

The Washington Connection

ASSOCIATION OF GOVERNMENT ACCOUNTANTS
WASHINGTON D.C. CHAPTER



Issue 5 • January 2011

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"Before you are a leader, success is all about growing yourself. When you become a leader, success is all about growing others"

- Jack Welch



JAN

LUNCHEON SERIES

Mark Reger

Deputy Assistant Secretary Accounting Policy
Office of the Fiscal Assistant Secretary, Department of the Treasury
"Consolidated Financial Report of the United States"



[Read Bio](#)

Wednesday, January 19, 2011
11:30 am - 1:30 pm • Clydes of Gallery Place

This Session will concentrate on the issuance of the Consolidated Financial Report of the United States Government including the Management Discussion and Analysis with special concentration on the Citizen's Guide. The discussion will highlight changes in the report documents, format and trends. The speaker will discuss the newly required information related to sustainability, GAO's findings on the consolidated statements, and actions underway to resolve long term financial issues. The discussion will conclude with an update on the Treasury's Office of Financial Innovation and Transformation, (OFIT) and the new processing products offered by the Financial Management Service (FMS)

Save The Date

Annual Spring Education Conference
Tuesday, May 3, 2011 - Wednesday, May 4, 2011
at the Ronald Reagan Building

Planning is underway and we look forward to another informative and worthwhile conference. Stay tuned for details as they become available.

Announcements

Happy Hour at Old Ebbitt Grill

Monday, January 10th.

Old Ebbitt Restaurant
Starting at 5:30

Click here to sign up to get newsletter and meeting notices automatically e-mailed <http://agadc.org/mlistsubscribe.php>



WASHINGTON DC, CHAPTER

Beyond Checking the Box  It's Not Enough to Do Just Enough...

Note From the Editor

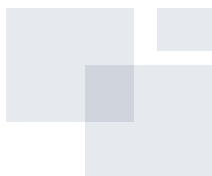


**by Jorge Asef-Sargent,
Editor**

Welcome to the January edition of the Washington Connection! In this month's edition of the newsletter we have information on the up-coming luncheon for January (which remains

popular as ever!), the winter and spring training schedules for the CGFM, and community service opportunities. In the Inside the Black Box, Simcha Kuritzky, brings us an article on the effects of inflation accounting on the unit of account. Also, the AGA/DC Awards Committee needs your help in identifying outstanding individuals in the federal, state, and local government arenas for the National Leadership Awards. Each year, AGA recognizes professionals of visionary Leadership, innovative Management, and educational commitment to our profession and AGA. For more details refer to the Awards section of this newsletter.

This newsletter is only made possible because of the contribution of articles from the chapter's members. Thank you for all who submitted articles—these articles reflected the depth of knowledge and experience in this group, and the newsletter team is fortunate enough to review and publish these articles. We hope that you enjoy the newsletter and find it helpful for keeping up to date on events in the chapter and in AGA. Our team strives to produce a high quality newsletter notifying AGA D.C. members of Chapter and National events and services. And, if you are not already a member, we encourage you to join the AGA D.C. Chapter and enjoy the many benefits it offer, in particular the high quality luncheon series, learning opportunities, and conferences.



Do you have any comments or suggestions regarding the newsletter? Do you have an article you would like to see printed? Have you developed a time-saving process or procedure on the job? Have you traveled to any interesting locations? The Washington Connection requests that you submit any and all items of interest to our federal, state, and local members including: reviews of recently published books related to financial management; unique travel experiences or assignments; lessons learned on roll-outs of new systems; appointments or promotions; employment opportunities; and noteworthy accomplishments by our members. We also welcome digital photos that accompany your submission. Your articles, comments, and ideas are what make this newsletter go and we welcome all input!

Sincerely,

Jorge Asef-Sargent

Jorge Asef-Sargent, CPA, CGFM
AGA D.C. Chapter Newsletter Editor

Newsletter Team

Jorge Asef-Sargent, Editor

Erwin Solbach, Graphics



President's Message



by Doug Glenn

AGA DC Members,

I would like to say thank you to everyone who contacted me about my last message, Leadership Thoughts. The response to that message has been so strong that I'd like to write a follow-up message with additional thoughts/ideas that can help fellow chapter/industry members in their careers. I have a few but I'd like to tap into YOUR experiences and share them for the benefit of everyone. Therefore, I'm asking you to think about a lesson that you have learned in your career that you believe would benefit others and send me a paragraph on that lesson that I can include in a future message. When I get enough lessons, I'll send it out for the benefit of everyone.

As we conclude the holiday season and before we embark on further financial adventures with our audit buddies, it is a good time to ask ourselves: "What should we be looking at?" I mentioned in a previous President's message that I look at accountants as folks at the end of a stream who have to make sense of all the stuff people throw in the water (i.e., general ledger) up-stream. As many of you know, if folks up-stream do not record transactions properly, it's the accountants down-stream that have to sort it all out and make whatever adjustment(s) necessary to come up with accurate statements and reports. In addition, with the recent Open Gov directives and as we present more and more information on the web, it is probable that our information will receive increasing analysis by the press and the public. Therefore, it is imperative that our data be as accurate as possible at any given moment.

So what can we do to minimize the need to adjust our general ledgers and ensure accurate reports flow out of our financial systems (i.e., provide useful information)? Below are few things I've seen or implemented in my career that have worked well.

Aging Reports

For any temporary activity or accounts that should capture temporary activity, you need to be looking at the related aging reports. Aging reports identify the transactions that are old and at risk. We don't have time to be reviewing all transactions in all accounts and aging reports focus our limited resources on the riskiest transactions. Aging reports are an excellent internal control for: accounts receivable, accounts payable, unfilled customer orders, obligations, suspense funds, schedule of differences, work-in-process, advances to others, and advances from others to name a few. Additionally, once you get these aging reports cleaned up, you'll have useful information that you can give to your program folks. For example, an unfilled customer order report is an excellent source of information to forecast future revenues and workloads. Obligation aging reports are an excellent source of information to find extra budget authority as they can identify old (and hopefully available) funding sitting on contracts for which there are no anticipated billings.

President's Message (cont'd)

Use Peer Pressure

The 2010 audit season brought us 20 clean audit opinions out of the 24 CFO Act agencies. As we continue to get our collective government-wide financial house in order, I suspect it will be harder for accountants to request/influence/implement certain internal control supporting changes since our financial issues are so much less significant than they used to be. When you are sitting on a clean opinion and no material weaknesses, you just don't have a burning platform to stand on and declare: "We need to improve internal controls over our financial statements and reports". One strategy agencies can employ in this type of situation is to use peer pressure by widely and publicly distributing reports populated with financial system data and putting red, yellow, and green scores on the data. For example, use the aging reports I mentioned above and put red scores on the oldest and riskiest transactions. Send these "scored" reports out to the highest levels in the organization that you can and be prepared to explain why a red score is bad for the agency. Even our non-financial political friends know that red is bad and nobody likes to be red amongst their peers. I have found that in this situation, Executives become personally motivated to find out what's behind the red score and either fix it or explain it which is better for us either way.

Journal Voucher/Adjustment Totals

How much did your agency need to adjust its' general ledger to produce accurate financial statements? More and more audit firms are paying attention to this and in some cases are handing out material weakness to the agencies who are significantly adjusting their ledgers. I used to balk at this and argued: "The adjustments are proof that our internal controls are detecting and preventing material misstatements!" However, I have come to agree with our audit friends that if you really have strong controls, you shouldn't have to significantly adjust your general ledger. You should be monitoring your quarterly adjustments, by financial statement, and asking yourself, why are these adjustments necessary? Granted, some adjustments will be for accruals and timing differences but I'm willing to bet that we are ALL making some adjustments to correct issues in our financial processes and/or systems. Adjusting for these issues is a mitigating control at best. Ideally, whatever is causing the need to adjust can be fixed and the amount you need to adjust your ledger by will come down. Imagine a year-end in which your only adjustments were for timing differences, accruals, and maybe some minor reclassifications. How much smoother would that year-end and audit be?

Budgetary to Proprietary Account Relationships

There are certain budgetary and proprietary accounts that should move in synch. We should be analyzing our general ledgers to make sure certain budgetary and proprietary balances are in agreement (or at least reconcile). The basic relationships we should be checking at the fund level at a minimum are:

- 1310 vs. 4251 for Federal receivables
- 2110 vs. 4901 for payables
- 2310 vs. 4222 for advances from others
- 1410 vs. 4802 for advances to others
- 4251 & 4252 vs. 5100 & 5200 for Federal reimbursable revenues
- 1010 vs. matching budgetary accounts (too many to list)
- All account beginning balances = PY adjusted ending balances (assuming all adjustments were posted (i.e., no "on tops"))

President's Message (cont'd)

There are others (e.g., FACTSII edit checks and the looming GTAS relationships) and depending how you have set-up transaction code debits and credits, you may have reconciling items/accounts. With any luck, you can get your system friends to program a report that identifies, by transaction, if and where these accounts are out of synch.

Reconciliation of Net Cost to Budget (i.e., the old Statement of Financing) Plug

The last two agencies I've worked at were able to produce the old Statement of Financing without a plug. However, if you're not quite there, you should be tracking how large that plug figure is, asking yourself what's causing the need for it, taking corrective action(s), and seeing it decline.

Other Routine Transactions or Performance Measures

Ask yourself, what are other activities or transactions that follow a pattern (or should follow a pattern) that you can track, monitor, and report out? What kinds of measures or reports highlight the riskiest transactions in your ledger? Prompt payment rates? Improper payment rates? Average time to close a contract? Receivables over 180 days? Obligations with no activity (contract modifications, payments, or adjustments) for 180 days? Whatever reports/measures you consider important, don't be afraid to send them out publicly because the more eyes you have on your ledger balances, the more likely it is that any issues will be identified and hopefully fixed and the more use, your general ledger will receive. Remember, the more people that use and depend on information in your ledgers, the more value with which your ledgers will be perceived and the more that these folks will have a vested interest in helping you keep it clean.

I hope the ideas above resonate with you and more importantly help you in reaching 'the next level'.

Good luck and happy holidays!

P.S. A big thank you goes to Ed Gramp and Hamer Legette for their technical review and input to this letter. They are two of the best SGL minds in the industry.

Sincerely,

Doug Glenn

Doug Glenn, CPA
President
Washington DC Chapter

Welcome, New Members!

MEMBERS NEW TO AGA DC

<i>Sheri Adegbenro</i>	<i>PriceWaterhouseCoopers</i>
<i>Sathya Adusumilli</i>	<i>Deloitte Consulting</i>
<i>Karen Ajayi</i>	<i>Clifton Gunderson LLP</i>
<i>Sharon Ball</i>	<i>Dept of Treasury</i>
<i>John Beisheim</i>	<i>Hunter Rice LLC</i>
<i>Christopher Bergin</i>	<i>HUD</i>
<i>Kevin Beyer</i>	<i>US Coast Guard</i>
<i>Gaurav Bindra</i>	<i>IBM</i>
<i>Lennon Borrel</i>	<i>Watkins Meegan Government Srevices</i>
<i>Sara Brown</i>	<i>PwC</i>
<i>Maria Camargo</i>	<i>OIG</i>
<i>Cecilia Carroll</i>	<i>DHS-OIG-Audits</i>
<i>Kristine Chadwick</i>	<i>SEC</i>
<i>Tanya Coble</i>	<i>American Red Cross</i>
<i>Dexter Collins</i>	<i>NIH/NICHD</i>
<i>Christopher Crowder</i>	<i>Baker Tilly Government</i>
<i>Nicholas Curran</i>	<i>Deloitte</i>
<i>Brian Davis</i>	<i>SC and H Group Inc</i>
<i>Vincent Dennis</i>	<i>Deloitte</i>
<i>Rachael Draper</i>	<i>Office of the Inspector General</i>

Welcome, New Members!

MEMBERS NEW TO AGA DC

<i>James Gallagher</i>	<i>IBM - Global Business Services</i>
<i>Elizabeth Gillespie</i>	<i>Kearney and Company</i>
<i>W. Todd Grams</i>	<i>Department of Veterans Affairs</i>
<i>Joseph Greger</i>	<i>DoD</i>
<i>Kenya Grooms</i>	<i>HUD</i>
<i>Hanzhi Gu</i>	<i>Castro and Company</i>
<i>Laura Hansen-Rainey</i>	<i>National Science Foundation</i>
<i>Michael Ipsaro</i>	<i>IMC</i>
<i>Corry Isaac</i>	<i>Architect of the Capitol</i>
<i>Pierre Kamga</i>	<i>Government Accountability Office</i>
<i>Kathryn Kienast</i>	<i>Booz Allen Hamilton</i>
<i>Joon Lee</i>	<i>Castro and Company</i>
<i>Gregory Little</i>	<i>BTA</i>
<i>Robert Marsh</i>	<i>KPMG</i>
<i>Marc Martinez</i>	<i>Delta Solutions and Technologies</i>
<i>Kiana Meriedy</i>	<i>National Science Foundation</i>
<i>Melissa Merrell</i>	<i>Congressional Budget Office</i>
<i>Vikash Mohan</i>	<i>SEC</i>
<i>Chari Nash-Cannaday</i>	<i>GAO</i>
<i>Melanie Navarro</i>	<i>Dept of the Interior/Office of the Secretary</i>

Welcome, New Members!

MEMBERS NEW TO AGA DC

<i>Ashley Osterday</i>	<i>Deptpartment of Justice</i>
<i>Frank Ramos</i>	<i>NASA</i>
<i>Mariama Randolph</i>	<i>Ernst and Young</i>
<i>Mary Rascoe</i>	<i>Dept of Treasury</i>
<i>Solomon Scholz</i>	<i>Dept of HUD</i>
<i>Carlos Seden</i>	<i>Castro and Company</i>
<i>Sanjay Shah</i>	<i>T Curtis and Co PC</i>
<i>Stefan Silzer</i>	<i>EPA</i>
<i>Stacy Spadafora</i>	<i>US Coast Guard</i>
<i>Robert Speece</i>	<i>PwC</i>
<i>Anna Stossel</i>	<i>FAA</i>
<i>Yu Fen Sunahara</i>	<i>National Science Foundation</i>
<i>Mfone Umoh</i>	<i>Federal Government</i>
<i>Ginny Wagner</i>	<i>KPMG LLP</i>
<i>Tom Weakland</i>	<i>HUD</i>
<i>Sarita Wheeler-Daniels</i>	<i>USDA-APHIS</i>
<i>Wayne Williams</i>	<i>GSA</i>
<i>Mei Xu</i>	<i>US Dept of Agriculture APHIS</i>
<i>Jeffery Yokel</i>	<i>Kearney and Company</i>

Request for Newsletter Submissions, Comments, or Suggestions

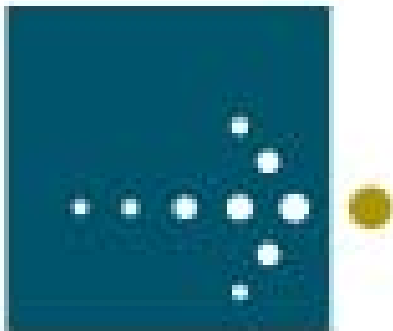
Do you have any comments or suggestions regarding the newsletter? Do you have an article you would like to see in print? Have you traveled to any interesting locations? The Washington Connection requests that you submit any and all items of interest to our federal, state, and local member including: reviews of recently published books related to financial management; unique travel experiences or assignments; lessons learned on rollouts of new systems; appointments or promotions; employment opportunities; and noteworthy accomplishments by our members. We also welcome digital photos that accompany your submission.

The deadline for submitting articles to appear in the **February 2011** issue is **January 19, 2011**. Please send your comments and contributions to **Jorge Asef-Sargent**, the newsletter editor for the 2010-2011 program year, at jasef-sargent@kpmg.com.



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Early Careers Corner

**Thanks to everyone who came to our last event at Bar Louie.
We had a festive time eating, drinking, and networking with one another.**

**As for our next event....come along for a day of outdoor fun...
as you head up Liberty Mountain with your fellow Early Careers!**

AGA DC chapter is sponsoring an Early Careers DAY ski trip to Liberty Mountain on **Saturday, January 22**. Please join us as we ski, intertube, and snowboard on Liberty Mountain, north of Gettysburg, PA. We will be leaving early on Saturday morning, either by carpool or on your own, and spending the day up on the mountain. We will have lunch together (AGA-DC chapter will pay for the lunch) and return home in the evening.

For more information or reservations, email Stephen Wills at sgwillsusa@yahoo.com.

Check out our events for the New Year!

February 2011 – Tri Chapter Happy Hour

March 2011 – Fondue Party

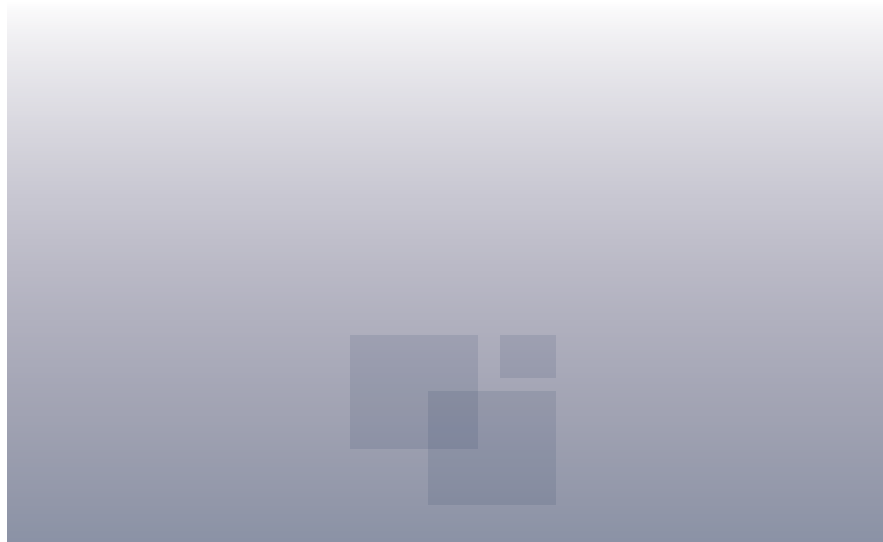
April 2011 – Beer Lab

May 2011 – Cinco de Mayo Fiesta

Regards,

Lena Lewis & Stephen Wills

DC Early Career Committee Directors



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WANT TO HELP?

If you're interested in being a liason or joining the mentor program, as either a mentor or mentee, please contact Kesha Pendergrast at 202-351-8636 or:

Pendergrast_kesha@pendergrastconsulting.com.

Connect to the World of Government Accountability



AGA serves government accountability professionals by providing quality education, fostering professional development and certification, and supporting standards and research to advance government accountability.

Click on the link below to view a short AGA video:

<http://www.agacgfm.org/downloads/agaweb.wmv>

CGFM News and Upcoming Events



Karl Payne

by Karl Payne



Leon Fleischer

Greetings! Leon and I would like to take this opportunity to highlight the following items of interest. If you have questions or interest in CGFM please feel free to contact Leon or myself at kpayne@kpmg.com and leon.fleischer@sba.gov.

Winter CGFM Training

The dates for the Winter CGFM Training has been rescheduled for January 11, 12, 13 and 18, 19, 20. This was necessary to ensure a suitable training environment in a convenient Downtown location. During the six days, the instructors will cover all three modules of the CGFM exam. There is no cost to the students, not even the cost of the CGFM study guides, which will be provided at the beginning of each module. These are very popular classes, and usually fill up very quickly. Registration will be first come, first serve. Registration will open the first full week in December. When registration opens, an announcement will be posted to the Chapter Website, and an email notification will be sent via the Chapter email distribution list.

CGFM Compensation Survey

Did you know that AGA conducted a compensation survey earlier this year? The results of the survey showed that those who had earned a CGFM designation reported a higher average salary than those who do not hold this certification: \$105,815 compared to \$78,905, a difference of 34 percent. The compensation survey report can be found at <http://www.agacgfm.org/cgfm/downloads/CGFMCompensationSurvey.pdf>

Intensive Review Course

The National AGA Office recently announced that it is once again offering a great opportunity to take the CGFM Examinations and earn your CGFM after the Ninth Annual National Leadership Conference (NLC). AGA will be hosting a two-day Intensive Review Course on Monday, February 21, and Tuesday, February 22, 2011, and an opportunity to take the CGFM Examinations on February 23-24, 2011. The event will take place in Alexandria, VA. The cost of the course is only \$279 for qualified participants, and it offers 18 CPE hours. Special Bonus: The CGFM Examinations are offered at no cost to course attendees. More information and a registration form for this event are available on the AGA website (http://www.agacgfm.org/nlc_2011/cgfm_exams.htm).

Spring CGFM Training

We are also offering a Spring CGFM Training. The dates will be March 8, 9, 10 and 15, 16, 17. The scope and content is the same as the Winter CGFM Training: six days, all three modules, no cost to the students. The registration will also be first come, first serve. Registration will open in early February. When registration opens, an announcement will be posted to the Chapter Website, and an email notification will be sent via the Chapter email distribution list.

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Accountability Outreach Committee Corner

AOC Kickoff Event And Reception

Visit the Snapshots pages 26 - 27 for the photos from this event.

Who and What

On December 1, 2010, the Association of Government Accountants Washington, DC Chapter Accountability Outreach Committee (AOC) hosted a kick-off event and reception to educate attendees about the **Certificate of Excellence in Accountability Reporting (CEAR)** program. The agenda included remarks from Doug Glenn, DC Chapter President on the value of serving as a reviewer and John Hummel, KPMG Partner and Chair of the CEAR Review Board who provided an informative overview on the CEAR program. An average of 15 public sector and industry professionals enjoyed networking, trivia, refreshments, and the opportunity to garner insight regarding key legislation, genesis of the program, quality metrics, program expectations and timeline. The AOC is committed to promoting AGA's performance and accountability programs to the chapter members and the community and this was an excellent forum to help facilitate the requirements and benefits.

Web resource

<http://www.agacgfm.org/performance/cear/>

AGA-DC Membership Contest Winners

New member Pierre Kamga of GAO, recruited by Dianne Guensberg, also of GAO, each received a \$50 gift card as the first two winners of the membership contest that was announced in the November 2010 issue of the [*Washington Connection* \(page 25\)](#).

As of this writing, the competition is nearly closed, assuming that all of the new recruits and sponsors who are planning to attend the January 2010 luncheon are able to show up together to claim their prizes. Any new AGA-DC members and their sponsors who are eligible are welcome to e-mail Membership Director Eileen Parlow at parlowe@fasab.gov to get on the waiting list in the event that any of the earlier winners are disqualified by not showing up at the January luncheon.

This contest was such an amazing success that we hope to do it again next year!



Awards Committee Update

THE AGA/DC AWARDS COMMITTEE NEEDS YOUR HELP!

Annually, the Association of Government Accountants presents at the Professional Development Conference and Exposition a series of awards to recognize individuals for their contributions to the Association. We need your assistance in identifying outstanding individuals who exemplify the characteristics described below:

- **Robert W. King Memorial Award**—an AGA member who has provided superior service that enhanced the AGA's national prestige and stature.
- **Einhorn-Gary Award**—An active AGA member or organization that has, over a sustained period of time, made major contributions to advancing government accountability at the federal, state, and/or local level.
- **Frank Greathouse Distinguished Leadership Award**— A government employee who has demonstrated sustained outstanding leadership and notable contributions to financial management, and to encourage increased interest, growth, development and distinctive leadership in the field of financial management.
- **Achievement of the Year Award**—A government employee who has exhibited leadership or outstanding achievement in developing, implementing and improving financial management in government service in the past year.
- **Educator Award**— An individual who have made significant contributions to the education and training of government financial managers.
- **Cornelius E. Tierney/Ernst & Young Research Award**— An individual who throughout their careers (minimum of 15 years) have made continuous contributions to governmental financial management by their direct participation in research activities and/or through their encouragement and support of others engaged in government financial management research.
- **Chapter Service Award**—An active AGA member who has consistently made important contributions to the development and enhancement of a chapter.
- **International Achievement Award**—A government employee who has exhibited leadership or outstanding achievement in international government financial management.
- **Emerging leader Award of Excellence**— A government financial manager with 5 to 10 years experience providing notable contributions toward excellence in financial management.

Please send the names and nomination information of outstanding professionals to Eleanor Crawford at Eleanor.long@EY.com no later than March 15, 2011. If you need assistance or have questions, feel free to contact Eleanor at 202-327-5903. For more information on each of these awards and their nomination forms, visit AGA's National website: www.agacgfm.org/membership/awards.

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Want to Make a Difference?

Consider a Career in Government Financial Management

Are you, or someone from your chapter planning to attend a career fair, or an event for college students? AGA now has an eye-catching brochure that offers information about government financial management careers and answers questions for aspiring government financial managers regarding the qualifications and skills needed to get started. It also includes a bookmark for students that directs them to the Tomorrow's Professionals website for more information. To order free copies of the brochure, please submit the collateral order form found in the Members Only section on the AGA national website www.agacgfm.org or contact **Jessica Jones** at JJones@agacgfm.org.

Mentorship

Attention Mentorship Participants! We Want To Hear From You....

By now you should have received a survey that will only take a few moments to complete that will allow us to increase areas of improvement for the program. If you've completed the survey, thank you for taking time to do so! Your feedback is very valuable and will be used to discuss in an open forum at upcoming "social networking" meetings for mentors and mentees.

MENTORS ONLY – Save the date for your social networking event, where you will discuss survey results in an open forum!

DATE: January 21, 2011 @ DC Chophouse, 6-9pm

MENTEES ONLY – Save the date for your social networking event, where will discuss survey results in an open forum!

DATE: TBD

Feel free to let us know what you think about the program. All feedback can be sent to Pendergrast_kesha@pendergrastconsulting.com.

Speed Mentoring

Speed Mentoring has been postponed until spring 2011! Stay tuned for more details.

Are you interested in being a mentor or mentee? If so, please contact Kesha Pendergrast at Pendergrast_kesha@pendergrastconsulting.com to learn more about the mentorship program.

Community Service

Happy Hour at Old Ebbit Grill

On **January 10th**, we are kicking off the new year by having a "Happy Hour" at the **Old Ebbit Grill** at **5:30**. I thought this would be more fun than a luncheon.

Contact Stu Eisenman @ 240 994 2357 or stue50@aol.com for more info.

There will be a rep from the foundation to assist with donations.

Member Services

Happy New Year from Member Services!! The next few weeks bring about two of the most popular Member Service events of the year!! On January 24 the DC Chapter will be organizing a night at the Verizon Center cheering on the Washington Capitals as they face their conference rivals, the New York Rangers. More details to follow. Be sure to register quickly as tickets are limited. In February, the annual Chinese New Year dinner is planned. Be on the lookout for more details later this month.

***As always, thanks to our sponsors!
Without their support these events would not be possible.***

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[AGA Northern Virginia Home Page \(Virginia\)](#)
[AGA Montgomery/PG Home Page \(Maryland\)](#)
[MACPA Home Page \(Maryland\)](#)
[VSCPA Home Page \(Virginia\)](#)
[GWSCPA Home Page \(D.C.\)](#)
[AICPA Home Page](#)

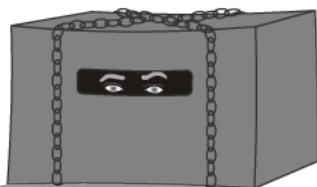
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OversightTM Systems

Inside the Black Box

by Simcha Kuritzky, CGFM CPA



Unit of Account

Introduction

In September, the Federal Accounting Standards Advisory Board (FASAB) issued an exposure draft concept statement (SFFAC 7) on measuring assets and liabilities. Among the topics addressed was inflation accounting. I'm particularly interested in this topic, and I wrote an honors paper for my masters on inflation accounting (this was back in the early 1980s when double-digit inflation was a recent event).

I decided to devote this month's column to some of the issues concerning inflation, units of account and measurement.

Unit of Account

Accounting has rightly been called the language of business. However, the words only convey part of the meaning: most people look to the numbers to see how well an entity is doing. Here in the U.S., those numbers are in U.S. dollars, even though not all dollars on the statements are equal. Due to the time value of money, dollars spent in the past are more valuable than dollars spent currently, which are more valuable than dollars spent in the future. For example, all else being equal, we would rather have a bill that is due a month from now than a bill that is due tomorrow. We would even be willing to pay a little more a month from now than settle up tomorrow (however, with interest rates at record lows, very little more).

There are few places where the statements recognize the time value of money explicitly. One example is in valuing a capital lease. Rather than capitalize the lease as the sum of the payments to be made, agencies must recognize an asset (and corresponding liability) equal to the net present value of those payments, then impute interest on the implicit debt. I described this in detail in my September, 2000 column.

More commonly, accountants do not adjust values across time. We use historic costs to depreciate or amortize an asset (which matches the expenses to the periods which benefit from the asset), and federal agencies almost always use the straight-line method. While interest is also imputed for zero-coupon bonds, this is tied to the reality that we will redeem the bond for more than we paid for it. Unrealized gains and losses are usually just footnotes. The few examples I could find in the Standard General Ledger transaction listing where unrealized gains and losses are booked are for foreign currency stabilization (account 5921 entry D579), commodity price support (account 1569 entry D564) and for some funds that are required to mark assets to market (using entries D589 or D590 or F136 or F138 and accounts 7180 or 7280).

History of the Dollar

Originally, Congress defined the dollar as a Spanish milled 8 reales which contained 371 grains of pure silver. Due to the bimetallic standard Congress adopted, a dollar was also worth about 24¾ grains of pure gold. Soon after the U.S. Mint starting issuing coinage in 1793, gold became more valuable in Europe, so merchants shipped U.S. gold coins to Europe to buy silver which they brought to the U.S. Mint to be coined, then used the silver coins to buy more gold coins. Though markets were not as volatile back then as they are now, Congress still found it necessary to make several adjustments to the amount of silver and gold in our coinage throughout the 19th Century. This was because the idea of a "dollar" was stronger than the silver or gold it was made of: rather than give a discount for purchases using silver when silver's price rose in the 1850s (as a result of the 1849 Gold Rush) or the early 1960s (as a result of vending machines requiring more coins), people hoarded the silver. The only time U.S. dollars circulated with multiple values was in the aftermath of the Civil War, when merchants routinely quoted three prices: one if paid in gold, another if paid in silver, and yet another if

Inside the Black Box (Cont'd)

paid in the new federal paper money. Thanks to all the silver mined from the Comstock Lode, the U.S. abandoned the bimetallic standard in 1873 and silver plummeted in value, practically losing its status as a precious metal during the Great Depression. The U.S. actually substituted silver for copper and nickel in coinage and electronics during World War Two. By the late 1800s, economists realized that the dollar had its own supply and demand that had little to do with the supply and demand for silver, gold, or any other commodity. The U.S. abandoned the gold standard domestically in 1933 and in foreign transactions in 1971.

Commodities

However, the idea of linking the dollar to commodities did not die with the gold standard. There are still a few “hard money” fans, such as those issuing silver and gold tokens using the image of Congressman Ron Paul. While most Americans who own precious metals are either coin collectors or investors who include them to round out a portfolio that's mostly equities and bonds, there are also a few mentally unstable individuals who resent the sovereign right of coinage, and one of these people recently brought down the wrath of the FBI and Secret Service when they demanded a gas station owner accept a silver medal portraying Ron Paul in exchange for gasoline. By the way, the U.S. Constitution (Article I Section 10) prohibits the individual states from issuing money that is not silver or gold, ending the practice of colony- or state-issued paper money that began with the Massachusetts Bay Colony in 1690. The Constitution does not so limit the federal government.

In the accounting world, there have been proposals to adjust values for inflation. However, inflation is just a concept. The values of things are always in flux. What the inflation adjustment is really doing is redefining values from the cost of an object in dollars, to the purchasing power of a dollar in commodities. General Price Level adjustments use a commonly-accepted price index, such as the Consumer Price Index (CPI) which has been calculated by the Department of Labor since 1918 when inflation hit double digits and unions needed an independent third party assessment to justify their wage increase demands. One of the many problems with the CPI is that it does not take substitution into account. For example, when gasoline topped \$4 a gallon, many people began taking buses to work. The other type of adjustments are for Specific Prices, generally the replacement cost of fixed assets. While economists often referred to inflation-adjusted values as “real”, they are not realized. Yes, a building your agency bought for \$20 million ten years ago might cost \$22 million today, but you're not buying it today. The supplies your agency uses up might cost more (or even less) to replace, but you're not allowed to book the change until you buy more at the new price. What inflation-adjusted amounts represent is an opportunity cost, which is important for economists or making decisions about future actions, but does not properly account for past activity. In the private sector, it may make sense to compare the profitability of a company or product line to what profits would have been made had the funds instead been invested in Treasury bills or a Dow Jones-Indexed mutual fund, but it does not make sense to discount the actual flows based on those alternative investments. In the public sector, it may be more meaningful to report quantities of goods or services delivered than the cost of doing so, especially when dealing with price-volatile commodities, but it would probably confuse more people than it helps to adjust the dollars reported based on replacement cost.

Inflation accounting essentially books an unrealized gain from holding onto assets that increased in value, and increases depreciation, amortization, or cost of goods sold accordingly. The gain is usually reported below the net income figure, so the net impact is to increase net assets while lowering net income. I fully support FASAB's decision to exclude inflation accounting from current consideration.

Inside the Black Box (Cont'd)

Conclusion

The unit of account is a basic characteristic of money and a basic element of accounting. While the use of historic, nominal dollars over time may deflate carrying values and costs, one of the purposes of accounting is to show the return of an investment over time. Substituting constant dollars not only introduces subjectivity, it changes the calculation from an actual return that can be directly compared to other returns, to a theoretic return that is automatically compared to the inflation index.

Simcha Kuritzky

Simcha Kuritzky, CGFM CPA

Comments and critiques, as well as specific questions or suggestions for future topics, are always welcome. Send them to Simcha.Kuritzky@CGIFederal.com, and not to the AGA.

This column is provided as part of a free exchange of ideas in federal accounting, and is not reviewed substantively before publication.

Luncheon Speaker: Mark Reger



Mr. Reger is the Deputy Assistant Secretary Accounting Policy, Office of the Fiscal Assistant Secretary, Department of the Treasury. He has oversight responsibility for the consolidation and publishing of the Financial Report of the US Government and the new Office of Financial Innovation and Transformation. He also serves as the Treasury representative on the FASAB. Prior to joining the Office of the Fiscal Assistant Secretary, Mr. Reger served as the Chief Financial Officer (CFO) of the United States Office of Personnel Management (OPM) from 2007 through May 2010. As CFO, he led OPM's financial management operations including accounting, payroll processing, budget, financial policy, financial systems, strategic planning and coordination, performance and evaluation, internal control activities and OPM's President's Management Agenda program.

Prior to joining OPM, Mr. Reger held leadership positions in Federal, State and Local government. He served as the CFO of the Federal Communications Commission (FCC) and the Chairman of the Small Agency Council Finance Committee. At FCC, he was responsible for the compilation of the Agency's first auditable financial statements which received an unqualified opinion. Before coming to Washington, D.C. he spent 20 years in Maryland government, serving in a series of senior management positions including CFO of the Maryland Department of Agriculture and culminating in his position as the Chief Deputy Treasurer of Maryland. Mark briefly served as a Deputy Treasurer for Baltimore County Public Schools and was responsible for the Security and Information Technology functions of one of the largest school systems in the nation. He also served as a Deputy Treasurer for the District of Columbia responsible for banking and financial services.

Mark is a Certified Public Accountant licensed in Maryland, and Certified Government Financial Manager. He has been a member of the Senior Executive Service since 1998 and graduated from the Federal Executive Institute in 1999. Mr. Reger was granted a Henry Toll Fellowship by the Council of State Governments in 1994 and is a graduate of the executive leadership program of Said Business School in Oxford, England in 2005.

Snapshot

AOC KICKOFF EVENT AND RECEPTION



Snapshot

AOC KICKOFF EVENT AND RECEPTION



Meetings Team

Ryan Bolz



We hope everyone enjoyed their time off for the holidays and have settled back in. We had some great presentations at the luncheons in 2010 and are looking to continue the trend in 2011 as there are several excellent speakers on the agenda. Please remember to sign up early and arrive early as the private room we have at Clyde's has come close to capacity each time.

Mark Kandra



January's luncheon will feature the following delicious 3 course meal:

Appetizer – Mixed Green Salad

Entrée – Rosemary Chicken served with Mashed Potatoes and Seasonal Vegetables

Dessert – Seasonal Fruit Crisp

See you there!

Ryan Bolz and Mark Kandra

Ryan Bolz, Mark Kandra
Meeting Team

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JANUARY 2011

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
						1
2	3	4	5	6	7	8
9	10 Make-A-Wish Foundation Washington DC	11	12	13	14	15
16	17	18	19 January Luncheon Clyde's of Gallery Place	20	21 Social Networking Event DC Chophouse	22 Ski Trip Tri-Chapter Ski Liberty
23	24	25	26	27	28	29
30	31	NOTES:				

FEBRUARY 2011

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15 AGA CEC	16	17	18	19
20	21 Tax Assistance Location: TBD	22	23 February Luncheon Location: Clyde's of Gallery Place	24	25	26
27	28					
		NOTES:				

MARCH 2011						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
		1	2 Audio Conference Auditing Tools	3	4	5
6	7	8 St. Patrick's Day Happy Hour	9	10	11	12
13	14 AGA CEC	15	16 March Luncheon Location: Clyde's of Gallery Place	17 Job Fair UMBC	18	19
20	21	22	23 Improving Performance Reporting	24 Fondue Party Location: Melting Pot	25	26
27	28	29	30	31		
		NOTES:				

Calendar of Events - 2010/2011 Program Year

Month	Luncheons	Community Service	Education	Mentorship	Early Careers	CEC Meetings
January	19	10	19	21	22	14
	January Luncheon <i>Location & Time:</i> Clyde's of Gallery Place; 11:30am -1:30pm Speaker: Mark Reger CPE: 1.0	Make-a-Wish Foundation <i>Location:</i> Washington DC	Audio Conference <i>Topic:</i> Are We Winning the Improper Payments Battle?	Social Networking Event <i>Location & Time:</i> Washington, DC (Metro Accessible); 6pm - 9pm Note: Chophouse	Ski Trip Tri-Chapter <i>Location & Time:</i> Ski Liberty; TBD	Teleconference #: 1-800-767-1750 Access code: 2809637 12:00 - 1:00 PM
February	23	21				15
	February Luncheon <i>Location & Time:</i> Clyde's of Gallery Place; 11:30am -1:30pm Speaker: TBD CPE: 1.0	Tax Assistance <i>Location:</i> TBD				Teleconference #: 888-283-7402 Access code: 2809637 12:00 - 1:00 PM
March	16	17	2 / 23		8 / 24	14
	March Luncheon <i>Location & Time:</i> Clyde's of Gallery Place; 11:30am -1:30pm Speaker: TBD CPE: 1.0	Job Fair <i>Location:</i> UMBC	Audio Conference <i>Topic:</i> Auditing Tools ***** Improving Performance Reporting		St Patty's Day Happy Hour <i>Location:</i> TBD *** Fondue Party <i>Location & Time:</i> Melting Pot; TBD	Teleconference #: 888-283-7402 Access code: 2809637 12:00 - 1:00 PM
April	20	16	20		21	14
	April Luncheon <i>Location & Time:</i> Clyde's of Gallery Place; 11:30am -1:30pm Speaker: Mike Najum, CFO of Ginnie Mae CPE: 1.0	Habitat for Humanity <i>Location:</i> TBD	Audio Conference <i>Topic:</i> Fraud		Beer Lab <i>Location & Time:</i> Gordon Biersch; TBD	Teleconference #: 888-283-7402 Access code: 2809637 12:00 - 1:00 PM
May	18	19			5	14
	May Luncheon <i>Location & Time:</i> Clyde's of Gallery Place; 11:30am -1:30pm Speaker: Patricia Kelly, CFO of PBGC CPE: 1.0	Cell Phone Collection <i>Location:</i> TBD **Collection during Happy Hour**			Cinco de Mayo Fiesta <i>Location & Time:</i> Austin Grill; TBD	Teleconference #: 888-283-7402 Access code: 2809637 12:00 - 1:00 PM
June		9	8			14
	Awards Gala <i>Location & Time:</i> JW Marriott; TBD	Lyons Club Eye Glass Collection <i>Location:</i> TBD	Audio Conference <i>Topic:</i> Internal Controls			Teleconference #: 888-283-7402 Access code: 2809637 12:00 - 1:00 PM

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