

LSC Greenbook

Analysis of the Enacted Budget

Auditor of State

Terry Steele, Budget Analyst
Legislative Service Commission

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ATTACHMENT:

Budget Spreadsheet By Line Item

Auditor of State

- Total of \$145.5 million appropriated for the FY 2012-FY 2013 biennium
- Budget is 61% supported by fees and 39% supported by GRF
- Expanded focus on performance audits as a result of S.B. 4

OVERVIEW

Agency Overview

The Auditor of State is an elected official responsible for auditing all public offices in Ohio. This includes state departments and commissions as well as offices of the state's political subdivisions, such as cities and villages, counties and townships, schools and universities, and libraries. The Auditor also provides consulting services to local governments and training for public officers. The office employs approximately 823 people among three divisions: Audit, Legal, and Administration. Most employees are full-time audit staff who work from headquarters or one of the eight regional offices. These offices are located in Canton/Akron, Cincinnati, Cleveland, Columbus, Dayton, Southeast, Toledo, and Youngstown. Each regional office is staffed by a Chief Auditor and an Assistant Chief Auditor.

Audits conducted by the office take a variety of forms. Financial and compliance audits identify critical issues related to financial reporting, legal compliance, reportable conditions, systems of internal control, and irregular or illegal activities. Audits are either conducted on an annual or biennial basis. Performance audits of school districts under fiscal caution, watch, or emergency, as well as local governments under fiscal watch or emergency, identify areas where operational efficiencies or enhanced program results can be achieved. The office also performs special audits for private entities that receive public funding (i.e., institutions, associations, boards, foster care organizations, companies, and nursing homes) as well as public entities upon their request or the Auditor of State's own initiative.

Appropriations for FY 2012-FY 2013

As the table below shows, the budget provides the Auditor of State with funding of \$73.2 million in FY 2012, an increase of 3.4% when compared to FY 2011 spending of \$70.8 million. The amount appropriated for FY 2013 is \$72.3 million, a decrease of 1.2% when compared to FY 2012 appropriations. About 61% of the funding (\$44.9 million in FY 2012 and \$44.1 million in FY 2013) is derived from audit fees paid by state agencies and political subdivisions, as well as local government users of the Uniform Accounting Network (UAN). A small portion also comes from fees charged for training sessions. These revenues are deposited into four separate funds within the Auditor of State Fund Group. The remaining 39% of funding, \$28.2 million in each fiscal year, is from the GRF.

Appropriations by Fund Group, FY 2012-FY 2013					
Fund Group	FY 2011*	FY 2012	% change, FY 2011-FY 2012	FY 2013	% change, FY 2012-FY 2013
General Revenue Fund	\$30,041,318	\$28,234,452	(6.0%)	\$28,234,452	0%
Auditor of State	\$40,767,341	\$44,954,209	10.3%	\$44,084,249	(1.9%)
TOTAL	\$70,808,659	\$73,188,661	3.4%	\$72,318,701	(1.2%)

*FY 2011 figures represent actual spending.

Impact of S.B. 4 Performance Audit Requirement

Sub. S.B. 4 of the 129th General Assembly requires the Auditor of State to conduct performance audits of at least four state agencies each biennium. At first, this will include the Department of Education, the Department of Job and Family Services, the Department of Transportation, with a particular focus on the possible realignment of transportation districts, and one other agency among the 19 departments listed in section 121.02 of the Revised Code.

The bill has fiscal implications for the Auditor of State as well as agencies subject to audit. To help state agencies and political subdivisions pay for performance audits, S.B. 4 creates the Leverage for Efficiency, Accountability, and Performance (LEAP) Fund (Fund 5JZ0). The initial capitalization for the revolving loan fund is through a \$1.5 million cash transfer in FY 2012 from the Uniform Accounting Network Fund (Fund 6750), which is used by the Auditor of State to support state-mandated accounting and financial reporting functions of local government. This funding is appropriated in the Auditor of State's budget for FY 2012-FY 2013.

Under current law, the Performance Auditing Section within the Auditor's Office routinely conducts performance audits for public and quasi-public entities upon request. According to the Auditor, performance audits take approximately 16 to 32 weeks to complete and consist of three distinct stages, including planning, field work, and report preparation. Ultimately, the audits produce recommendations for operational improvements. The Performance Auditing Section currently consists of about 28 employees (down from 44 in FY 2010 because of funding constraints) and spends approximately \$2.6 million each fiscal year to conduct performance audits of state agencies and local governments. Given the increase in demand for performance audit services, the Auditor of State may have to adjust staffing throughout the office in order to handle the additional volume of work under S.B. 4. The office will also contract out for some of these performance audits.

ANALYSIS OF ENACTED BUDGET

Auditing

The line items included within this category are used to fund primary auditing functions, including financial audits of state agencies and local governments, as well as other performance, healthcare provider, and special audits. Just less than 40% of the funding for these activities is provided from the GRF.

Appropriations for Auditing				
Fund	ALI and Name		FY 2012	FY 2013
General Revenue Fund				
GRF	070321	Operating Expenses	\$27,434,452	\$27,434,452
General Revenue Fund Subtotal			\$27,434,452	\$27,434,452
Auditor of State Fund Group				
1090	070601	Public Audit Expense – Intrastate	\$9,000,000	\$8,700,000
4220	070602	Public Audit Expense – Local Government	\$31,422,959	\$31,052,999
5JZ0	070606	LEAP Revolving Loans	\$850,000	\$650,000
Auditor of State Fund Group Subtotal			\$41,272,959	\$40,402,999
Total Funding: Auditing			\$68,707,381	\$67,837,451

Operating Expenses (070321)

The appropriation for this GRF line item is \$27.4 million in both FY 2012 and FY 2013, a decrease of 6.5% from FY 2011 spending of \$29.3 million. This line item is used to pay the personnel, maintenance, and equipment costs throughout the agency. Additionally, all IT costs for the Columbus headquarters and field offices are paid from this line item. The funding also covers the expenses of the Division of Administration, which oversees the office's human resources, training and recruitment, fiscal, and IT operations. The financial management system that assists local governments in handling their accounting and payroll responsibilities, the Uniform Accounting Network (UAN) is also under the purview of the Division. Funding for these purposes, however, is supported by local governments that use this system. UAN is described in more detail under the Local Government Services area of this Greenbook.

Public Audit Expense – Intrastate (070601)

The appropriation for this line item is \$9.0 million in FY 2012, an increase of 11.3% compared to FY 2011 spending of \$8.1 million. The FY 2013 appropriation is \$8.7 million, or 3.3% less than the FY 2012 amount. This line item is used to pay for the costs of annual, biennial, and special audits the Auditor of State performs on state

agencies. The appropriation is supported by fees paid by state agencies for the costs of performing these audits and deposited in the Public Audit Expense – Intrastate Fund (Fund 1090). The billable hourly rate for FY 2010 was \$58.79 and increased to \$62.64 in FY 2011. The rate for FY 2012 is \$61.24. Fund 1090 took in approximately \$7.2 million in FY 2010. Receipts for FY 2011 were approximately \$8.0 million.

Public Audit Expense – Local Government (070602)

The appropriation for this line item in FY 2012 is \$31.4 million, an increase of 3.9% when compared to FY 2011 spending of \$30.2 million. The appropriation for FY 2013 is \$31.0 million, a decrease of 1.2% from the FY 2012 amount. This line item is used to pay for the costs of annual, biennial, and special audits performed on political subdivisions. The appropriation is supported by fees paid by political subdivisions for the costs of performing these audits and deposited in the Public Audit Expense – Local Governments Fund (Fund 4220). The billable hourly rate for local government entities is \$50 per hour.

Fund 4220 collected approximately \$32.3 million in fees in FY 2010. FY 2011 receipts were \$31.7 million. Overall, the revenue collected for local government audits remains contingent upon the ability of those local governments to pay. If there is an increase in the number of local governments that fall into fiscal watch or fiscal emergency during the FY 2012-FY 2013 biennium, the revenue collected from local government audits could decrease.

LEAP Revolving Loans (070606)

The budget provides this line item with funding of \$850,000 in FY 2012 and \$650,000 in FY 2013. The line item will be used to distribute loans to state agencies and local governments from the Leverage for Efficiency, Accountability, and Performance Fund (Fund 5JZ0) to pay for performance audits required under S.B. 4 of the 129th General Assembly. Specifically, S.B. 4 requires the Auditor of State to conduct performance audits of at least four state agencies each biennium. At first, this will include the Department of Education, the Department of Job and Family Services, the Department of Transportation, and by selection of the Governor, the Ohio Housing Finance Agency. To provide an initial source of funding for the loans, S.B. 4 capitalized the program with a cash transfer of \$1.5 million from the Uniform Accounting Network Fund (Fund 6750) in FY 2012. In the future, the source of ongoing funding for this loan program will be repayments from state agencies and local governments that borrow from the fund to cover the cost of their performance audits. Consequently, the number of loans issued in a given year will depend on this stream of revenue. When sufficient loan repayment revenue accrues, the initial \$1.5 million in start-up financing is to be repaid to Fund 6750.

Local Government Services

This category funds various other services the Auditor of State offers to local governments, including auditing services to political subdivisions in fiscal watch or emergency, training for political subdivision employees, and the Uniform Accounting Network. Approximately \$3.7 million in each fiscal year (just over 80%) of the proposed funding in this category is derived from fees charged to the political subdivisions using these services.

Appropriations for Local Government Services				
Fund		ALI and Name	FY 2012	FY 2013
General Revenue Fund				
GRF	070403	Fiscal Watch/Emergency Technical Assistance	\$800,000	\$800,000
General Revenue Fund Subtotal			\$800,000	\$800,000
Auditor of State Fund Group				
5840	070603	Training Program	\$181,250	\$181,250
6750	070605	Uniform Accounting Network	\$3,500,000	\$3,500,000
Auditor of State Fund Group Subtotal			\$3,681,250	\$3,681,250
Total Funding: Local Government Services			\$4,481,250	\$4,481,250

Fiscal Watch/Emergency Technical Assistance (070403)

This GRF line item is used to pay the costs of providing performance audits, accounting reports, annual forecasts, and supervisory, accounting, or auditing services for municipal corporations, counties, townships, and school districts in the determination or termination of fiscal watch or fiscal emergency.

The costs of these services largely depend upon how many local governments and school districts are in fiscal watch or fiscal emergency. Currently, there are 27 local governments and 13 school districts in fiscal watch or fiscal emergency. The budget appropriates \$800,000 in FY 2012 and FY 2013 for these activities, an increase of 13.6% over the FY 2011 spending of \$704,063 under this line item.

Training Program (070603)

This line item is used to pay for training of newly elected local fiscal officials and ongoing training of county treasurers and village clerks. The Auditor of State Training Fund (Fund 5840) consists of fees collected from township clerks, city auditors, village clerks, county treasurers, and staff of these officials that attend these training sessions. This fund collected approximately \$132,000 in FY 2010. FY 2011 receipts were \$112,543. The budget appropriates \$181,250 in both FY 2012 and FY 2013 for local government

training services, an increase of 68.8% from FY 2011 spending of \$107,406 for these purposes.

Uniform Accounting Network (070605)

This line item is used to pay for computer maintenance, upgrades, consulting, and other costs associated with maintaining the Uniform Accounting Network (UAN). The Uniform Accounting Network Fund (Fund 6750) consists of annual fees from local governments, ranging from \$8 per month for entities with annual revenues under \$50,000 to \$325 per month for entities with revenues higher than \$10 million in annual revenues. As is the case with other service funds used by the Auditor of State, the financial status of participating local governments affects the amount of fees received. Receipts for FY 2010 were approximately \$3.5 million. This amount declined to \$915,500 in FY 2011. The budget appropriates \$3.5 million in both FY 2012 and FY 2013 for this line item, an increase of 49.6% from FY 2011 spending of \$2.3 million.

As noted previously, recently enacted S.B. 4 requires the Auditor of State to transfer \$1.5 million from Fund 6750 to the newly created Leverage for Efficiency, Accountability, and Performance Fund (Fund 5JZ0). This transfer occurred at the beginning of FY 2012 and was intended to provide the working capital to fund loans that state agencies and political subdivisions can use to pay for their performance audits. The cash balance in Fund 6750, before the transfer required under S.B. 4, was approximately \$6.1 million.

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FY 2012 - FY 2013 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency					Appropriations	FY 2011 to FY 2012	Appropriations	FY 2012 to FY 2013
			FY 2010	FY 2011	FY 2012	% Change	FY 2013	% Change
Report For Main Operating Appropriations Bill			Version: Enacted					
AUD Auditor of State								
GRF	070321	Operating Expenses	\$ 29,358,887	\$ 29,337,255	\$ 27,434,452	-6.49%	\$ 27,434,452	0.00%
GRF	070403	Fiscal Watch/Emergency Technical Assistance	\$ 699,997	\$ 704,063	\$ 800,000	13.63%	\$ 800,000	0.00%
General Revenue Fund Total			\$ 30,058,884	\$ 30,041,318	\$ 28,234,452	-6.01%	\$ 28,234,452	0.00%
1090	070601	Public Audit Expense-Intrastate	\$ 7,750,884	\$ 8,088,414	\$ 9,000,000	11.27%	\$ 8,700,000	-3.33%
4220	070602	Public Audit Expense-Local Government	\$ 33,666,420	\$ 30,231,912	\$ 31,422,959	3.94%	\$ 31,052,999	-1.18%
5840	070603	Training Program	\$ 165,598	\$ 107,406	\$ 181,250	68.75%	\$ 181,250	0.00%
5JZ0	070606	LEAP Revolving Loans	\$ 0	\$ 0	\$ 850,000	N/A	\$ 650,000	-23.53%
6750	070605	Uniform Accounting Network	\$ 2,501,717	\$ 2,339,608	\$ 3,500,000	49.60%	\$ 3,500,000	0.00%
Auditor of State Fund Group Total			\$ 44,084,618	\$ 40,767,341	\$ 44,954,209	10.27%	\$ 44,084,249	-1.94%
Auditor of State Total			\$ 74,143,502	\$ 70,808,659	\$ 73,188,661	3.36%	\$ 72,318,701	-1.19%