



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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September 20, 2012

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 2013-2015 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. This includes 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 17 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. 89% of all units of government were 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 4,766 audit reports for the two-year period ending June 30, 2012. This total does not include the 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 exemplifies 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 the majority of reports filed under the provisions of this circular, we have continued to meet this requirement.
6. We certified 111 audit reports to the Attorney General's office for collection of \$4,694,555 for the period July 1, 2010 to June 30, 2012. We issued an additional 67 reports during the same period that returned \$328,839 to governmental units for funds that were misspent or stolen by individuals.
7. 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.
8. We partnered with the Department of Local Government Finance (DLGF) and the Indiana Business Research Center (IBRC) and developed a program for local governments to use to submit their annual financial report to us electronically as required by PL 176-2009. This helps ensure a more accurate report versus a manually prepared report. In addition, these reports are posted to the Indiana Transparency Portal providing greater transparency for local government.

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 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. During the current biennium, with a reduction in staff, an audit backlog has been recreated.

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. 59, 60, 61, 62, 63, 64, 65, 66, 67 and 68. We will be implementing the changes brought about by Statement on Auditing Standards Nos. 121 to 125, several of which will require extensive changes to our current policies and procedures. These standards affect the way we plan and perform our financial and compliance audits. The upcoming revision of Government Auditing Standards will also require significant changes to some of our current policies and procedures and the implementation of those changes. The federal stimulus (ARRA) funds have added many additional requirements in the auditing of federal programs. 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 \$35,178. 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. Another priority is the continuance of responding timely to special audit requests and increasing our capabilities and capacities in the area of information technology audits. Over the years audit efficiencies have been realized through implementing our Paperless Audit Project and also changes in our report format. This had allowed us to continue to meet our statutory requirements with a reduced staff. However, further staff reductions has put us in a position of not being able to complete all of our examinations in a timely manner, even with the "cycling" or reduction of audit steps. As part of our 2013-2015 biennial budget we are requesting funding to fill 20 vacant field examiner positions more fully described in the Special Initiative section that follows.

SPECIAL INITIATIVE

Over the past several years we have incurred significant budget and staffing cuts similar to all State agencies. We were able to overcome some of these cuts through realized efficiencies and by "cycling" or reducing audit steps. However, as the number of governmental units subject to audit has grown and federal programs and audit requirements (ARRA, etc.) have increased, we are not able to audit all governmental units in a timely manner and a new audit backlog has been created.

We are requesting funding for 20 entry level field examiners in order to dedicate more time to federal audit requirements as well as compliance requirements for State agencies and local governments. This additional staff will also allow us to eliminate our audit backlog. Total funding for these 20 positions is estimated to be \$1,200,000 for salaries, benefits, travel, equipment and supplies. Some of this expense will be recouped through statutorily set audit costs that are deposited into the General Fund.

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PROGRAM MEASURES

We have continued measuring the percentage of governmental units filing their required annual reports with us electronically and the number of repeat audit findings corrected. 100% of all governmental unit required to file their annual report with us electronically did so during the last reporting period. This helps ensure more accurate reporting and adds to transparency in government. Measuring the number of repeat audit findings corrected is a worthy goal, but depends 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,

Bruce A. Hartman
State Examiner

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Attachments