparency, accountability, and effectiveness in the United Nations. The Oil-for-Food Program uncovered serious flaws in the UN system and the Secretary-General has already begun pushing forward initiatives such as broader and more rigorous financial disclosure requirements, a policy to protect whistleblowers, and enhancement of oversight and audit programs. The 2005 World Summit Outcomes document calls for further reforms of the UN's management, oversight, and accountability systems such as the development of an ethics office, strengthening of the expertise, capacity and resources of the OIOS, creation of an independent oversight advisory committee to ensure the independence of the UN oversight bodies, and an independent external evaluation of the entire oversight and management system. A serious effort on the part of Member States in the coming months will be necessary for these reforms to be enacted.

The Conference That Counts 2006

The New York Capital Chapter of the Association of Government Accountants, the Albany Chapter of The Institute of Internal Auditors and the Hudson Valley Chapter of ISACA remind you that The Conference That Counts 2006, A Sure Bet for a Great Conference, is being held at the Holiday Inn Turf on March 13 - 15, 2006.

This is our eleventh year for The Conference That Counts! Participate in an outstanding three-day continuing education event offering challenging, informative and exciting sessions in three concurrent tracks designed to help participants keep pace with changes in information system technology, auditing, fraud and management.

These exciting sessions at TCTC 2006 are ideal for both new and experienced accountability professionals. The program has been developed to ensure that The Conference That Counts 2006 delivers up to the minute, quality educational content that meets your high standards and professional needs. Up to 21 CPE hours can be earned by attending all three days.

TCTC has gotten very popular over the years. We expect a “full house” at this TCTC, so don't gamble with your registration. Register early to ensure you can sit in on the game. We're not bluffing! You don't want to get closed out. Also, keep in mind that registering early can mean big savings for your agency or firm's training budget.



Keynote Presentations:

On Monday, March 13th - 8:15 am to 9:30 am Benford's Law: The Facts, the Fun and the Future - Mark Nigrini

Discovering Benford's Law is always a nice experience for anyone interested in mathematics. It's like discovering a secret. Indeed, until about 30 years ago Benford's Law was a rather well kept secret. Since that time the secret has slowly but surely made itself known to more and more people (mainly auditors in their quest to uncover corporate malfeasance). This keynote presentation will include a discussion of Benford's original paper and an explanation of what Benford's Law is and why we have these skewed digit patterns occurring. There will also be some fun examples such as an analysis of the tax returns of President Clinton, and an explanation that Benford principles would have uncovered problems in Enron's reported numbers.

On Monday, March 13th - 11:45 am to 1:30 pm Betting Against Fraud: Casino Scams & Schemes Exposed - Robert Rudloff
Casinos—full of cash and people—are attractive targets for fraudsters and cheats. Sometimes working like magicians, cheaters use well-practiced moves or home-made tools to cheat at the games. This presentation will discuss how customers and employees alike try to cheat from the casino's table games, slot machines, and casino cage. These real-life examples will include some video tape examples of scams caught by the casinos' 'eye-in-the-sky' surveillance teams.

