Financial Transparency Score 2020

To encourage the publication of transparent and accurate government financial information, Truth in Accounting has created a transparency score for financial reporting by the states. While there is a great deal of focus on state 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) 2019 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 (This criterion also applies to the CAFR 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 CAFR of the state government's largest pension plan.)	5 points
• Measure the net pension liability using the same date as the CAFR	5 points

Findings

Overall the 50 states' transparency scores were relatively consistent with last year's scores. A few states did worse and some scored a bit better, so there is still a lot of room for improvement. The main factors preventing states from receiving better scores remain timeliness in reporting and the use of outdated pension information.

The Government Financial Officers Association (GFOA) standard for states to publish their CAFRs 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, taking nearly 500 days to release an audited CAFR. No states were able to complete their financial statements within 100 days.

Colorado's transparency score decreased by seven points from the previous fiscal year because the state was delayed in issuing its CAFR. In FY 2019, it took Colorado 205 days to release its CAFR compared to 171 days in the previous year.

The report also found that 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, 2018, although the state's fiscal year ended June 30, 2019. 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 the state CAFR. 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.

Connecticut remains the least transparent state in the country with a score of 49 out of 100. 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 $6.6 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 55. The state uses a state official, the state auditor, to audit the state's CAFR and the state's largest pension plan also does not prepare a CAFR.

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 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.

Forty-seven states' financial reports received unqualified (clean) opinions, while three states (Alaska, Missouri, and New Mexico) received qualified opinions. These three states received qualified opinions last year, which means that they did not make the improvements suggested by the auditors to receive a clean opinion.

Nebraska's transparency score improved by 19 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. But 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.

Now states are required to disclose both pension and OPEB liabilities. Thirty-four states reported 95 percent or more of their retirement liabilities.

But in FY 2019, total hidden debt among the states amounted to $132 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 the contributions. Four states (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	Penion Data Timing	Total Transparency Score
New York	50	7	10	8	4	3	5	2	89
Utah	50	9	10	8	4	5	2	1	89
Idaho	50	9	10	7	4	4	2	2	88
Maryland	50	5	10	7	4	2	5	5	88
Mississippi	50	9	10	7	4	4	2	2	88
West Virginia	50	5	10	7	4	3	5	2	86
Nevada	50	8	10	5	4	2	5	2	86
Indiana	50	9	10	7	4	2	2	2	86
South Dakota	50	8	10	7	4	3	2	2	86
North Dakota	50	9	10	7	3	3	2	2	86
New Hampshire	50	3	10	7	4	4	5	2	85
Virginia	50	9	9	7	3	5	0	2	85
Georgia	50	6	10	6	4	5	2	2	85
Washington	50	7	8	8	4	4	2	2	85
Wyoming	50	9	10	5	2	2	5	1	84
South Carolina	50	8	6	9	3	1	5	2	84
Kansas	50	9	4	8	5	1	5	2	84
Oregon	50	8	9	7	3	3	2	2	84
Maine	50	6	10	8	4	1	2	2	83
Pennsylvania	50	4	7	7	3	5	5	2	83
Hawaii	50	5	10	7	3	1	5	2	83
Alabama	50	6	10	6	2	5	2	2	83
Iowa	50	9	10	7	2	2	0	2	82
Tennessee	50	8	10	7	3	4	0	0	82
Massachusetts	50	2	10	4	4	5	5	2	82

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Delaware	50	3	10	7	4	1	5	2	82
Arizona	50	7	10	2	3	5	2	2	81
Rhode Island	50	7	10	6	2	4	0	2	81
Ohio	50	6	10	7	3	2	2	1	81
Louisiana	50	7	10	6	2	1	2	2	80
Nebraska	50	6	10	7	4	1	0	2	80
Wisconsin	50	5	9	7	4	3	0	1	79
Oklahoma	50	8	4	6	2	5	2	2	79
Montana	50	6	9	4	4	4	0	2	79
Florida	50	7	10	4	2	4	0	2	79
Michigan	50	7	4	8	4	3	0	2	78
Texas	50	0	10	6	4	5	0	2	77
Minnesota	50	0	10	7	3	5	0	2	77
Arkansas	50	5	10	7	2	1	0	2	77
Kentucky	50	0	10	7	2	3	2	2	76
New Jersey	50	0	10	2	3	5	2	2	74
Colorado	50	0	10	5	3	3	2	1	74
Illinois	50	0	10	1	4	4	2	2	73
California	50	3	10	0	2	3	2	2	72
Missouri	35	7	10	6	4	4	2	2	70
Alaska	35	9	10	3	4	4	2	2	69
New Mexico	35	7	10	2	2	2	5	2	65
Vermont	25	4	10	7	4	1	3	2	56
North Carolina	25	2	10	8	4	4	0	2	55
Connecticut	25	1	10	4	4	3	0	2	49