Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Sub. S.B. 4 of the 129th G.A. **Date**: March 22, 2011

Status: As Reported by House Finance & Appropriations **Sponsor**: Sen. Schaffer

Local Impact Statement Procedure Required: No

Contents: Institutes performance auditing requirements for certain state agencies and makes an appropriation

State Fiscal Highlights

- The bill requires the Auditor of State to conduct performance audits of specified state agencies. Under the current process, the Auditor of State charges state agencies for performance audits. These fees are deposited into the Public Audit Expense – Intrastate Fund (Fund 1090).
- The bill creates the Leverage for Efficiency, Accountability, and Performance Fund (Fund 5JZ0). The fund will be used by the Auditor of State to issue loans to state agencies and political subdivisions to pay for the costs of conducting performance audits. The bill capitalizes the fund through a cash transfer of $1.5 million in FY 2011 from the Auditor of State's Uniform Accounting Network Fund (Fund 6750), and appropriates that amount for making the loans.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

The bill 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 requires that these audits begin within 90 days of the effective date of the bill. The bill also permits any state agency, other than the 19 departments listed under section 121.02 of the Revised Code, to request a performance audit. However, should none of these agencies request an audit, the bill requires the Governor to select an agency to be audited. Following the release of a performance audit, the bill outlines public comment requirements and certain steps that agencies must take to notify the Governor, the Auditor of State, and the General Assembly if audit recommendations have not or will not be implemented. The bill also requires the Auditor of State to annually produce a report stating whether or not those agencies receiving performance audits the prior year have implemented the audit recommendations, and the amount of money saved as a result of implementation. This report must be submitted by March of each year to the Governor, Speaker and Minority Leader of the House of Representatives, and President and Minority Leader of the Senate. The bill exempts the offices of statewide elected officials and offices of the legislative and judiciary branches from the performance audit requirement.

Payment of performance audit costs

The bill creates the Leverage for Efficiency, Accountability, and Performance (LEAP) Fund (Fund 5JZ0), a revolving loan fund that will be used by the Auditor of State to issue loans to state agencies and political subdivisions to pay for the costs of performance audits. Local public offices may only borrow funds if they obtain prior approval from county commissioners to do so. Repayment of the loans, including interest, is due one year from the completion date of the audit. If any agency or political subdivision does not fully repay the loan and interest amount by that date, the bill requires the Auditor of State to certify the amount owed to the Director of Budget and Management or the applicable county auditor. The Director of Budget and Management or county auditor must then withhold funds under their control in the amount owed, and submit that amount to the Auditor of State as payment. The bill provides the LEAP Fund with initial capitalization through a $1.5 million cash transfer in FY 2011 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. The bill requires that the $1.5 million be repaid to Fund 6750 as cash balances in Fund 5JZ0 allow.

Current performance auditing procedures

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 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. Note that in some cases the Auditor will contract out for these services. The current hourly fee charged to state agencies is a flat rate established by the Statewide Cost Allocation Plan (SWCAP), and is revised every year. The hourly rate per assigned Auditor of State employee for FY 2010 was $58.79. This increased to $62.64 for FY 2011. These fees are deposited in the Auditor of State's Public Audit Expense – Intrastate Fund (Fund 1090), or Public Audit Expense – Local Government Fund (Fund 4220). As a result of the audit requirements specified in the bill, state agencies will incur new expenses for these performance audits, the cost depending on the scope of the audit.

Performance audit data

According to recent records, the Auditor conducted 32 performance audits of school districts and local government entities in FY 2010. Cumulatively, those audits produced 785 recommendations for improvements. Since FY 2007, both in-house staff and contract auditors have performed 107 performance audits, resulting in over 3,000 recommendations. During the FY 2008-FY 2009 biennium, funding was approved through the Ohio Department of Education's (ODE) budget for the Auditor to conduct performance audits on school districts in fiscal watch or emergency. Over this span, the Auditor billed ODE for conducting 23 such audits, and ODE spent approximately $815,000 in each fiscal year from GRF line item 200422, School Management Assistance, to pay for them. Due to funding constraints, the Auditor has conducted only nine such performance audits in the current biennium.

Washington state performance audits

The state of Washington has recent experience in undertaking a systematic review of state agency and local government operations through performance audits, the voters having approved such a requirement under Initiative 900 in 1995. Washington employs 42 individuals that conduct between nine and twelve performance audits annually. The costs of the audit program are approximately $12 million per year and are funded through a percentage of the state sales tax. While many of the agencies and local governments may be smaller than those in Ohio, between FY 2008 and FY 2010 Washington's performance audit program conducted 30 audits of approximately 80 government entities. Those audits produced approximately

1,300 recommendations, which the State Auditor purports would result in an estimated $644 million in savings if implemented.

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