



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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September 17, 2010

Mr. Adam M. Horst, Director
State Budget Agency
212 State House
Indianapolis, IN 46204

Dear Mr. Horst:

Transmitted with this letter is the budget request for this agency for the 2011-2013 biennium.

MISSION STATEMENT

The State Board of Accounts is dedicated to serving the citizens of Indiana by providing to the State of Indiana, its agencies and political subdivisions, on-time quality services at the best possible value. The services provided by the State Board of Accounts help make Indiana's citizen-run government a workable concept.

Our vision is to impart to the citizens of Indiana complete confidence in the integrity and financial accountability of state and local government; to ensure that these institutions are operating efficiently in compliance with applicable statutes.

AGENCY FUNCTIONS

The State Board of Accounts performs audits and examinations of the financial statements of all governmental units within the state, including cities, towns, utilities, schools, counties, license branches, state agencies, hospitals, libraries, townships, special districts, and state colleges and universities. Investigative audits are performed to reveal fraud or noncompliance with local, state, and federal statutes.

In addition to our financial and compliance audits, we also prescribe forms and uniform accounting systems, provide training for public officials and employees, publish manuals, newsletters and technical bulletins, and offer consulting services to officials at the state and local levels.

We have divided the state geographically into 18 districts in which to assign field staff. Each field district is headed up by a field supervisor. The central office houses our support staff as well as our office supervisors who have expertise in each functional area by unit type.

ACCOMPLISHMENTS

Some of our agency's recent accomplishments include:

1. All units of government continue to be audited in compliance with Indiana Code (IC) 5-11-1-9.
2. We have continued to partner with the Office of the Inspector General on various cases resulting in the recovery of misspent funds, the recovery of funds kept outside the State's system and citations for procedural wrongdoings.
3. The filing of 4,847 audit reports for the two-year period ended June 30, 2010. This total does not include the numerous management letters, agreed upon procedure reports or other special reports we also issued during that time.
4. Our external quality control (peer) review conducted by the National State Auditors Association was completed in October 2009. The external peer review team did not include formal comments, which indicated that our policies and procedures were in conformity with government auditing standards. This was our third consecutive peer review not resulting in any formal comments, which exemplified the quality and excellence of our audit work. A copy of the report is attached to this letter. Our next peer review is scheduled for October 2012.
5. Office of Management and Budget Circular A-133 dictates that audit reports be filed within 9 months after the fiscal year end. For all reports filed under the provisions of this circular, we have continued to meet this requirement.
6. We have continued to reduce the average number of days to process audit reports from 52.3 days in 2008 to 43.6 days for reports filed during the two-year period ended June 30, 2010.
7. We certified 97 audit reports to the Attorney General's office for collection of \$3,558,153, for the period July 1, 2008 to June 30, 2010. We issued an additional 151 reports during the same period that returned approximately \$300,000 to governmental units for funds that were misspent or stolen by individuals.
8. We worked with the Attorney General's office in implementing Public Law 176-2009 which allows the State Examiner to provide a preliminary report to the Attorney General when it has been discovered that a substantial amount of public funds has been diverted by an officer or employee. This allows the Attorney General to institute civil proceedings against the individual immediately, rather than having to wait for a final audit report as was previously required.
9. We worked with local governmental units in getting their annual reports filed electronically with our agency as required by PL 176-2009. This helps ensure a more accurate report versus a manually prepared report. In addition we have partnered with the Department of Local Government Finance (DLGF) and the Indiana Business Research Center (IBRC) to develop a program for local governments to use to submit our report and DLGF's report.

CHALLENGES

The major challenge facing the State Board of Accounts continues to be attempting to audit more governmental units with our limited resources. As the number of units subject to our audit has grown, the number of staff we have available to perform audits has decreased over the years. Over the years an audit backlog was created. However, with the implementation of our paperless audit project, focusing on a risk-based approach to audits and examinations, and the ability to fill vacant positions, this trend was reversed during 2006 and 2007, and the audit backlog was eliminated.

In conjunction with staying current with our audits and examinations, another challenge is responding timely to "special" audit requests, investigatory audit requests, information technology audit requests, petition audits as required by statute, and other requests for additional work. Typically, any request for additional audit work must be absorbed by reducing or delaying work in other areas.

The ever-changing government accounting and audit environment also presents challenges to our agency. Recent examples of this would be new reporting requirements under Governmental Accounting Standards Board (GASB) Statements Nos. 54, 55, 56, 57 and 58. We will be implementing the changes brought about by Statement on Auditing Standards No. 117. This standard affects the way we plan and perform our compliance audits. We will also be implementing the changes brought about by Statement on Auditing Standards Nos. 118-120. Proposed changes to the upcoming revision of Government Auditing Standards will require changes to some of our current procedures and implementation of those changes. Also, continual technological advances in information and transaction processing, and reporting present challenges for our agency.

An ongoing challenge and concern we have is trying to attract and retain qualified individuals at our entry level salary of \$34,658. We continue to experience a 6% turnover rate with the majority of those leaving after the first 2-3 years. Our job postings generate very little interest from recent graduates possessing 5-year accounting degrees. The entry level salary of auditors at public accounting firms begins at \$50,000+ without considering overtime or bonuses. We expect this concern to grow as the salary gap widens and a greater number of our employees retire or resign in the coming years.

PRIORITIES FOR BIENNIUM

Our agency's highest priority is to continue to complete our examinations in a timely manner in accordance with IC 5-11-1-9 while not sacrificing audit quality. We have readdressed our "board standard days" with the implementation of the Paperless Audit Project in anticipation of gaining audit efficiencies. Board Standard Days is the budgeted time established to complete each audit. We have also implemented changes in reporting to maximize, not only audit efficiency, but also audit effectiveness.

Another priority is the continuance of timely responding to special audit requests and increasing our capabilities and capacities in the area of information technology audits.

PROGRAM MEASURES

As mentioned previously, our highest priority is to complete all of our audits and examinations in accordance with IC 5-11-1-9. We were able to meet this requirement and eliminate our audit backlog as of the end of 2007 and have continued to strive to meet this goal.

We have also continued measuring the number of repeat audit findings corrected and the percentage of governmental units filing their required annual reports with us electronically. These measurements are worthy goals, but depend in large part on the level of cooperation we receive from the government officials we audit.

Attached to this letter are our current organization chart and a copy of our most recent unqualified peer review report.

Sincerely,



State Examiner