Faster CAFR Overview

SDCL 4-4-6 requires BFM to prepare annual financial statements (in accordance with GAAP) for the state of South Dakota. Federal regulations (OMB Circular A-133) require the Single Audit Report (which includes the compliance audit report and the CAFR) to be issued within nine months after the close of the fiscal year (March 31 for South Dakota). As one of several initiatives to improve the State's bond rating and to put South Dakota on track with other states who issue their CAFR sooner than South Dakota, it is the Governor's goal to have the CAFR issued by December 31 in future years. The following provides some history and a plan to achieve that goal.

History

- Due to staffing and efficiency reasons, South Dakota has traditionally (for approximately 15 years) issued the Single Audit Report and the CAFR on the same date.
- Consistently changing accounting and audit standards have caused an increase in the accounting and auditing responsibilities for all state agencies, including BFM and DLA.
- As a result, in FY06 the nine month Single Audit Report issue date was not met.
- During the 2008 Legislative Session, the Legislature approved BFM's plan to bolster BFM's Financial Accounting and Reporting Office to meet the needs of the increasing accounting and financial reporting demands.
- In an effort to get the FY09 CAFR issued within nine months of the close of the fiscal year, DLA and BFM experimented with issuing the CAFR and Single Audit Report separately, which had not been done since the mid 1990s.
- The FY09 CAFR was issued March 31, 2010 (within the nine month deadline). However, the Single Audit Report was not issued until May 21, 2010 (51 days late).
- FY10 and FY11 saw the influx of ARRA dollars which dramatically increased the accounting and reporting demands on the state agencies, BFM and DLA. Additionally, we again saw some of the biggest changes in accounting and auditing standards since the early 2000's.
- Thus, BFM and DLA decided to issue the CAFR and Single Audit Report jointly as BFM would not be able to make a nine month deadline.
- The FY10 and FY11 CAFR and Single Audit issue dates were May 20 and June 20 respectively.
- As ARRA dollars decreased and BFM was able to better manage the new accounting standards, the FY12 CAFR and Single Audit Report were again issued separately with the CAFR meeting the March 31 date and the Single Audit Report was issued May 30.
- The estimated completion date for the FY13 CAFR is March 15, and the Single Audit Report to follow by March 31.
- This will be the first time in eight years the CAFR and Single Audit Report will both meet the nine month completion deadline.

Note: *Since the bolstering of BFM staff in FY08, BFM has taken over complete control of preparing the financial statements. Additionally, auditor findings and auditor adjustments have decreased dramatically across all state agencies.*

Going Forward

Separating the issuance of the Single Audit Report from the CAFR creates some inefficiencies for both DLA and the state agencies. When possible, DLA plans their audit procedures of the agencies, around the agencies' availability. It is more efficient to perform the CAFR audit procedures and Single Audit Report procedures at the same time; interrupting the agencies only once. However, with the amount of audit work needed for both audits, without doubling DLA staff, it would be nearly impossible to issue both the CAFR and the Single Audit Report within six months of the close of the fiscal year. Thus, going forward, the CAFR and Single Audit Report will be issued separately.

The issuance of the CAFR is an integrated and woven web of hundreds of processes. The completion of one process leads to the beginning of multiple other processes. The delay of one process will cause a snowball effect, which can result in the CAFR being issued later than planned. In order to ensure the processes stay on track, we have a detailed schedule of deadlines for state agencies and BFM procedures. Below is a simplified version of the schedule which illustrates the time compression of major deadlines needed to complete the CAFR in 6 months versus 9 months:

Major CAFR Deadlines	Tentative FY13	For December 31 Issue
Agency Accruals	09/10/2013	08/10/2016
Agency Statements (Fund Statements)	09/17/2013	08/17/2016
Open Accruals to DLA	11/07/2013	10/15/2016
Fund Statements to DLA	01/11/2014	11/01/2016
GW Statements to DLA	02/15/2014	11/20/2016
Final Notes to DLA	02/19/2014	11/31/2016
Issue CAFR	03/14/2014	12/31/2016

In order to shorten the nine month CAFR process into a six month process, all schedules (state agencies, BFM and DLA) have to be shortened and moved forward on the calendar. Additionally, we need acceptance and enforcement from upper management at each state agency to adhere to these deadlines.

Streamlining an integrated process this large will not be accomplished overnight and will not be achieved alone by merely adding FTEs to the process. This goal will only be reached through the successful implementation of four initiatives: 1) automating manual procedures through software changes and system updates, 2) adding additional accounting staff, 3) revising processes and procedures which will require agency management support, and 4) revising current accounting policies and procedures (moving the accounting system focus away from a budget focus to a financial reporting focus, while still meeting the needs of the budget world).

As indicated earlier, it will take time to implement new systems, procedures and to employ and train new and existing employees. This goal will take 3 years to achieve. Under this plan the estimated CAFR issue dates will be:

FY13 CAFR – March 15, 2015
FY14 CAFR – February 28, 2015
FY15 CAFR – January 31, 2016
FY16 CAFR – December 31, 2016

State Resources Needed

- **FTE**
  After numerous planning meetings, we estimate it will take 12 FTE across state government to obtain this goal. See attached for FTE breakdown.

- **Software Systems**

  - Through an RFP process, BFM has identified a financial reporting software package that is essential to speeding up the CAFR process. This financial reporting software package is used primarily by the private sector but has seen increased usage by the government sector. This product will reduce time in preparing the financial statements by automating many manual processes, and will also provide accounting and reporting tools to all state agencies. These tools include accounting reports that the current accounting system is not efficient in producing. These tools will not only cut time, but should also improve completeness and accuracy of the financial statements as presented to the auditors.

- DOE has also identified a software system upgrade that will speed the processing of their year-end CAFR accrual entries. DOE receives many federal grants (i.e. Title I, Special Education) which flow through DOE to the school districts. The current "e-grant" system being used does not require or allow the school districts to enter the service period for grant claims. Thus DOE must contact each school individual in July and again in August (when few school administrators are around) for the service period of the July and August claims. These service dates are then manually entered into an excel spreadsheet to assure the expenses are accrued to the proper fiscal year in DOE's year-end CAFR accrual entries. The new proposed "e-grant" system would require service dates to be entered by the school district when the school districts submit claims. This would result in time savings and increased accuracy in preparing year-end CAFR accrual transactions.

- BOR has identified software updates to their accounting system that will reduce CAFR preparation time. Much like BFM's software upgrade request, BOR's requested upgrade will automate many of the manual procedures in preparing the Higher Education financial statements. The upgrades will pull the information from BANNER and automate the consolidation process. This will require a vendor to update the system and make data warehouse changes and upgrades.

BFM EMPLOYEE – RECRUITING PLAN

In order to meet the goal of completing the FY2016 CAFR by December 31, 2016, BFM will need to hire an additional 5 quality accountants. In order to get these new employees trained and prepared for this goal, it is imperative to hire these employees within the next 18 months.

We anticipate being able to hire:

- 1 or 2 from the May 2014 graduating class
- 2 to 4 from the December 2014 graduating class
- with the remainder to come from the May 2015 graduating class

We will focus our hiring efforts on college accounting students who will be graduating soon so we can train them in governmental accounting and state specific procedures. We do not want to recruit accountants from other state agencies as this would then create a shortage in that agency and therefore be counter-productive to the goal.

Given this anticipated hiring ability, it is likely BFM will utilize 3 new FTE in the FY15 budget and the full 5 FTE in the FY16 budget. With this hiring plan, 1-2 employees will have two CAFR seasons, and the remainder will have one CAFR season worth of experience so they will be prepared for the FY16 CAFR deadline.

Student Recruiting Plans:

- Work with college professors to allow presentation time during class.
- Present at university accounting club meetings.
- Attend spring and fall job fairs.
- Post "tentative upon approval" job announcements on university job sites as soon as possible.

- Post confirmed job announcements on university job sites as soon as possible.
- Sell the benefits of working for state government (i.e. state sponsored MBA program, vacation leave, health benefits and retirement plans).
- Target students who enjoy the idea of an 8 to 5 job versus the strain of tax and audit season of CPA firms.
- Recruit accounting interns with December 2014 and May 2015 graduation dates who wish to work in Pierre for state government.

Challenges of transitioning to a December 31 CAFR issuance date

➢ **Audit Challenges**
DLA has traditionally completed a majority of the CAFR auditing after the close of the fiscal year. Given the shortened time frame of a December 31 CAFR issue date, DLA will be required to: 1) do both CAFR and Single Audit Report compliance interim testing before year-end; 2) do year-end CAFR testing after the year-end close of the accounting system, and then; 3) transition back to compliance Single Audit Report testing once the CAFR is complete. Thus, some agencies will have to accommodate DLA at three different times throughout the fiscal year. That will require dedication and commitment by the state agencies to allocate adequate agency resources needed to accommodate audit demands. Additionally, the state agencies will have to be working on agency budget requests and CAFR at the same time. Currently, we wait until after agencies have submitted their budget requests before we require them to devote time to CAFR issues.

➢ **Holidays**
A December 31 deadline is very difficult as the Thanksgiving and Christmas Holidays will severely interrupt and impact work flow.

➢ **Work quality**
Requiring employees to work faster leads to increased employee stress, increased errors and mistakes, and ultimately a backsliding of work quality. We need to be near perfect and thus we will need to implement a system of cross checks where employees are checking each other's work to maintain work quality.

➢ **Quality employees**
One main factor is hiring key personal. Finding accountants that have experience in Governmental Accounting is almost impossible. Finding good accountants with any accounting experience who want to work in Pierre, for state government, for less money than what the private sector offers is very challenging. Given that, BFM, DLA and BOR will struggle to be able to hire and retain additional quality accountants/auditors at the same time during the ramping up stage. **An inability to timely fill and retain these key positions with quality employees will put the December 31 CAFR goal at risk.**

Based on BFM's recent experience, it appears the demand for accountants in the Midwest exceeds the supply. In July, BFM advertised an open A3 level accounting position and received very few qualified applications. After about 3 months of aggressively seeking, we were finally able to hire a qualified accountant. Given this last hiring experience and after discussing with BHR, it will be a struggle for BFM, DLA and BOR to hire enough experienced and capable accountants to work in Pierre.

Given the experience level of BFM's current CAFR accounting staff, BFM will focus on hiring new accounting graduates (with little to no experience) and train them. However, under that plan, BFM will then be competing with DLA as they too will be looking to hire accounting students to be stationed in Pierre.

The South Dakota and North Dakota Universities with accounting programs (USD, NSU, BHSU, UND and NDSU) graduate a combined total of under 300 students per year with accounting degrees (both 4 and 5 year degree programs). When communicating with the placement offices and accounting departments, most indicated that many of the best students have job offers up to 2 years before graduation. Many of these students are going to work for CPA firms and starting salaries are well above what State Government is paying. Placement six months after graduation is well over 90% (many times in the high 90%).

Additional Benefits of a Faster CAFR and more staff

Besides the intended effects, the state will see additional benefits from a faster CAFR plan. Those benefits can be summarized as devoting more resources to internal control.

Currently, the BFM CAFR staff (8 direct employees) devotes about 9 months directly and indirectly to preparing the CAFR (about 10,000 to 11,000 hours). Speeding up the CAFR time frame does create some inefficiencies but should not add any significant hours to complete it. The added FTE will allow BFM to complete the CAFR sooner (devote about 10,000 to 11,000 hours in six months versus nine months) thus opening up additional resources outside the CAFR season which can be devoted to internal controls.

- Currently, at the end of one CAFR season BFM moves directly into the planning for the next CAFR. BFM has little time to implement new accounting standards prior to the start of the fiscal year. A faster CAFR with more FTE will help solve this problem. BFM will be able to better plan, assess risk and address those issues in a timely fashion.

- Additionally, the State needs to do a better job of addressing internal control weaknesses. Almost all of the Single Audit findings are related to an internal control weakness. BFM CAFR staff will be able to devote time to helping agencies to first document procedures and control, and then eventually make recommendations to strengthen those controls and help assess control risk. We believe this will not only greatly reduce Single Audit findings but also make for a more efficient and effective government.