

STATEWIDE FINANCIAL REPORTING PROCESS

PRIOR AUDIT FINDING

Financial Statement Audit Finding:

Finding No. 01001200801:

Controls were not adequate to ensure the accuracy of amounts reported in the State's financial statements including the identification and correction of reporting errors and omissions.

Auditee's Corrective Action Plan:

See Current Audit Finding No. 01001200901.

CURRENT AUDIT FINDING AND RECOMMENDATIONS

Financial Statement Audit Finding:

Finding No. 01001200901:

Controls were not adequate to ensure the accuracy of amounts reported in the State's financial statements including the identification and correction of reporting errors and omissions.

Analysis:

In order for the State to compile the needed information for the State's financial statements, including the notes to the financial statements and the Schedule of Expenditures of Federal Awards, the Bureau of Finance and Management (BFM) issued a policies and procedures manual that the various agencies within State government used while preparing year-end entries and disclosures. These policies and procedures were not intended to be agency specific and did not identify unique reporting considerations of the different agencies. In many instances, agencies did not have adequate written policies and procedures to identify how they were to apply the broad BFM policies to their specific agency. In addition, many individuals responsible for the preparation of the year-end entries lacked adequate training, expertise or supervisor oversight. As a result, many year-end entries had material reporting errors and omissions. After the year-end entries were completed, the BFM's Accounting Analysis and Financial Reporting Division began implementing controls to identify and remedy material reporting errors and omissions. During FY09, progress was made to implement controls, however they were not adequate to fully identify and remedy all of the material errors and omissions.

A significant number of material adjustments were identified and proposed by us for the State's financial statements which include the notes to the financial statements. The BFM posted these adjusting entries to the accounting records as recommended by us

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during the audit or adjusted the notes to the financial statements accordingly. Based on the testing performed, our audit identified significant deficiencies over financial reporting and/or material errors for the following areas:

- Capital assets,
- Proper liability, revenue and expense classification,
- Proper recognition of liabilities and expenses,
- Proper recognition of receivables and revenue,
- Transfers,
- Proper inclusion of separately issued audited financial statement for funds of the State,
- Reversal of prior year government-wide accrual entries,
- Prior period adjustments,
- Equity reservations and restrictions,
- Subsequent events

A system of internal control over financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements. An organization's internal control process for financial reporting should include its identification, analysis and management of risks relevant to the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles. For fiscal year 2009, we performed certain non-audit services allowed under *Government Auditing Standards* including the drafting of the State's financial statements. The Accounting Analysis and Financial Reporting Division is responsible for implementing and overseeing the controls related to the preparation of the State's financial statements. During FY09, progress was made to implement controls, however they were not adequate to prevent or detect errors in the government-wide financial statements.

Because the various agencies of the State did not have adequate controls to ensure the accuracy of amounts reported in the financial statements and notes to the financial statements and the BFM did not have adequate internal controls in place to identify and correct material misstatements, there existed an increased exposure to inaccurate financial reporting.

RECOMMENDATIONS:

1. We recommend the BFM work with each agency to further develop specific written policies and procedures to follow while preparing their year-end financial statement entries.
2. We recommend the BFM continue to implement written internal control procedures to identify and correct reporting errors and omissions and ensure the accuracy of amounts reported in the financial statements.
3. We recommend the BFM continue to work towards preparing all sections of their financial statements.

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Auditee's Corrective Action Plan:

BFM added an Accounting Analysis and Financial Reporting Division in fiscal year 2009. This division predominately acts as an internal control function for the State to help identify and correct agency specific accounting and financial reporting errors and to prepare the State's Comprehensive Annual Financial Report (CAFR). Additionally, this Division provides training and assistance to all state agencies regarding accounting and reporting issues and provides assistance in identifying, developing and documenting agency specific controls. As noted in the finding, much progress was made from the previous fiscal year. This Division is developing, documenting and implementing enhanced financial reporting controls, compiling financial data from the various state agencies, identifying and correcting agency specific accounting and financial reporting errors and omissions, preparing the State's fiscal year 2009 CAFR and working with the various state agencies to strengthen and document agency specific controls. As a result, the number of adjustments proposed by the independent auditors for material errors and omissions decreased by nearly two thirds in fiscal year 2009. We acknowledge that further improvements are necessary and we are confident this progress will continue as this Division and the state agencies become more experienced and better trained.

BFM will continue to develop, document, and implement controls to identify and correct agency reporting errors and omissions and will work with agencies to further develop agency specific accounting and financial reporting policies and procedures. However, it is unfeasible to develop control procedures or policies to cover every contingency that could occur within state government. Such a policy and procedures manual would be so voluminous it would render itself inefficient and ineffective. Thus it is important to focus resources on areas which provide value. Additionally, the process of documenting the control procedures that are currently in effect throughout state government is currently underway. However, it will take significant time to complete.

Prior to the engagement of the audit, BFM communicated its goal to draft the financial statements on our own for fiscal year 2009. However, both BFM and Department of Legislative Audit (DLA) acknowledged the difficulties involved in achieving this goal. Therefore we also discussed the potential need for DLA's assistance in drafting certain sections of the financial statements should BFM's goal delay the issuance of the CAFR beyond March 31, 2010. BFM was able to complete significant portions of the financial statements for fiscal year 2009. However, to ensure the issuance of the CAFR by March 31, 2010, (almost 3 months earlier than the two previous years) BFM did have DLA draft portions of the financial statements. BFM will continue working towards it goal of preparing all sections of the financial statements. However, this goal will take time to achieve and BFM may need some continued assistance from the DLA in providing some agreed upon non-audit services.