Financial Transparency Score 2019

To encourage the publication of transparent and accurate government financial information, Truth in Accounting has created a transparency score for financial reporting. While there is a great deal of focus on state governments' budgets, the results of those budgets are found in a government's comprehensive annual financial report (CAFR). 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 fiscal year (FY) 2018 data, the most recent data available.

Criteria

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

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

Findings

Overall the 50 states' transparency scores improved (six points on average) from the previous fiscal year due in large part to a change in accounting standards, which required states for the first time to include their retiree health care liabilities on their balance sheets. For FY 2017, 34 percent of states' retirement liabilities were maintained off their balance sheets. For FY 2018, the share of retirement liabilities hidden off states' balance sheets dropped to 13 percent.

Surprisingly, only 14 states used outside certified public accounting (CPA) firms to audit the state CAFR. The other states used auditors who work for the state, which brings into question their ability to provide an independent opinion. Some also question the independence of outside CPA firms since the state pays for their services.

The report also found that states did not report their current pension liability amounts. Only Maryland reported 2018 pension numbers while four states used amounts from different valuation dates. For example, Colorado calculated its pension liability based on a pension valuation dated Dec. 31, 2017, while the state's fiscal year ended June 30, 2018. The remaining 45 states used outdated valuation amounts.

While Connecticut's transparency score improved six points (from 44 to 50), due mostly to a more timely release of the state's financial report, it is still the worst in the country. The state does not prepare a CAFR for its largest pension plan and uses a state official, the state auditor, to audit the state's CAFR. Connecticut's net position is also inflated by $8.2 billion, largely because the state defers recognizing losses incurred when the net pension liabilities increase.

The state with the second worst transparency score is North Carolina with a score of 56. The state uses a state official, the state auditor, to audit the state's CAFR and the state's largest pension plan does not prepare a CAFR.

Alaska was the only state that had a decrease in its transparency score since last year's report. While Alaska received a clean opinion on its financial report last year, this year the state's CAFR received a qualified opinion because the state's management refused to correct a $1.46 billion misstatement of the State's Constitutional Budget Reserve Fund, also referred to as the state's rainy day fund. As a result of receiving a qualified opinion, Alaska experienced a 12 point overall decline in its transparency score.

Audit Opinions

Receiving clean opinions on the state's and its largest pension plan's CAFRs is the most important criterion in our transparency score, accounting for half of the score, because such an opinion provides an assessment of 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 disclaimer opinion means the entity flunked its audit.

Forty-six states' financial reports received unqualified (clean) opinions, while four states (Alaska, Missouri, Nebraska and New Mexico) received qualified opinions. Unfortunately, Alaska's management declined to make corrections to its CAFR and, therefore, the state's audit opinion declined from an unqualified opinion last year to a qualified opinion this year. New Mexico made some improvements in its financial report and accounting, thus going from a disclaimer opinion to a qualified opinion.

Louisiana's transparency score improved by 18 points this year, mostly because the state received an unqualified (clean) opinion this year versus the qualified opinion it received in the previous year.

Off-Balance Sheet Liabilities

State and local governments have long hidden retirement benefit obligations, including other post-employment benefits (OPEB), off their balance sheets. In FY 2018, however, state and local governments that use Generally Accepted Accounting Principles were required to report their unfunded liabilities related to OPEB, mainly retiree health care benefits.

Now both the pension and retiree health care liabilities are presented. As a result, the off-balance sheet liabilities percentage fell from 34 percent in FY 2017 to 13 percent in FY 2018. Thirty-five states reported 95 percent or more of their retirement liabilities.

Five states (Alabama, Kansas, Michigan, Pennsylvania, and Washington) did not report their liabilities related to teacher pension systems even though the state either provides the vast majority of the funding for schools or the state indirectly funds the schools' pension contributions.

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

Each state is scored based on eight criteria: accessibility, searchability, if the states used an outside auditor, the auditor's opinion, timeliness of the report, percentage of off-balance sheet liabilities, pension data timing, and deferred items. Please see page one for a breakdown of the scoring criteria.

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New Hampshire	50	4	10	6	4	1	5	2	82
Oklahoma	50	8	5	8	2	5	2	2	82
Rhode Island	50	7	10	6	3	4	0	2	82
Alabama	50	7	7	6	2	5	2	2	81
Colorado	50	5	10	8	2	3	2	1	81
Louisiana	50	7	10	6	2	1	2	2	80
Texas	50	4	9	6	4	5	0	2	80
Minnesota	50	0	10	8	4	5	0	2	79
Montana	50	8	9	8	1	1	0	2	79
Florida	50	8	10	4	1	3	0	2	78
Wisconsin	50	5	6	8	4	4	0	1	78
Kentucky	50	1	10	8	2	2	2	2	77
Arkansas	50	7	10	6	1	1	0	2	77
Ohio	50	6	8	8	1	1	2	0	76
Michigan	50	8	4	6	3	2	0	2	75
California	50	3	10	0	2	3	2	2	72
Illinois	50	0	10	0	4	4	2	2	72
New Jersey	50	0	10	0	3	4	2	2	71
Missouri	35	7	10	6	4	4	2	2	70
Alaska	35	9	10	4	3	4	2	2	69
New Mexico	35	7	10	2	1	1	5	2	63
Nebraska	35	5	10	6	2	1	0	2	61
Vermont	25	5	10	8	4	1	3	2	58
North Carolina	25	3	10	8	4	4	0	2	56
Connecticut	25	1	10	6	3	3	0	2	50

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