



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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August 15, 2014

Mr. Brian Bailey, Director  
State Budget Agency  
212 State House  
Indianapolis, IN 46204

Dear Mr. Bailey:

Transmitted with this letter is the budget request for this agency for the 2015-17 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 staff into an Audit Division and an Exam and Special Investigations Division. We have divided the state into 4 audit quadrants and 5 exam quadrants in which to assign staff. Each quadrant is headed up by a coordinator. The central office houses our support staff as well as our office directors who have expertise in each functional area by unit type.

## ACCOMPLISHMENTS

Some of our agency's recent accomplishments include:

1. 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.
2. The filing of 3,222 audit reports for the two-year period ended June 30, 2014. 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 2012. The external peer review team's report indicated that our policies and procedures were in conformity with government auditing standards. A copy of the report can be found on our website at [www.in.gov/sboa](http://www.in.gov/sboa). Our next peer review is scheduled for October 2015.
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 66 audit reports to the Attorney General's office for collection of \$2,954,332 for the period July 1, 2012 to June 30, 2014. We issued an additional 23 reports during the same period that returned \$254,461 to governmental units for funds that were misspent or stolen by individuals.
7. We continue to work 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 have 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 continue to partner 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 their annual financial report and compensation 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.
9. Organized and held the first Ethics and Public Integrity Consortium meeting with state and local government officials on July 29, 2014.
10. Partnered with the Attorney General and other agencies to form the Public Integrity Coalition.

## CHALLENGES

The major challenge facing the State Board of Accounts continues to be attempting to examine more governmental units with fewer resources. As the number of units subject to our audit have grown, the number of staff we have available to perform audits has decreased over the years. During the previous biennium, with a reduction in staff, an audit backlog was recreated and has continued to grow during the current biennium.

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 governmental accounting and audit environment continually evolves which presents challenges to our agency. Recent examples of this would be new reporting requirements under Governmental Accounting Standards Board (GASB) Statements Nos. 67, 68, 69, 70 and 71. We will be implementing the changes brought about by Statement on Auditing Standards Nos. 122 to 128, 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 recent revision of Government Auditing Standards also required significant changes to some of our current policies and procedures and the implementation of those changes. In addition, the Federal Office of Management and Budget recently issued the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards which provide uniform guidance for financial management and auditing of Federal awards. This new guidance will required significant training to our field staff as well as changes to our policies and procedures and the 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 \$35,178. We are experiencing a 10% 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 4-year or 5-year accounting degrees. In order to be eligible to sit for the CPA exam, an individual must have completed 150 college credit hours. 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. Currently, we are experiencing a large number of retirements; a trend we expect to continue through 2017.

## 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. 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. Furthermore, with less timely examinations and a reduction of audit steps we have seen an increase in problem units (those with deficient records and those not complying with laws, regulations and guidelines). Continuing with the infrequency of examinations and reduction of audit steps will not provide the necessary safeguards needed by the governmental units themselves as well as the taxpayers. We have developed a plan to address these issues which is discussed on the next page.

## 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. However, due to staff reductions and increased audit requirements, an audit backlog developed during the previous biennium and has continued to grow during the current biennium.

We plan to address this by implementing a risk-based examination approach and by increasing the statutory daily rate that governmental units are currently charged for our services. Both of these changes will require legislation.

IC 5-11-1-25 requires that all governmental units are examined either annually or biennially. With a risk-based approach, units who kept good records and complied with laws, regulations and guidelines would be examined less frequently. This would allow us to focus more resources on units who are not keeping good records and are not complying with laws, regulations and guidelines.

IC 5-11-4-3 allows us to charge each taxing unit and soil and water conservation district forty-five (\$45) dollars per day. This equates to \$6 per hour which is quite a bit less than our current full-cost rate of \$83.43 per hour. We are proposing that this daily rate be raised to \$175 per day. These funds should go to a dedicated fund and would be used to hire the additional field examiners necessary for us to audit all governmental units that we are currently responsible for. We estimate that the funds generated from the increase in the daily rate will be sufficient for us to hire 105 additional field examiners. Without this additional funding source, our agency will be unable to perform financial statement audits of governmental units who must have them because of federal funding or bonding requirements. Our focus would be on performing examinations of governmental units in accordance with IC 5-11-1-9. Those units required to have financial statement audits would have to contract out for those, presumably at a much higher cost.

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

  
Paul D. Joyce, CPA  
State Examiner

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Attachments