



State Fiscal Affairs: Financial Reporting

Justin P. Wilson, *Comptroller*
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State Fiscal Affairs: Financial Reporting – Single Audit

- The *Single Audit Report* examines how the state spends money received from the federal government.
- If the *Single Audit Report* indicates spending that is not within federal guidelines, the federal government can ask the state to return the money. Additionally, the state may not receive future funding for the program under review.



State Fiscal Affairs: Financial Reporting – Single Audit

- \$16.9 billion in federal funds
- Of the 32 major federal programs audited, seven did not sufficiently comply with the federal rules.



State Fiscal Affairs: Financial Reporting – Accountability

- This office found that the financial statements of the state of Tennessee, “present fairly, in all material respects, the respective financial position” of the government.
- In comparison, The Government Accountability Office could not give an opinion on the Financial Report of the U.S. Government, due to “widespread, material internal control weaknesses, significant uncertainties, and other limitations.”



State Fiscal Affairs: Financial Reporting – Local Government Audits and Reviews

- The Comptroller ensures the audit of the annual financial reports for Tennessee's 95 counties. All but six counties are audited by the office.
- Of the over 700 audit findings reported, almost 300 were repeat findings.



State Fiscal Affairs: Financial Reporting – Local Government Audits and Reviews

- The most common findings were:
 - Deficiencies in accounting and recordkeeping
 - Lack of segregation of duties
 - Information systems problems
 - Lack of internal controls
 - Improper budgeting and purchasing practices



State Fiscal Affairs: Financial Reporting – Local Government Fraud and Common Causes

- During the 2011 fiscal year, the Comptroller released 42 investigative reports, regarding local governments, revealing \$1,133,726 in funds misused.



State Fiscal Affairs: Financial Reporting – Local Government Fraud and Common Causes

The most commonly seen frauds include:

- Personal use of government or entity credit cards, checks or fuel
- Check-swap schemes (exchanging checks payable to the government to replace stolen cash)
- Skimming (stealing cash)
- Payments to vendors that were redirected to personal accounts
- Unauthorized payroll and benefit changes
- Stolen drug evidence, weapons, or cash



State Fiscal Affairs: Financial Reporting – Local Government Fraud and Common Causes

How does fraud occur?

- Most fraud occurs due to weakness in internal control
- Commonly, there is a lack of separation of duties
- Many times, the employee often has total control over a financial transaction which allows him or her to commit the crime and also hide it



State Fiscal Affairs: Financial Reporting – Local Government Fraud and Common Causes

- **The most commonly seen fraud and theft schemes involve the following control breakdown:**
 - Failure to match receipts of cash with what was recorded and deposited
 - Failure to reconcile accounts receivable
 - Failure to make records of cash collections
 - Failure to individually list checks in deposits and/or review documentation
 - Lack of controls over computer data
 - Management disregard for controls in place



State Fiscal Affairs: Financial Reporting – Timely Reporting

- **The state should work toward more timely reporting**
 - As a best practice, the Comprehensive Annual Financial Report (CAFR) for a fiscal year ending June 30 should be issued before December 31 of that same calendar year.

- **Recent history of CAFR:**
 - For the fiscal year ending June 30, 2009, the CAFR was issued 13 months after the fiscal year ended
 - For the fiscal year ending June 30, 2010, the CAFR was issued on March 29 of the following year
 - For the fiscal year ending June 30, 2011, the CAFR was issued on December 29, 2011, marking the first time in three years the report was timely filed



State Fiscal Affairs: Financial Reporting – Timely Reporting

- For the fiscal year ending on June 30, 2010, the financial reports for all of Tennessee's 95 counties were timely completed and filed in accordance with federal requirements.
- This was the first time in memory that this has happened.



State Fiscal Affairs: Financial Reporting – Timely Reporting

- Again, for the fiscal year ending on June 30, 2011, the financial reports for all 95 counties were timely completed and filed.



State Fiscal Affairs: Financial Reporting – Timely Reporting

- External forces (SEC, rating agencies, investors) are demanding even more timely reports.



State Fiscal Affairs: Financial Reporting – Timely Reporting

“To make good decisions, you need good information. Information is not good if it is not current.”



State Fiscal Affairs: Financial Reporting – Concerns for Reporting and Controls

- Monitoring efforts must be improved
- Centralized financial information is needed for monitoring
- Major improvements are needed for systems development oversight
- Weaknesses in capital project reporting should be addressed



State Fiscal Affairs: Current Conditions Overview

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State Fiscal Affairs: Current Conditions Overview

Tennessee is currently in sound fiscal condition.

- Our current budget is balanced on a recurring basis.
- Our current state debt is not excessive.
- We have budgeted on a recurring basis for payment of principal and interest on the state debt.
- The state's retirement plan is sound.
- The post-employment benefits for our retirees are manageable.
- Our unemployment trust fund is solvent.



State Fiscal Affairs: Future Conditions Overview

The Road Ahead:

- The state can continue to operate and provide basic services, but not necessarily at current levels.
- Costs of funding projected increases in state programs and potential federal mandates (such as President Obama's healthcare plan) exceed even optimistic revenue projections.
- The General Assembly needs to continue to reduce expenses and the administration needs to continue to increase the efficiency of operations.



State Fiscal Affairs: Future Conditions Overview

If cuts are not made and expenditures are not reduced, an optimistic scenario for the foreseeable future is:

- Weak continuation of status quo
- Limited reserves
- Haunted by past goals... not present priorities
- Reduced opportunity for tax reductions and capital projects



State Fiscal Affairs: Issues Ahead

Future Issues to Address:

- Uncertainty regarding federal budget
- BEP
- Retirement benefits
- Risk assessment
- Contracting
- Financial Reporting
- Outdated Laws
- Local Governments



State Fiscal Affairs

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