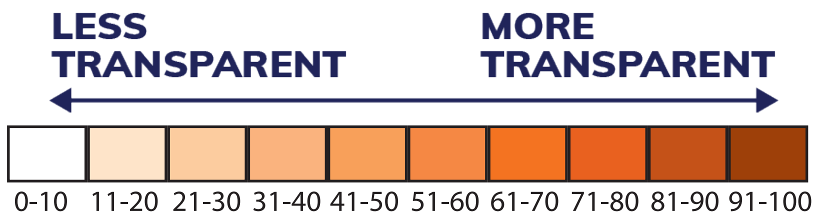
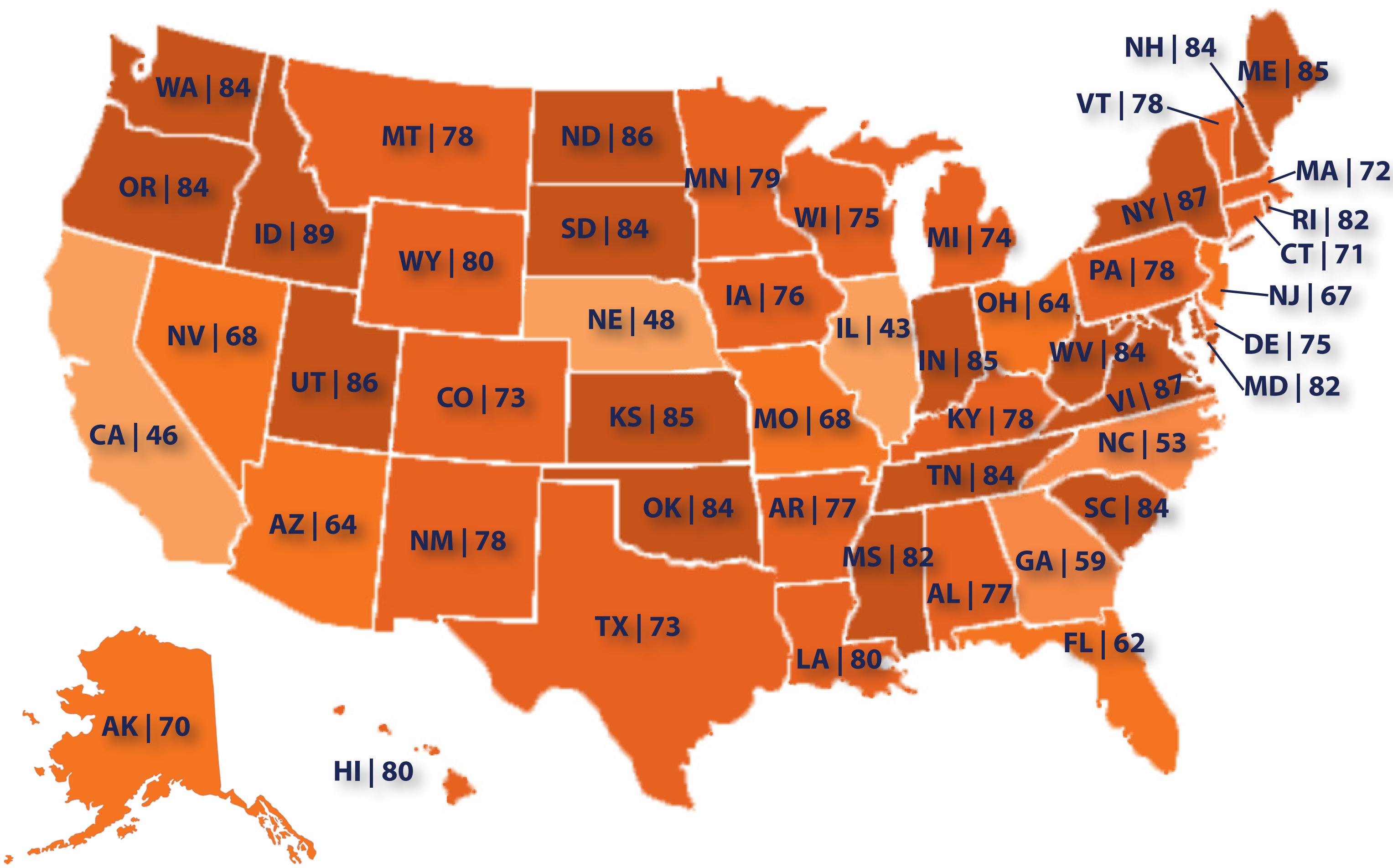
Truth in Accounting

Financial Transparency Score 2022





Financial Transparency Score 2022

Truth in Accounting

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 (ACFR). 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 (2021), 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 thestate government's largest pension plan.)	50 points
• Include a net position not distorted by misleading and confusing deferred items	15 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 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 improved compared to the previous year. The largest improvements came in Colorado, Kentucky, New Mexico, and New York, all of which received poor audit opinions in 2020 for their handling of unemployment funds received from the federal government. In 2021 these states received clean audit opinions. Other factors preventing states from receiving better scores include timeliness in reporting and the use of outdated pension information.

Because we determined the accessibility online criterion was too subjective to determine and most people use search engines to navigate the internet, this criterion was removed from the transparency score. The five points previously allocated to this criterion were added to the net position distortions criterion.

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 yearend. As of February 1, 2023 California had not released its June 30, 2021 financial report and Arizona did not issue its 2021 report until October 1, 2022. Therefore, we were forced to use 2020 information for these states. No states were able to complete their financial statements within 100 days.

Illinois ranked as the worst state because its financial report received a disclaimer opinion, in essence flunking its audit. The state's auditors found Illinois did not maintain adequate accounting records and documents for its Unemployment Compensation Trust Fund and did not provide safeguards for the fund's assets.

As mentioned above, California has not issued its 2021 financial report, but it moved to the second worst position mostly because its 2020 report received a disclaimer opinion. According to the state's auditors, California's Employment Development Department was "unable to provide complete and accurate accounting information" associated with the state's unemployment program and federally-funded unemployment programs.

Nebraska moved down to be the third worst state. The state's financial report continued to receive a disclaimer opinion due to material misstatements. Nebraska's score worsened in 2021 because of an increase in the number of days taken to release its financial report from 170 days in 2020 to 302 days in 2021. This was out of character for a state that usually releases its report within GFOA's 180-day standard time frame for reporting.

Idaho moved to the best position mainly because the state reported a smaller percentage of off-balance sheet unfunded pension liabilities. There was a significant decrease in its pension plan systems' liability resulting from an increase in the market value of its pension assets due to extraordinary unrealized investment income. North Dakota and Oklahoma's scores improved mostly for the same reason.

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.

Only 40 states' financial reports received unqualified (clean) opinions, which is up three from last year. Six states received qualified opinions (Alaska, Arizona, Florida, Missouri, Nevada, and Ohio) while four states (California, Georgia, Illinois, and Nebraska) received disclaimer opinions.

California, Georgia, and Illinois received flunking opinions because they did not accurately process the unemployment benefits. Nebraska flunking opinion was based on the lack of controls necessary to avoid material misstatements in its financial report. Arizona, Florida, and Ohio faced similar issues with unemployment benefits. Alaska's qualified opinion was based on misstatements in the General Fund that the state declined to correct. Missouri and Nevada received qualified opinions because the auditors were not able to sufficiently review all the necessary financial data.

Net Position Distortions

GASB requires governments to use confusing and misleading accounts called "deferred outflows" and "deferred inflows." Most items in these accounts distort governments' net positions, or overall financial condition, and revenue and expenses. Most of the deferrals are related to pension and retiree health care debt. For example, instead of recognizing the full gain in the value of its pension plan investments as income during the year in which the gain occurs, a government increases deferred inflows, which is on the liability side of its balance sheet. In this case, the government's net position would be falsely understated.

Each state's score is based upon the percentage the asset side of its balance sheet is overstated due to deferred outflows, plus the percentage the liability side of its balance sheet is overstated due to deferred inflows.

Connecticut, Delaware, Illinois, and New Jersey received scores of zero out of fifteen, mostly because of overstatements on the asset side of their balance sheets. New Jersey had the highest percentages of balance sheet distortions with the asset side of its balance sheet overstated by more than 30% and its liability side more than 16%.

Alaska, Idaho, Kansas, Mississippi, Nevada, and Virginia received scores of 13, the highest score of all the states.

Ranking	State	Auditor Opinion	Deferred Items	Off-Balance Sheet Liabilities	Timeliness	Navigation	External Auditors	Pension Data Timing	Total Transparency Score
1	Idaho	50	13	10	7	5	2	2	89
2	New York	50	9	10	8	3	5	2	87
3	Virginia	50	13	10	7	5	0	2	87
4	North Dakota	50	11	10	7	4	2	2	86
5	Utah	50	11	10	7	5	2	1	86
6	Indiana	50	11	10	6	4	2	2	85
7	Kansas	50	13	5	9	1	5	2	85
8	Maine	50	10	10	7	4	2	2	85
9	New Hampshire	50	6	10	7	4	5	2	84
10	Oklahoma	50	11	10	5	4	2	2	84
11	Oregon	50	12	10	5	3	2	2	84
12	South Carolina	50	9	6	9	3	5	2	84
13	West Virginia	50	6	10	7	4	5	2	84
14	Tennessee	50	12	10	6	4	0	2	84
15	Washington	50	11	7	7	5	2	2	84
16	South Dakota	50	10	10	7	3	2	2	84
17	Maryland	50	6	10	2	4	5	5	82
18	Mississippi	50	13	10	1	4	2	2	82
19	Rhode Island	50	10	10	5	5	0	2	82
20	Hawaii	50	8	10	6	1	5	0	80
21	Louisiana	50	9	10	6	1	2	2	80
22	Wyoming	50	12	10	0	2	5	1	80
23	Minnesota	50	6	10	7	4	0	2	79
24	Montana	50	9	10	3	4	0	2	78
25	New Mexico	50	9	10	1	1	5	2	78

Ranking	State	Auditor Opinion	Deferred Items	Off-Balance Sheet Liabilities	Timeliness	Navigation	External Auditors	Pension Data Timing	Total Transparency Score
26	Pennsylvania	50	3	7	7	4	5	2	78
27	Vermont	50	3	10	7	1	5	2	78
28	Kentucky	50	3	10	7	4	2	2	78
29	Alabama	50	4	8	6	5	2	2	77
30	Arkansas	50	9	10	5	1	0	2	77
31	Iowa	50	12	10	0	2	0	2	76
32	Delaware	50	0	10	5	3	5	2	75
33	Wisconsin	50	2	10	7	5	0	1	75
34	Michigan	50	8	5	7	2	0	2	74
35	Texas	50	1	10	6	4	0	2	73
36	Colorado	50	4	9	5	2	2	1	73
37	Massachusetts	50	4	10	0	1	5	2	72
38	Connecticut	50	0	10	4	3	2	2	71
39	Alaska	35	13	10	3	5	2	2	70
40	Missouri	35	10	10	5	4	2	2	68
41	Nevada	35	13	10	0	3	5	2	68
42	New Jersey	50	0	10	0	3	2	2	67
43	Arizona	35	11	10	0	4	2	2	64
44	Ohio	35	8	10	7	1	2	1	64
45	Florida	35	9	10	2	4	0	2	62
46	Georgia	25	10	10	5	5	2	2	59
47	North Carolina	25	5	10	7	4	0	2	53
48	Nebraska	25	10	10	0	1	0	2	48
49	California	25	5	10	0	4	2	0	46
50	Illinois	25	0	10	0	4	2	2	43

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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.