



STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT
OFFICE OF THE SECRETARY

April 2, 2012

Senator Toni Harp, Co-Chairperson
Representative Toni Walker, Co-Chairperson
Senator Robert Kane, Ranking Member
Representative Craig Miner, Ranking Member
Appropriations Committee
Room 2700, Legislative Office Building
Hartford, CT 06106

Senator Eileen Daily, Co-Chairperson
Representative Patricia Widlitz, Co-Chairperson
Senator Andrew Roraback, Ranking Member
Representative Sean Williams, Ranking Member
Finance, Revenue and Bonding Committee
Room 3700, Legislative Office Building
Hartford, CT 06106

Dear Chairpersons and Ranking Members of the Appropriations and Finance, Revenue and Bonding Committees:

In compliance with Governor Malloy's Executive Order No. 1, I am writing to provide you with an updated status of our efforts regarding the adoption and implementation of Generally Accepted Accounting Principles (GAAP) in preparing and reporting on the state's budget. For reference, my initial report on this effort, released April 18, 2011, is available on the OPM website at <http://www.ct.gov/opm/cwp/view.asp?a=2998&q=477452>.

As you know, last session the Legislature passed several important statutory provisions aimed at GAAP implementation. Public Act 11-48 makes various changes to ensure that the state's budget and financial statements conform to GAAP requirements, and requires that the state begin addressing the cumulative GAAP deficit in fiscal year 2014. This latter requirement involves amortizing and paying off over 15 years any unreserved negative balances that have accumulated in state funds as a result of not applying GAAP in the past, and when implemented will result in a strengthened balance sheet.

These statutory changes, in conjunction with the Governor's Executive Order, lay the framework for our efforts over the past year and going forward. As a result, a number of GAAP implementation activities are underway or are in the planning stages, including:

- Core-CT, the state's financial information system, is being upgraded, and enhanced support for GAAP requirements is anticipated from the upgraded system. The Core-CT team has been reviewing functionality offered in the upgraded software and is assessing the state's requirements against the new software version to determine potential gaps. Decisions about

implementation of any new GAAP-related functionality will be made in conjunction with decisions to revise current agency business practices.

- OPM expenditure and revenue forecasts provided to the Comptroller on the 20th of each month pursuant to CGS 4-66 now include a statement of operations on both budgetary and GAAP bases.
- OPM's fiscal accountability report and presentation in November 2011 pursuant to CGS 2-36b portrayed results on both budgetary and GAAP bases and also reflected the impact of amortization of the cumulative GAAP deficit during fiscal years 2014-2016. Presentation of this information will continue in future reports.
- As with the biennial budget offered last year, exhibits were included in the Governor's recommended budget adjustments for the fiscal year ending June 30, 2013 that depict the recommendations on both budgetary and GAAP bases and include the impact of the amortization of the cumulative GAAP deficit during fiscal years 2014-2016. I encourage the legislature to include similar exhibits in the Office of Fiscal Analysis' budget book.
- A series of meetings have been held and my office continues to work with the Comptroller's office, Core-CT staff and others (including the Auditors of Public Accounts and Office of Fiscal Analysis) on issues requiring resolution as full implementation moves forward. Areas of discussion include:
 - Financial transaction processing during GAAP implementation, and impact on periodic and year-end closing of financial statements;
 - Potential agency business process changes (e.g., changes to receiving goods and services);
 - Monthly budget monitoring under GAAP;
 - Issues specific to agencies accruing obligations outside of Core-CT (e.g., through agency check-writing capability);
 - Treatment of limited-scope Core-CT agencies (e.g., Legislative Branch, Judicial Branch, higher education);
 - Review of tax revenue accruals; and
 - Review of treatment of federal reimbursement.

We anticipate continued meetings and broader involvement of state agencies in the coming months as the implementation effort moves forward.

- My office is beginning now to plan the process for developing the Governor's recommended budget for the biennium covering July 1, 2013 through June 30, 2015. As part of that planning effort, we are considering the informational needs and other requirements to support development of a budget document that collects, aggregates, and displays information for the next biennium that satisfies GAAP requirements.

While important work has been accomplished, much remains to be done to bring about the Governor's vision for implementing Generally Accepted Accounting Principles. I hope this update is helpful in summarizing some of the actions taken over the last year as well as the direction for the future. As always, I am available to respond to any questions you may have about this report or about GAAP implementation.

Sincerely,

A handwritten signature in blue ink that reads "Benjamin Barnes". The signature is fluid and cursive, with the first name being more prominent.

Ben Barnes
Secretary

cc: Hon. Dannel Malloy, Governor
Hon. Denise Nappier, Treasurer
Hon. Kevin Lembo, Comptroller
Robert Ward, Auditor of Public Accounts
John Geragosian, Auditor of Public Accounts
Alan Calandro, Director, Office of Fiscal Analysis