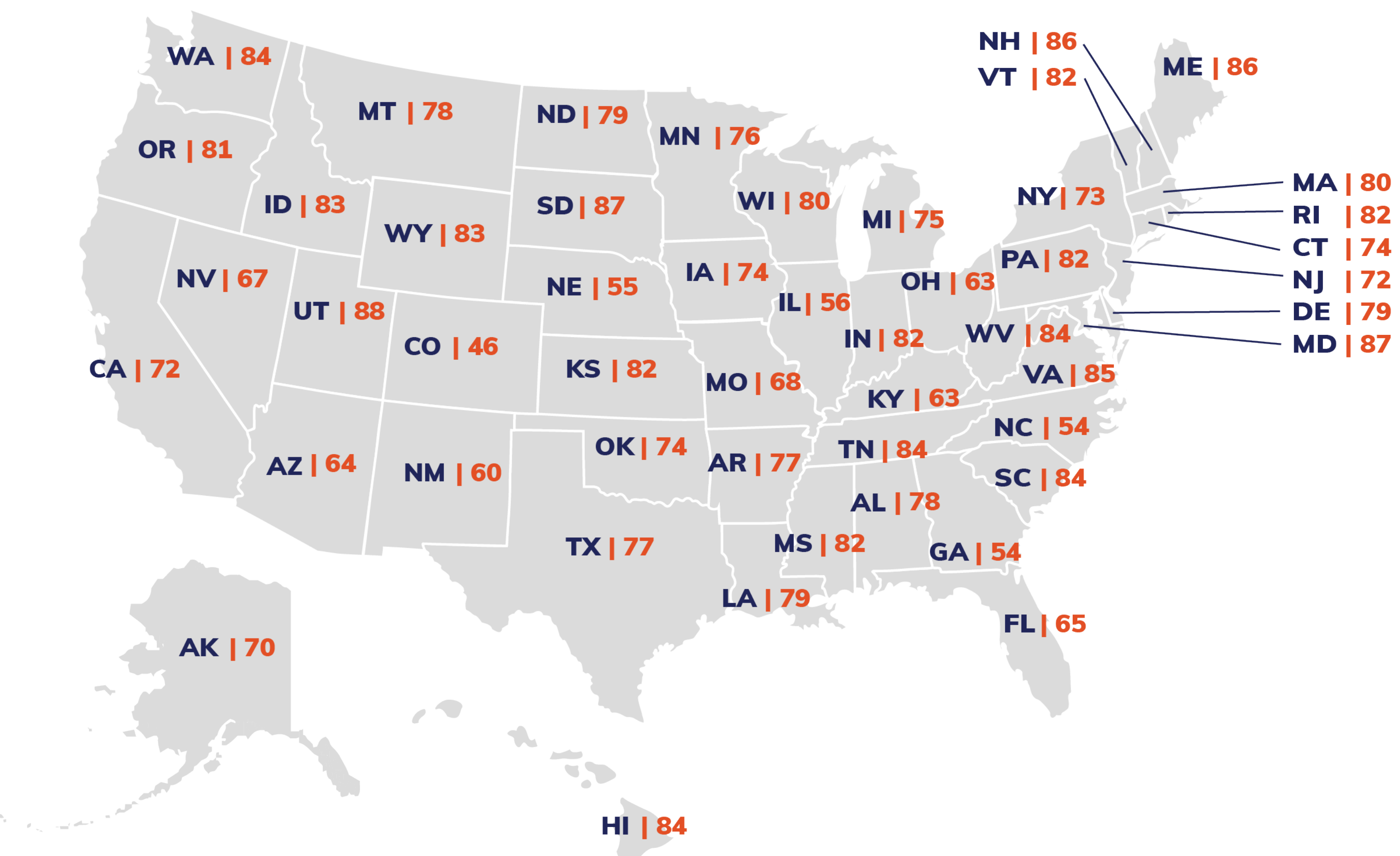
November 2021

Financial Transparency Score 2021

STATE | TOTAL TRANSPARENCY SCORE

LESS TRANSPARENT
MORE TRANSPARENT
0 10 20 30 40 50 60 70 80 90 100



To encourage the publication of transparent and accurate government financial information, Truth in Accounting has created a transparency score for financial reporting by state governments. While there is a great deal of focus on state budgets, the results of those budgets are found in a government's annual comprehensive financial report. This document is produced annually by governments and is audited by certified public accountants. The criteria used to develop our transparency score provide a "best practices" framework for government officials and citizens that can be used to improve their government's transparency and accountability. This report is based on data for fiscal year (FY) 2020, the most recent year available for all 50 states.

Criteria

To receive the top score of 100 points, a government's annual report must meet the following criteria:

• Receive a clean opinion from an independent auditor (This criterion also applies to the annual report of the state government's largest pension plan.)	50 points
• Include a net position not distorted by misleading and confusing deferred items	10 points
• Report all retirement liabilities on its balance sheet (statement of net position)	10 points
• Be published within 100 days of the government's fiscal year-end	10 points
• Be easily accessible online	5 points
• Be searchable with useful links from the table of contents and bookmarks	5 points
• Be audited by an independent auditor who is not an employee of the government (This criterion also applies to the annual report of the state government's largest pension plan.)	5 points
• Measure the net pension liability using the same date as the annual report	5 points

Findings

Overall the 50 states' transparency scores worsened compared to the previous years. Every state received funds from the CARES Act in response to the COVID-19 pandemic, which highlighted weaknesses that existed in states' unemployment insurance. These weaknesses caused several states to receive poor audit opinions. Other factors preventing states from receiving better scores include timeliness in reporting and the use of outdated pension information.

The Government Financial Officers Association (GFOA) standard for states to publish their annual reports is 180 days after the end of the fiscal year, but government financial reports should ideally be published within 100 days. Most corporate financial statements are prepared within 45 days of the fiscal year-end. This year, California was least timely. California has yet to release its FY 2020 annual report, so we were forced to rely on FY 2019 information for the state. No states were able to complete their financial statements within 100 days.

Georgia lost four points for timeliness compared to the previous fiscal year because the state was delayed in issuing its annual report. In FY 2020, it took Georgia 262 days to release its annual report compared to 183 days in the previous year.

The report also found that most states did not report their current pension liability amounts. Only Maryland reported up-to-date pension numbers while five states used amounts from different valuation dates. For example, Ohio calculated its pension liability based on a pension valuation dated Dec. 31, 2019, although the state's fiscal year ended June 30, 2020. The remaining 44 states used outdated valuation amounts that are a year old.

Surprisingly, only 14 states used outside certified public accounting (CPA) firms to audit their annual reports. The other states used auditors who work for the state, which brings into question their ability to provide an independent opinion. However, the independence of outside CPA firms can be questionable as well since the state pays for their services.

Colorado fell eight places to become the least transparent state in the country with a score of 46 out of 100. The state's overall score was mainly affected by its audit opinion. Last year, Colorado received a clean audit opinion but in FY 2020 it received a disclaimer, or flunk, opinion. As a result, Colorado lost 25 points compared to the previous year.

Georgia and North Carolina are tied with the second-worst transparency score of 54. Georgia fell 37 places to be tied at second-to-last because the state went from a clean audit opinion to a disclaimer opinion. Georgia was also tardy in producing its annual report. Connecticut and Vermont were the most improved states with each state gaining 25 points because their largest pension plans' annual reports received clean audit opinions.

Audit Opinions

Receiving clean opinions on the state's and its largest pension plan's annual reports is the most important criterion in our transparency score, accounting for half of the score, because such an opinion assesses the accuracy of the information in the financial reports. There are four types of audit opinions: unqualified, qualified, adverse, and disclaimer. An unqualified opinion is a clean opinion meaning the entity passed its audit. A qualified opinion means the entity passed the audit with notable exceptions. A disclaimer or adverse opinion essentially means the entity flunked its audit.

There were many changes to audit opinions this year mainly due to accounting issues with unemployment insurance. Only 37 states' financial reports received unqualified (clean) opinions, which is down 10 states from last year. Ten states received qualified opinions (Alaska, Arizona, Florida, Illinois, Kentucky, Missouri, New Mexico, New York, Nevada, Ohio) while three states (Colorado, Georgia, and Nebraska) received disclaimer opinions. These three states received a flunk opinion because they were unable to process accurately the unemployment benefits established by the CARES Act. Arizona, Florida, Illinois, Kentucky, and Ohio faced similar issues with unemployment benefits. Illinois, furthermore, had issues accounting for other post-employment benefits for its Tollway Authority. New York and Nevada were missing critical information in their annual reports which led to a qualified audit opinion.

Off-Balance Sheet Liabilities

State and local governments have long hidden retirement benefit obligations, including other post-employment benefits (OPEB), off their balance sheets. Thanks to new accounting standards adopted in FY 2015 and FY 2018, hidden debt is not as big of a problem as it was in the past but still remains a problem.

However, only 20 states reported 95 percent or more of their retirement liabilities, which is down from 34 states last year. In FY 2020, total hidden debt among the states amounted to $197 billion. This hidden debt largely comes from state governments excluding some pension and OPEB plans from their balance sheets, such as teacher pensions, despite being responsible for these plans' contributions. Furthermore, this problem stems from states using year-old pension data instead of data consistent with the date of its annual report. We recommend that states use pension and data calculated as of the government's annual report fiscal year-end in its annual financial report even if this delays its release.

State	Auditor Opinion	Deferred Items	Off-Balance Sheet Liabilities	Timeliness	Accessibility	Navigation	External Auditors	Pension Data Timing	Total Transparency Score
Utah	50	9	10	7	4	5	2	1	88
Maryland	50	5	10	5	3	4	5	5	87
South Dakota	50	9	10	6	5	3	2	2	87
New Hampshire	50	4	10	7	4	4	5	2	86
Maine	50	6	10	7	5	4	2	2	86
Virginia	50	8	10	7	4	4	0	2	85
Washington	50	7	7	7	4	5	2	2	84
Hawaii	50	6	10	6	4	1	5	2	84
Tennessee	50	8	10	7	3	4	0	2	84
West Virginia	50	5	9	7	3	3	5	2	84
South Carolina	50	7	5	9	4	2	5	2	84
Idaho	50	9	5	7	4	4	2	2	83
Wyoming	50	9	9	3	4	2	5	1	83
Mississippi	50	9	10	2	4	3	2	2	82
Indiana	50	8	10	6	2	2	2	2	82
Kansas	50	9	4	7	4	1	5	2	82
Pennsylvania	50	3	6	7	4	5	5	2	82
Rhode Island	50	7	10	4	4	5	0	2	82
Vermont	50	5	9	6	4	1	5	2	82
Oregon	50	8	9	4	4	2	2	2	81
Massachusetts	50	3	9	2	4	5	5	2	80
Wisconsin	50	3	10	7	4	5	0	1	80
North Dakota	50	8	4	7	4	2	2	2	79
Delaware	50	1	9	7	4	1	5	2	79
Louisiana	50	6	10	6	2	1	2	2	79

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State	Auditor Opinion	Deferred Items	Off-Balance Sheet Liabilities	Timeliness	Accessibility	Navigation	External Auditors	Pension Data Timing	Total Transparency Score
Alabama	50	3	7	6	3	5	2	2	78
Montana	50	7	8	5	2	4	0	2	78
Texas	50	0	10	7	4	4	0	2	77
Arkansas	50	6	10	6	2	1	0	2	77
Minnesota	50	0	10	7	3	4	0	2	76
Michigan	50	6	4	7	4	2	0	2	75
Connecticut	50	0	10	4	4	2	2	2	74
Oklahoma	50	8	3	5	3	1	2	2	74
Iowa	50	8	9	0	3	2	0	2	74
New York	35	7	9	8	4	3	5	2	73
New Jersey	50	0	10	2	2	4	2	2	72
California	50	3	10	0	2	3	2	2	72
Alaska	35	9	10	3	4	5	2	2	70
Missouri	35	8	10	3	3	5	2	2	68
Nevada	35	8	10	0	4	3	5	2	67
Florida	35	7	10	3	4	4	0	2	65
Arizona	35	8	10	0	3	4	2	2	64
Kentucky	35	0	10	7	3	4	2	2	63
Ohio	35	5	10	6	2	2	2	1	63
New Mexico	35	7	7	0	2	2	5	2	60
Illinois	35	0	10	0	3	4	2	2	56
Nebraska	25	7	8	7	4	2	0	2	55
North Carolina	25	3	10	8	3	3	0	2	54
Georgia	25	6	10	2	3	4	2	2	54
Colorado	25	0	10	3	3	2	2	1	46

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Truth in Accounting is a 501(c)(3) nonprofit committed to educating and empowering citizens with understandable, reliable and transparent government financial information. To be knowledgeable participants in their government and its budget process, citizens need truthful and transparent financial information.