Auditor of State

Senate Finance and Financial Institutions Committee

Terry Steele, Budget Analyst

Legislative Service Commission

May 5, 2005

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LSC Redbook
for the
Auditor of State

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- **Catalog of Budget Line Items**
- **LSC Budget Spreadsheet By Line Item: Executive to House Passed**
- **Compare Document: Permanent and Temporary Law**

May 5, 2005

Auditor of State

- Total recommended appropriation of $75,764,782 in both FY 2006 and FY 2007.
- Expansion from three to six program series.
- Increased emphasis on Fraud and Investigative Services in the next biennium.

OVERVIEW

The current Auditor of State, an elected constitutional officer, is serving a four-year term beginning with the FY 2004-2005 biennial period. The officer is responsible for auditing all public offices in Ohio including: cities and villages, schools and universities, counties and townships, libraries, as well as the many departments, agencies, and commissions of state government. The Auditor issued more than 3,400 audits in calendar year 2003. The Auditor also provides consulting services to local entities, training for public officers, and produces payroll, vendor payments, warrants for the state, and income tax refunds.

The Auditor of State employs approximately 890 full-time employees and is currently operating with an annual budget of approximately $75.7 million (based on current estimated spending), a decrease of approximately 12% from FY 2005, to fulfill its responsibilities. The majority of the Auditor's employees are auditors who work from the state office or one of the eight regional offices: Canton/Akron, Cincinnati, Cleveland, Columbus, Dayton, Southeast, Toledo, and Youngstown. Each regional office is staffed by a Chief Auditor and an Assistant Chief Auditor.

The office is organized in three *divisions* of operation:

- Audit Division
- Administration Division
- Legal Division

Detailed descriptions of the work these divisions do and challenges for FYs 2006-2007 follow the "FYs 2006-2007 Executive Recommendations" section.

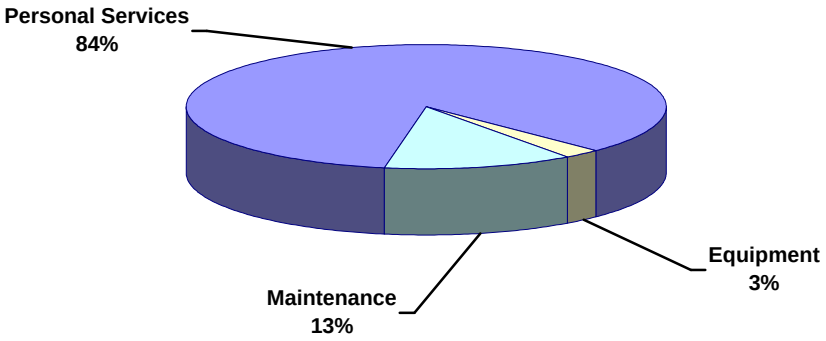
FYs 2006-2007 Executive Recommendations

The Executive recommends appropriations of $75.7 million in each fiscal year, a .7% increase over estimated spending in FY 2005.

Please consult the enclosed Master Table for a detailed analysis of how this funding was allocated by line item.

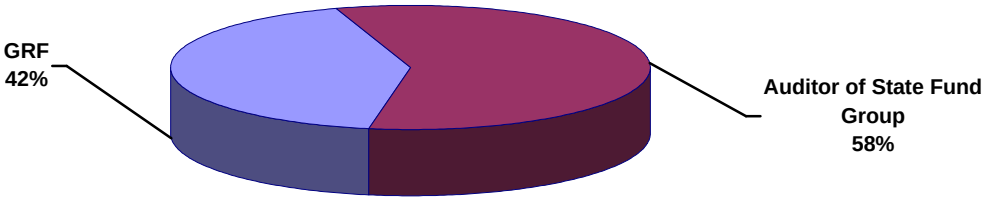
The following chart illustrates the Auditor of State's budget spending by object code. The chart illustrates that a significant part of the Auditor's spending is used for staffing.

Total Budget by Object Code
FYs 2006-2007



The following chart illustrates the Auditor of State's budget sources based upon fund groups. The chart illustrates that the Auditor relies heavily on fees collected from local governments for services provided by the Auditor's office. This revenue is contained in the "Auditor of State" fund category. Since this fund group comprises nearly 60% of the Auditor's funding, the inability of local governments to pay the Auditor for services can have a significant impact on the Auditor's budget.

Total Budget by Fund Group
FYs 2006-2007



FYs 2006-2007 Budget Issues

Local Government Services Funding Concerns

Approximately two-thirds of the Auditor's budget is funded through fees charged to local governments for various services. An increasing inability to pay for services by local governments will create future budgetary issues for the Auditor of State. The Auditor experienced a reduction in revenue received for local government services of $262,312 between FY 2003 and FY 2004. It is anticipated that the Auditor will also face a revenue reduction of approximately $94,000 between FY 2004 and FY 2005 when current revenues received are projected out for an entire fiscal year.

This trend could continue into the next biennium. The Auditor of State anticipates an additional 15 local entities to fall into fiscal watch, caution, or emergency in FY 2005. Currently there are 21 local governments in fiscal watch or emergency. This number could rise further in the next biennium as local governments may experience a reduction in revenue as a result of the Governor's plan to cut funding to the Local Government Fund.

Fraud and Investigative Audit Group – Increased Priority

The current Auditor of State has established that one of three priorities is to find and reduce public fraud and corruption. To support that priority, three prosecutors have been reassigned and two or three investigators were expected to join the group during the FY 2004-2005 biennium. These positions will initiate a redefined Fraud, Waste, and Abuse Prevention Division (FWAP) with an expanded focus compared to the former organization. The redefined FWAP will focus on uncovering public corruption, and the misuse and abuse of public money.

Uniform Accounting Network (UAN) Funding Issues for FYs 2006-2007

In the past, the funding stream for the operation of the UAN consisted of (a) GRF funds for payroll to cover technical support and software development, and (b) local user fees on a graduated scale to cover hardware. Budget cuts to GRF funds in the last biennium have nearly eliminated the availability of GRF appropriations; therefore, the Auditor of State has been tapping Fund 675 (Special Revenue Fund) for the necessary funding for the UAN. Fund 675 is now the sole source of UAN funding. The office does not have adequate cash balances in Fund 675 nor does the current fee structure provide enough revenue to support expenditures into the next biennium. The UAN also may face the need for software upgrades in the next biennium. A recent opinion of the AICPA may require that the software be upgraded to comply with GASB34 requirements. The costs of such an upgrade is unknown at this time.

Description of Division Responsibilities

Audit Group

Financial Audits. The Audit Division performs financial and compliance audits of Ohio's public entities to identify critical issues related to public entities' financial reporting, legal compliance, reportable conditions, systems of internal control, control weaknesses, high-risk investments, and irregular or illegal activities. The Audit Division serves all state and local government entities in Ohio. Working from the nine regional offices (eight geographic regions and one for state audits), the auditors audit the financial records of Ohio's political subdivisions, ensuring that state and locally collected revenues are spent according to the direction of the General Assembly, school boards, city or village councils, township trustees, and boards of county commissioners. Audits are either conducted on an

annual or biennial basis. Biennial audits are performed with auditors examining both years in a biennium. Audits are done to ensure that:

- Public funds are legally expended;
- Records are maintained in accordance with law;
- Generally Accepted Accounting Principles (GAAP) are followed; and
- Standard principles of fiscal management are followed.

In Calendar year 2003, the Auditor issued more than 3,400 audits. Of these, 145 contained findings for recovery, identifying dollars that were either misspent or stolen and owed back to the public office. Overall, nearly $8 million in findings for recovery were identified.

Performance Audits. The Auditor of State, on the Auditor of State's initiative, may conduct a performance audit of a school district that is under a fiscal caution under section 3316.031 of the Revised Code, in a state of fiscal watch, or in a state of fiscal emergency, in which the Auditor of State reviews any programs or areas of operation in which the Auditor of State believes that greater operational efficiencies or enhanced program results can be achieved. Moreover, the Auditor of State is granted similar authority and oversight when local governments (counties, townships, villages, etc.) are deemed to be in a state of fiscal watch or fiscal emergency pursuant to Chapter 118. of the Revised Code.

The purpose of the audit process is to eradicate fraudulent use of public money, eliminate waste and abuse of tax dollars, and provide oversight and assistance in a manner that produces cost savings practices for local entities. In FY 2004, 25 performance audits were released. There were 1,176 recommendations presented in these audits, which, if fully implemented, would result in more than $37.4 million in potential savings and revenue enhancements were identified.

Special Audits. The Audit Group completes special audits of private entities that receive public funding (institutions, associations, boards, and corporations such as foster care companies and nursing homes) as well as public entities at any time when so requested by the entity or upon the Auditor of State's own initiative. There is no difference in the costs to the Auditor of State to audit private or public entities.

The Taxpayer Protection Initiative, which was launched on October 1, 2003, has logged 413 consumer calls through July 12, 2004, from which 89 complaints have resulted and been investigated. During FY 2004, 8 special audits were released, in which approximately $6.4 million in findings for recovery were identified, in addition to $1.1 million in questioned costs.

Local Government Services Group (LGS)

The Local Government Services Group acts as a consulting and fiscal advisory group to all government agencies and subdivisions. In that role the Local Government Services Group provides technical expertise, training, consulting services, GAAP conversion assistance, financial forecasts, fiscal watch and emergency analysis, and records reconstruction, and reconciliation. The Open Government Unit, established in January 2003, conducted 57 seminars for approximately 3,040 attendees including law enforcement, local government officials, and the media in FY 2004.

The function of this group is important as this group fulfills statutory obligations that include attempting to rescue local governments and school districts from projected insolvency. The number of local governments and school districts that are in a state of fiscal watch, caution, or emergency has an effect on the Auditor's budget. Many local entities have difficulty paying for the statutorily mandated services provided by the Auditor of State's office.

Fraud and Investigative Audit Group

The recently created Fraud and Investigative Audit Group (formerly known as Fraud Waste Abuse Prevention) helps state and local governments identify and prevent fraud, waste, and abuse in their operations and public assistance programs. Combating fraud has been identified as a high priority for the Auditor of State in this upcoming biennium. This program will seek to examine such waste and abuse within the Medicaid system in Ohio.

Under authority of Chapter 117. of the Revised Code, the Fraud and Investigative Audit Group identifies and reports incidents of noncompliance with state laws and local regulations. The Group serves as a source of analysis concerning the existence of fraud, waste, and abuse in Ohio institutions. The Group's mission is to assess how well programs are performing in respect to their mandated objectives and taxpayer expectations, and to help state agencies prevent misspending their funds and improve their program operations. The scope of the Fraud and Investigative Audit Group's work includes:

1. Assess the efficiency, economy, and effectiveness of agency programs.
2. Highlight incidents of noncompliance with federal and state laws and regulations.
3. Identify systemic weaknesses in internal controls.
4. Identify opportunities to recover misspent funds.
5. Recommend actions to improve agency operations and prevent future occurrences of fraud, waste, and abuse.

The Group works closely with Medicaid, Child Support, and Welfare managers in the Ohio Department of Job and Family Services (ODJFS); the Ohio Attorney General's Medicaid Fraud Unit; the U.S. Attorney's Office; the Ohio Medical and Pharmacy boards; and Federal Office of Inspector General. In addition, the Auditor's Office formed the Welfare Fraud Prevention Initiative, which brings together over 20 federal, state, local, and private sector stakeholders from across the state to discuss welfare fraud prevention.

Administration Division

Administration

The Administration Division manages the human resources, payroll, records, graphics, financial, warrant writing functions, and electronic funds transfer administration of the Auditor's office, as well as providing routine financial information to management and preparing the office's comprehensive financial report.

The Administrative Division is also responsible for maintaining a Local Area Network (LAN) and a Wide Area Network (WAN) to provide information to the nine regional offices and more than 900 personal computers. The Division develops and maintains the systems for the processing of payroll, warrant writing and electronic funds transfer, project tracking, client billing, and maintenance of both the intranet and Internet. The Division is responsible for the procurement and maintenance of the Auditor's office's computer hardware and software.

The Local Government Services Group is responsible for implementing the Uniform Accounting Network (UAN), which offers an electronic data processing accounting system for townships, villages, and libraries. The system is designed to assist political subdivisions in the maintenance of their accounting records. The system includes hardware, software, training, and support. UAN's accounting, payroll, and ancillary applications (i.e., cemetery and inventory tracking) contribute to a reduction in the time necessary for entities to process accounting transactions and maintain the related accounting records. About 1,532 Ohio townships, villages, libraries, and special districts utilize the Uniform Accounting

Network. The UAN recently increased its total number of users from 1,533 to approximately 1,600. The annual fee for participating in UAN depends upon a local government's total annual budgeted revenues. The fee ranges from as low as $336 per year for entities with annual revenues under $50,000 to as high as $3,636 per year for governments with revenues over $10 million per year.

Public Affairs Group

The Public Affairs Group serves the public and news media by responding to thousands of requests for information each year, ensuring the public is informed on the results of current audits and other initiatives. The staff seeks to ensure that the audit information is delivered in a timely and understandable fashion, allowing the public to be informed on how tax dollars are spent. This group provides information through a variety of media, including regional advisory board meetings, Auditor of State technical bulletins, news releases, and other publications. The staff also provides all internal communications functions.

Legal Division

The Legal Division provides legal expertise to management and local governments in addition to working with the Fraud and Investigation Group to identify and prosecute fraud and corruption.

Staffing Levels

Auditor of State Staffing Levels					
				Estimated	
Program Series/Division	**2003**	**2004**	**2005**	**2006**	**2007**
Financial Audit	664	628	591	591	591
Fraud/Invest Audit and Special Audits	30	36	35	35	35
LGS	66	67	58	58	58
UAN	17	18	18	18	18
Performance Audit	51	40	31	31	31
WIRE	11	10	10	10	10
Program Management	141	99	105	105	105
Totals	**980**	**898**	**848**	**848**	**848**
Staffing estimates for FY 2006 and FY 2007 reflect reduction in FTEs that have occurred since July.					

FACTS AND FIGURES

The following table illustrates the various sources of revenue collected by the Auditor of State since FY 2002. As the table shows, the Auditor of State has experienced a decrease in revenue collected from Local Government Services since FY 2003.

Revenue Source	FY2002	FY2003	FY2004	FY2005 (2/10/05)
Financial Audit	$31,624,685	$35,506,754	$35,505,103	$20,817,201
Local Government Services	$2,394,510	$2,924,691	$2,662,379	$1,592,582
Training	$88,084	$90,051	$176,270	$58,699
Subtotal	**$34,107,279**	**$38,521,496**	**$38,343,752**	**$22,468,482**
Health Care Contract Audits	$1,322,654	$2,280,111	$1,747,432	$1,152,691
Subtotal	**$35,429,932**	**$40,801,607**	**$40,091,184**	**$23,621,173**
Uniform Accounting Network	$1,859,692	$2,012,094	$2,119,606	$1,561,090
Grand Total	**$37,289,624**	**$42,813,701**	**$42,210,790**	**$25,182,263**

MASTER TABLE: EXECUTIVE'S RECOMMENDATIONS FOR FY 2006 AND FY 2007

The following table provides a comprehensive presentation of the Executive's recommendations for each of the agency's line items and the programs each line item supports. Please note that some line items may provide funding for multiple program series and/or programs. See the Analysis of Executive Proposal section for more information on specific program funding.

Governor's Funding Recommendation for the Auditor of State

Executive Recommendations for FY 2006 and FY 2007, By Line Item and Program				
Fund	**ALI**	**Title**	**FY 2006**	**FY 2007**
General Revenue Fund				
GRF	**070-321**	**Operating Expenses**	**$ 28,964,425.00**	**$ 28,964,425.00**
		Program Series 1: Financial Audit Services		
		Program 1: Financial Audits	$ 21,308,675.00	$ 21,308,675.00
		Program Series 2: Fraud and Investigative Audit		
		Program 1: Health Care Contract Audit	$ 868,933.00	$ 868,933.00
		Program 2: Special Audits	$ 125,000.00	$ 125,000.00
		Program Series 3: Performance Audit Services		
		Program 1: Performance Audits	$ 1,737,865.00	$ 1,737,865.00
		Program Series 4: Local Government Services		
		Program 1: Local Government Services	$ 3,475,731.00	$ 3,475,731.00
		Program Series 5: WIRE		
		Program 1: WIRE	$ 289,644.00	$ 289,644.00
		Program Series 6: Program Management		
		Program 1: Administration	$ 1,158,577.00	$ 1,158,577.00
GRF	**070-403**	**Fiscal Watch/Emergency Tech Assistance**	**$ 500,000.00**	**$ 500,000.00**
		Program Series 3: Performance Audit Services		
		Program 1: Performance Audits	$ 250,000.00	$ 250,000.00
		Program Series 4: Local Government Services		
		Program 1: Local Government Services	$ 250,000.00	$ 250,000.00
GRF	**070-405**	**Electronic Data Processing-Aud & Adm**	**$ 823,193.00**	**$ 823,193.00**
		Program Series 5: WIRE		
		Program 1: WIRE	$ 823,193.00	$ 823,193.00
GRF	**070-406**	**UAN/Technology Improvement Fund**	**$ 1,588,538.00**	**$ 1,588,538.00**
		Program Series 1: Performance Audit Services		
		Program 1: Performance Audits	$ 1,031,206.00	$ 1,031,206.00
		Program Series 2: Fraud and Investigative Audit		
		Program 1: Health Care Contract Audit	$ 31,771.00	$ 31,771.00
		Program 2: Special Audits	$ 31,771.00	$ 31,771.00
		Program Series 3: Performance Audit Services		
		Program 1: Performance Audits	$ 62,542.00	$ 62,542.00
		Program Series 4: Local Government Services		
		Program 1: Local Government Services	$ 127,083.00	$ 127,083.00
		Program 2: Uniform Accounting Network	$ 65,885.00	$ 65,885.00
		Program Series 5: WIRE		
		Program 1: WIRE	$ 15,885.00	$ 15,885.00
		Program Series 6: Program Management		
		Program 1: Administration	$ 222,395.00	$ 222,395.00

Governor's Funding Recommendation for the Auditor of State

Executive Recommendations for FY 2006 and FY 2007, By Line Item and Program				
Fund	**ALI**	**Title**	**FY 2006**	**FY 2007**
		General Revenue Fund Subtotal	**$ 31,876,156.00**	**$ 31,876,156.00**
Agency Fund Group				
R06	**070-604**	**Continuous Receipts**	**$ 35,000.00**	**$ 35,000.00**
		Program Series 5: WIRE		
		Program 1: WIRE	$ 35,000.00	$ 35,000.00
109	**070-601**	**Public Audit Exp Intra-State**	**$ 9,300,000.00**	**$ 9,300,000.00**
		Program Series 1: Financial Audit Services		
		Program 1: Financial Audits	$ 6,138,000.00	$ 6,138,000.00
		Program Series 2: Fraud and Investigative Audit		
		Program 1: Health Care Contract Audit	$ 1,674,000.00	$ 1,674,000.00
		Program 2: Special Audits	$ 465,000.00	$ 465,000.00
		Program Series 3: Performance Audit Services		
		Program 1: Performance Audits	$ 1,023,000.00	$ 1,023,000.00
422	**070-601**	**Public Audit Exp Local Government**	**$ 31,104,840.00**	**$ 31,104,840.00**
		Program Series 1: Financial Audit Services		
		Program 1: Financial Audits	$ 27,061,211.00	$ 27,061,211.00
		Program Series 2: Fraud and Investigative Audit		
		Program 2: Special Audits	$ 933,145.00	$ 933,145.00
		Program Series 3: Performance Audit Services		
		Program 1: Performance Audits	$ 622,097.00	$ 622,097.00
		Program Series 4: Local Government Services		
		Program 1: Local Government Services	$ 2,488,387.00	$ 2,488,387.00
584	**070-603**	**Training Program**	**$ 131,250.00**	**$ 131,250.00**
		Program Series 1: Financial Audit Services		
		Program 1: Financial Audits	$ 11,812.00	$ 11,812.00
		Program Series 4: Local Government Services		
		Program 1: Local Government Services	$ 119,438.00	$ 119,438.00
675	**070-605**	**Uniform Accounting Network**	**$ 3,317,336.00**	**$ 3,317,336.00**
		Program Series 4: Local Government Services		
		Program 2: Uniform Accounting Network	$ 3,317,336.00	$ 3,317,336.00
		Agency Fund Subtotal	**$ 43,888,426.00**	**$ 43,888,426.00**
Total Recommended			**$ 75,764,582.00**	**$ 75,764,582.00**

ANALYSIS OF EXECUTIVE PROPOSAL

Program Series 1 — Financial Audit Services

Purpose: This program is responsible for conducting financial audits of all public entities as required by Chapter 117. of the Ohio Revised Code.

The following table shows the line items that are used to fund the Financial Audit Services, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	070-321	Operating Expenses	$21,308,675	$21,308,675
GRF	070-406	UAN/Technology Improvement Fund	$1,031,206	$1,031,206
		General Revenue Fund Subtotal	**$22,339,881**	**$22,339,881**
Auditor of State Fund Group				
109	070-601	Public Audit Expense Intra-State	$6,138,000	$6,138,000
422	070-601	Public Audit Expense Local Government	$27,061,211	$27,061,211
584	070-603	Training Program	$11,812	$11,812
		Auditor of State Fund Group Subtotal	**$33,211,023**	**$33,211,023**
Total Funding: Financial Audit Services			**$55,550,904**	**$55,550,904**

The Financial Audit Services program series contains a single program:

Financial Audits

Program Description: This program performs financial audits of over 5,100 public entities in Ohio at least once every two fiscal years, or every year for those entities that fall within Federal Schedule guidelines for Single Audits. These audits entail a review of the methods, accuracy, and legality of accounts, financial reports, records, and files of public entities. These audits also include a compliance component to ascertain the entity's compliance with the laws, rules, ordinances and orders pertaining to the office.

Funding Source: GRF, fees

Line Items: The line items in the table above fund the Financial Audits Program.

Implication of Executive Recommendation: This program is funded at the requested level of $55,550,904 in each fiscal year. This program is funded through fees charged directly to the client as well as GRF moneys. However, some government agencies delay payment or simply fail to pay the cost of the audit due to the Auditor's office. Many local governments experience the same fiscal difficulties in making payments.

Temporary and Permanent Law Provisions: None.

Program Series 2 Fraud and Investigative Audit Services

Purpose: This program series identifies fraud, waste, and abuse of public funds by public and private entities that receive public funds in an effort to protect scarce public resources and minimize the incidence of fraud, waste, and abuse of public funds.

The following table shows the line items that are used to fund the Fraud and Investigative Services program series, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	070-321	Operating Expenses	$993,933	$993,933
GRF	070-406	UAN/Technology Improvement Fund	$63,542	$63,542
		General Revenue Fund Subtotal	**$1,057,475**	**$1,057,475**
Auditor of State Fund Group				
109	070-601	Public Audit Expense Intra-State	$2,139,000	$2,139,000
422	070-601	Public Audit Expense Local Government	$933,145	$933,145
		Auditor of State Fund Group Subtotal	**$3,072,145**	**$3,072,145**
Total Funding: Fraud and Investigative Audit Services			**$4,129,620**	**$4,129,620**

There are two programs funded within this program series:

- ***Health Care Contract Audit***
- ***Special Audits***

Health Care Contract Audit

Program Description: This program provides audit services that identify and report instances of noncompliance with federal and state rules and regulations. The Auditor's services include audits of reimbursement claims submitted by doctors, hospitals, long-term care facilities and other Medicaid providers; audits of county agencies that expend public assistance, child support enforcement and children services funds administered by ODJFS; audits of costs reports used to set payment rates for providers of Medicaid services and assessments of controls employed by state agencies to minimize fraud, waste, and abuse. In the past four fiscal years, the program has identified $22.4 million in misspent dollars, which resulted in $5.6 million in recovery for the state.

Funding Source: GRF, fees

Line Items: The following line items support this program:

Fund	ALI	Title	FY 2006	FY 2007
GRF	070-321	Operating Expenses	$868,933	$868,933
GRF	070-406	UAN/Technology Improvement Fund	$31,771	$31,771
109	070-601	Public Audit Expense Intra-State	$1,674,000	$1,674,000

Implication of Executive Recommendation: This program is funded at the requested level of $2,574,704 in each fiscal year. However, 80% of this program's funding comes directly from state agencies with which the Auditor of State enters into interagency agreements. The ability to continue service provision at the current level assumes that these agencies will be funded at levels that allow them to pay for these services.

Temporary and Permanent Law Provisions: None

Special Audits

Program Description: This program conducts special audits to investigate allegations of fraud, theft, and misappropriation of public funds by public and private entities that receive public funds. Special audits are initiated based on evaluations of requests from public officials or initiated at the discretion of the Auditor of State. The Taxpayer Protection Initiative, which was launched on October 1, 2003, has logged 413 consumer calls through July 12, 2004, from which 89 complaints have resulted and been investigated.

Funding Source: GRF, fees

Line Items: The following line items support this program:

Fund	ALI	Title	FY 2006	FY 2007
GRF	070-321	Operating Expenses	$125,000	$125,000
GRF	070-406	UAN/Technology Improvement Fund	$31,771	$31,771
109	070-601	Public Audit Expense Intra-State	$465,000	$465,000
422	070-601	Public Audit Expense Local Government	$933,145	$933,145

Implication of Executive Recommendation: The Special Audits program is funded through GRF, in addition to fees charged to the entity that is being audited. The Executive funds this program at $1,554,916 in each fiscal year. If the entity is a state agency, the entity is charged a flat fee determined by the Statewide Cost Allocation Plan (SWCAP), which is currently $56.94 for FY 2005 and will drop to $54.66 in FY 2006. If the entity is a local government entity, it is charged the hourly wage of the employee performing the audit in addition to an add-on fee. On occasion, the entity being audited cannot pay, or refuses to pay. If there is a strong belief that the public will be served by a special audit and the Auditor of State is able to subsidize the cost from available funds, the Auditor's office will absorb the cost of the special audit.

Temporary and Permanent Law Provisions: None.

Program Series 3 — Performance Audit Services

Purpose: This program series conducts performance audits of public entities to help identify and correct inefficient managerial operations and waste of taxpayer dollars, in addition to general oversight and advice to ensure greater operational efficiencies of public offices and the maximization of taxpayer dollars.

The following table shows the line items that are used to fund the Performance Audit Services program series, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	070-321	Operating Expenses	$3,475,731	$3,475,731
GRF	070-403	Fiscal Watch/Emergency Tech Assistance	$250,000	$250,000
GRF	070-406	UAN/Technology Improvement Fund	$62,542	$62,542
		General Revenue Fund Subtotal	**$2,050,407**	**$2,050,407**
Auditor of State Fund Group				
109	070-601	Public Audit Expense Intra-State	$1,023,000	$1,023,000
422	070-601	Public Audit Expense Local Government	$622,097	$622,097
		Auditor of State Fund Group Subtotal	**$1,645,097**	**$1,645,097**
Total Funding: Performance Audit Services			**$3,695,504**	**$3,695,504**

The Performance Audits Services series funds one program:

- ***Performance Audit***

Performance Audit

Program Description: This program conducts operational audits, which entail a comprehensive review of any programs or areas of operation in which the Auditor of State believes that greater operational efficiencies can be achieved. Typically, performance audits identify and help correct inefficient managerial operations, waste of taxpayer dollars, in addition to providing general oversight and advice to ensure efficient operation of public offices and maximization of taxpayer dollars. The Auditor may conduct performance audits on any school districts or local government entities, which have been designated as being in a state of fiscal caution (school districts only), watch, or emergency. The Auditor is also authorized to conduct performance audits of any other public entity upon request.

Funding Source: GRF, fees

Line Items: The line items in the table above fund the Performance Audit Program.

Implication of Executive Recommendation: The Performance Audit program is funded primarily through GRF and client fees and is funded at the requested level of $3,695,504 in each fiscal year. However, the number of local governments being placed into fiscal caution, watch, or emergency has continued to increase due to economic conditions. At the same time, budget cuts to the Auditor's office

have been absorbed in part by attrition, which has limited the ability to provide performance audits for all school districts and local governments placed into fiscal watch, caution, or emergency. Funding at this requested level further restricts the Auditor's ability to perform for local entities that are in fiscal distress. Based on current trends and projections of entities likely to fall into a state of fiscal caution, watch, or emergency, the Auditor of State believes that the requested funding level will be insufficient to provide performance audits for all these entities.

Temporary and Permanent Law Provisions:

Fiscal Watch/Emergency Technical Assistance (Section 203.51). Ohio Revised Code Chapters 118. and 3316. require the Auditor of State to assume a role relating to fiscal watch or fiscal emergency activities. In performing that role, any expenses incurred will be paid from appropriation line item 070-403. The Auditor of State's duties are the following:

- Duties related to the determination or termination of fiscal watch or fiscal emergency of local entities and school districts;
- Development of preliminary accounting reports;
- Performance of annual forecasts;
- Provision of performance audits; and
- Supervisory, accounting, or auditing services for the above-mentioned public entities and school districts.

The unencumbered balance of appropriation item 070-403, Fiscal Watch/Fiscal Emergency Technical Assistance at the end of FY 2006 will be transferred to FY 2007 for use under the same appropriation item.

Program Series 4 — Local Government Services

Purpose: This program series, in attempt to assist local governments throughout Ohio, offers a series of consulting services, which include accounting and technical assistance, training for local elected officials, in addition to providing financial and accounting expertise to entities in a state of fiscal watch, caution, or emergency.

The following table shows the line items that are used to fund the Local Government Services program series, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	070-321	Operating Expenses	$3,475,731	$3,475,731
GRF	070-403	Fiscal Watch/Emergency Tech Assistance	$250,000	$250,000
GRF	070-406	UAN/Technology Improvement Fund	$192,968	$192,968
		General Revenue Fund Subtotal	**$3,918,699**	**$3,918,699**
Auditor of State Fund Group				
422	070-601	Public Audit Expense Local Government	$2,488,387	$2,488,387
584	070-603	Training Program	$119,438	$119,438
675	070-605	Uniform Accounting Network	$3,317,336	$3,317,336
		Auditor of State Fund Group Subtotal	**$5,925,161**	**$5,925,161**
Total Funding: Local Government Services			**$9,843,860**	**$9,843,860**

This analysis includes a discussion of the following two programs within the program series:

- ***Local Government Services***
- ***Uniform Accounting Network***

Local Government Services

Program Description: This program provides consulting services and technical assistance to local governments throughout Ohio. In addition to providing financial and accounting expertise to local governments requesting assistance, LGS fulfills the Auditor of State's role as financial supervisor to financial planning and supervision commissions established whenever a local government is declared to be in a state of fiscal emergency. LGS also provides a variety of training services to local and state officials which include: accounting and financial reporting to newly elected township clerks, city auditors, and village clerks and continuing education for village clerks. In 2004, the Auditor conducted training for approximately 1,800 local officials.

Funding Source: GRF, fees

Line Items: The following line items support this program:

Fund	ALI	Title	FY 2006	FY 2007
GRF	070-321	Operating Expenses	$3,475,731	$3,475,731
GRF	070-403	Fiscal Watch/Emergency Tech Assistance	$250,000	$250,000
GRF	070-406	UAN/Technology Improvement Fund	$127,083	$127,083
422	070-601	Public Audit Expense Local Government	$2,488,387	$2,488,387
584	070-603	Training Program	$119,438	$119,438

Implication of Executive Recommendation: This program is funded through client fees, training fees, and GRF. This program is funded at the requested level of $6,460,639 in each fiscal year. However, the Auditor of State indicates that the current biennial budget is not adequately funded to meet the increasing demand for services needed by local governments and school districts that find themselves in a state of fiscal watch, caution, or emergency. During FY 2004, 15 school districts and local governments were declared in fiscal watch or emergency. The Auditor of State is currently conducting analyses of five local governments that are expected to be declared in watch or emergency. According to school district forecasts filed with the Department of Education through May 2004, there are an additional 10 school districts that could qualify for fiscal emergency and 58 school districts that meet fiscal watch criteria for FY 2005. Since this program relies upon client fees and training fees, the inability of local governments to pay for such services in a timely fashion, or at all, also creates a strain on the program.

Uniform Accounting Network

Program Description: The Uniform Accounting Network (UAN) offers an electronic data processing accounting system for townships, villages, libraries, and other local governments. Designed to help political subdivisions properly record and maintain accurate accounting records, the system includes hardware, software, training, and technical support. Approximately 1,600 political subdivisions and public offices currently participate in the UAN program.

Funding Source: GRF, AUS

Line Items: The following line items support this program:

Fund	ALI	Title	FY 2006	FY 2007
GRF	070-406	UAN/Technology Improvement Fund	$65,885	$65,885
675	070-605	Uniform Accounting Network	$3,317,336	$3,317,336

Implication of Executive Recommendation: This program is funded at the requested level of $3,383,221 in each fiscal year. This will allow the Auditor of State to continue providing hardware, software, support, and training to political subdivisions across Ohio. Currently, the UAN is completely funded through UAN user fees, which are deposited into Fund 675. The Auditor of State projects that the UAN program will eventually run out of money at the end of the next biennium or shortly thereafter. Previously, UAN was funded through a combination of user fees and GRF. The GRF subsidy allowed the Auditor to operate the UAN program without an increase in user fees for at least ten years. Due to a series of budget cuts to the Auditor's office, the UAN has been funded entirely by user fees since FY 2003.

Temporary and Permanent Law Provisions:

Uniform Accounting Network/Technology Improvements Fund (Section 203.51). The foregoing appropriation item 070-406, Uniform Accounting Network/Technology Improvements Fund, shall be used to pay the cost of the development and implementation of the Uniform Accounting Network and Technology Improvements for the Auditor of State's office. The unencumbered balance of the appropriation at the end of FY 2006 is hereby transferred to FY 2007 for the same purpose.

Program Series 5 Warrant Issuance and Reconciliation and EFT (Wire)

Purpose: This program series is charged with processing the payments owed by the state to employees, taxpayers, vendors, and others.

The following table shows the line items that are used to fund the WIRE program series, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	070-321	Operating Expenses	$289,664	$289,664
GRF	070-405	Electronic Data Processing-Automation and Administration	$823,193	$823,193
GRF	070-406	UAN/Technology Improvement Fund	$15,885	$15,885
		General Revenue Fund Subtotal	**$1,128,742**	**$1,128,742**
Auditor of State Fund Group				
R06	070-604	Continuous Receipts	$35,000	$35,000
		Auditor of State Fund Group Subtotal	**$35,000**	**$35,000**
Total Funding: WIRE			**$1,163,722**	**$1,163,722**

WIRE

Program Description: The Auditor of State is generally charged with processing payments of the state's obligations through the issuance of paper warrants and through electronic fund transfers that are approved by the Office of Budget and Management. In FY 2004, the WIRE program processed 6.8 million paper warrants, and 3.1 million EFTs, totaling $1.4 billion and $33 billion respectively for state payroll, public assistance payments, state vendors, and state tax refunds.

Funding Source: GRF, payments made by the Attorney General for proceeds collected from fraud-related activity

Line Items: The line items in the table above fund the WIRE Program.

Implication of Executive Recommendation: This program is funded at the requested level of $1,163,772 in each fiscal year. This allows the Auditor of State to continue to provide warrant writing and electronic fund transfer services on behalf of the state of Ohio.

Temporary and Permanent Law Provisions:

Electronic Data Processing (Section 203.51). The provision provides for the automatic transfer of the unencumbered balance of appropriation item 070-405, Electronic Data Processing-Auditing and Administration, to FY 2007 for use under the same appropriation item.

Program Series 6 — Program Management

Purpose: This program series provides administrative support functions needed to support all other program areas within the Auditor of State's office.

The following table shows the line items that are used to fund the Program Management program series, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	070-321	Operating Expenses	$1,158,577	$1,158,577
GRF	070-406	UAN/Technology Improvement Fund	$222,395	$222,395
		General Revenue Fund Subtotal	**$1,380,972**	**$1,380,972**
Total Funding: Program Management			**$1,380,972**	**$1,380,972**

Administration

Program Description: This program includes human resources, information technology, finance, general services, records, graphics, legal, and public affairs functions not already allocated to other programs. The primary purpose of this program area is to provide administrative support function necessary to support all other program areas.

Funding Source: GRF

Line Items: The line items in the table above fund the Administration Program.

Implication of Executive Recommendation: This program is funded at the requested level of $1,380,972 in each fiscal year. This allows the Auditor of State to continue to provide administrative support to the other programs within the Auditor's office.

Temporary and Permanent Law Provisions: None.

REQUESTS NOT FUNDED

The Auditor of State's program series requests were all funded at the requested levels. The total requested budget of $75,764,582 in each fiscal year was fully funded by executive recommendation.

General Revenue Fund

GRF 070-321 Operating Expenses

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
$30,278,217	$30,698,832	$29,810,293	$28,964,424	**$28,964,425**	**$28,964,425**
	1.4%	-2.9%	-2.8%	**0.0%**	**0.0%**

Source: GRF

Legal Basis: ORC 117.09

Purpose: Funds are used to pay for personnel, maintenance, and equipment for the agency.

GRF 070-403 Fiscal Watch/Emergency Technical Assistance

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
$735,180	$811,669	$400,000	$500,000	**$500,000**	**$500,000**
	10.4%	-50.7%	25.0%	**0.0%**	**0.0%**

Source: GRF

Legal Basis: Section 21 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Am. Sub. H.B. 283 of the 123rd G.A.)

Purpose: Moneys in this line item are used to pay 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.

GRF 070-405 Electronic Data Processing Administration

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
$823,193	$896,111	$807,513	$823,193	**$823,193**	**$823,193**
	8.9%	-9.9%	1.9%	**0.0%**	**0.0%**

Source: GRF

Legal Basis: ORC 117.10

Purpose: Moneys are used to administer automated systems needed to support and/or implement warrant writing and electronic fund transfers for the state.

GRF 070-406 Uniform Accounting Network/Technology Improvements Fund

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
$1,774,394	$1,774,694	$1,553,003	$1,588,538	**$1,588,538**	**$1,588,538**
	0.0%	-12.5%	2.3%	**0.0%**	**0.0%**

Source: GRF

Legal Basis: ORC 117.101

Purpose: Moneys are used to pay for the costs of developing and implementing the Uniform Accounting Network, including activation costs for new participants and for technology for the office of the Auditor of State. The Uniform Accounting Network is an electronic financial data processing system that provides accounting services to townships, villages, and libraries.

Auditor of State Fund Group

109 070-601 Public Audit Expense-Intrastate

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
$7,856,212	$9,960,011	$8,217,753	$9,300,000	**$9,300,000**	**$9,300,000**
	26.8%	-17.5%	13.2%	**0.0%**	**0.0%**

Source: AUS: Payments from state agencies for the cost of annual, special, and biennial audits performed by the Auditor

Legal Basis: ORC 117.13

Purpose: Funds are used to pay costs related to audits of state agencies.

422 070-601 Public Audit Expense-Local Government

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
$31,983,724	$31,869,701	$30,720,895	$31,802,420	**$31,104,840**	**$31,104,840**
	-0.4%	-3.6%	3.5%	**-2.2%**	**0.0%**

Source: AUS: Payments from political subdivisions for the cost of annual, special, and biennial audits performed by the Auditor

Legal Basis: ORC 117.13

Purpose: Funds are used to pay costs related to audits of non-state public agencies.

584 070-603 Training Program

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
$146,615	$105,444	$188,509	$188,000	**$131,250**	**$131,250**
	-28.1%	78.8%	-0.3%	**-30.2%**	**0.0%**

Source: AUS: Fees collected from township clerks, city auditors, village clerks, county treasurers and staff of these officials who attend training sessions offered by the Auditor

Legal Basis: ORC 117.44

Purpose: Moneys are used to pay for training of newly elected local fiscal officials and ongoing training of county treasurers and village clerks.

675 070-605 Uniform Accounting Network

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
$1,324,744	$3,987,381	$3,537,192	$2,000,000	**$3,317,336**	**$3,317,336**
	201.0%	-11.3%	-43.5%	**65.9%**	**0.0%**

Source: AUS: Annual fees from local governments ranging from $336 to $3,636, depending on the budgeted revenues of the local government

Legal Basis: ORC 117.101

Purpose: Moneys are used to pay for computer maintenance, upgrades, consulting, and other costs associated with maintaining the Uniform Accounting Network (UAN) for current members.

R06 070-604 Continuous Receipts

2002	2003	2004	2005 Estimate	2006 House Passed	2007 House Passed
$33,777	$12,364	$29,680	$35,000	**$35,000**	**$35,000**
	-63.4%	140.1%	17.9%	**0.0%**	**0.0%**

Source: AUS: Moneys collected by the Attorney General's Office from the resolution of cases of fraud involving warrants issued by the Auditor

Legal Basis: Section 21 of Am. Sub. H.B. 95 of the 125th G.A.

Purpose: This line item is used to hold certain payments made to the Auditor by the Attorney General until a determination is made as to their proper disposition. The function of this line item was previously performed by the Depository Trust Fund, which was abolished in 1985 by Am. Sub. H.B. 201 of the 116th G.A.

LSC Budget Spreadsheet by Line Item, FY 2006 - FY 2007

Fund	ALI	ALI Title	Estimated 2005	As Introduced 2006	House Passed 2006	% Change Est. 2005 to House 2006	As Introduced 2007	House Passed 2007	% Change House 2006 to House 2007
AUD		**Auditor of State**							
GRF	070-321	Operating Expenses	$28,964,424	$ 28,964,425	$ 28,964,425	0.0%	$ 28,964,425	$ 28,964,425	0.0%
GRF	070-403	Fiscal Watch/Emergency Technical Assistance	$500,000	$ 500,000	$ 500,000	0.0%	$ 500,000	$ 500,000	0.0%
GRF	070-405	Electronic Data Processing Administration	$823,193	$ 823,193	$ 823,193	0.0%	$ 823,193	$ 823,193	0.0%
GRF	070-406	Uniform Accounting Network/Technology Improvements Fund	$1,588,538	$ 1,588,538	$ 1,588,538	0.0%	$ 1,588,538	$ 1,588,538	0.0%
General Revenue Fund Total			**$ 31,876,155**	**$ 31,876,156**	**$ 31,876,156**	**0.0%**	**$ 31,876,156**	**$ 31,876,156**	**0.0%**
109	070-601	Public Audit Expense-Intrastate	$9,300,000	$ 9,300,000	$ 9,300,000	0.0%	$ 9,300,000	$ 9,300,000	0.0%
422	070-601	Public Audit Expense-Local Government	$31,802,420	$ 31,104,840	$ 31,104,840	-2.2%	$ 31,104,840	$ 31,104,840	0.0%
584	070-603	Training Program	$188,000	$ 131,250	$ 131,250	-30.2%	$ 131,250	$ 131,250	0.0%
675	070-605	Uniform Accounting Network	$2,000,000	$ 3,317,336	$ 3,317,336	65.9%	$ 3,317,336	$ 3,317,336	0.0%
R06	070-604	Continuous Receipts	$35,000	$ 35,000	$ 35,000	0.0%	$ 35,000	$ 35,000	0.0%
Auditor of State Fund Group Total			**$ 43,325,420**	**$ 43,888,426**	**$ 43,888,426**	**1.3%**	**$ 43,888,426**	**$ 43,888,426**	**0.0%**
Total All Budget Fund Groups			***$ 75,201,575***	***$ 75,764,582***	***$ 75,764,582***	***0.7%***	***$ 75,764,582***	***$ 75,764,582***	***0.0%***

As Introduced (Executive)	As Passed by the House
(CD-1045-AUD) Audits of Medicaid and Performance Audit of Medicaid Program	
	R.C. *117.10, 206.66.49*
No provision.	Expands the authority of the Auditor of State (AUD) to audit providers of Medicaid services by eliminating the provision that a request for an audit by the Department of Job and Family Services (JFS) must be made before an audit can occur. The provision also authorizes AUD to conduct a single performance audit of the Medicaid program during fiscal years 2006 and 2007. (See "Audits of Medicaid and Performance Audit of Medicaid Program" in JFS for further description). Fiscal effect: State agencies are required to pay any expenses incurred by AUD in conducting an audit. Presumably, JFS would repay these audit expenses when billed by AUD.

As Introduced (Executive)	As Passed by the House
(CD-862-AUD) County, Township, Municipal, and Department of Transportation Force Account Limits	
	R.C. *117.162, 117.16*
No provision.	Requires the Auditor of State, by no later than January 31 of each year, to adjust county, township, municipal and Department of Transportation force account limits by the percentage increase of the consumer price index over the twelve month period ended on the last day of December of the immediately preceding year. The Auditor must post these new limits on the worldwide web no later than January 31 each year. These limits shall be effective for the following twelve month period beginning on the first day of February. (See "County, Township, Municipal and Department of Transportation Force Account Limits" in Local Government and Department of Transportation for further description.)
	Fiscal effect: None for the Auditor of State.

As Introduced (Executive)	As Passed by the House
(CD-910-AUD) Office of Information Technology	
	R.C. *125.041, 125.18*
No provision.	Provides that the Office of Information Technology created in the Department of Administrative Services does not superintend the development and use of information technology in the offices of state elected officials, including the Auditor of State. (See "Office of Information Technology" in the Department of Administrative Services, Secretary of State, Treasurer of State, and Attorney General for further description). Fiscal effect: None.

As Introduced (Executive)	As Passed by the House
(CD-863-AUD) Sale of Debts Owed to the State to Private Parties, Review of State Agencies' Debt Collection Process	
	R.C. *503.03, 131.02, 131.022*
No provision.	Authorizes the sale of debt owed to state agencies to private parties, and requires the Auditor of State to review state agencies' procedures for collecting debts owed to them and submit a report of finding to the Governor, Speaker of the House of Representatives, President of the Senate, and LSC no later than March 31, 2006. (See "Sale of Debts Owed to the State to Private Parties" in Attorney General for further description). Fiscal effect: Increased workload for the Auditor's office, as well as an increase in administrative costs to create and distribute the required reports. The fiscal effect from the sale of debt will be dependent on the terms of the sales, and would appear to chiefly affect the Attorney General's office.

As Introduced (Executive)	As Passed by the House
(CD-1094-AUD) Random Audits of School District ADM Reports	
	R.C. *3317.035*
No provision.	Requires the Auditor of State to conduct annual audits of the Average Daily Membership (ADM) information reported by a random sample of school districts. The Auditor is free to determine how many school districts are to be audited in a given year. Section 3317.03 of the Revised Code details the certified information on which an audit will be performed. (See "Random Audits of School District ADM Reports" in Department of Education for further description). Fiscal effect: Potential increase in administrative costs for conducting such audits. The Auditor of State has the discretion as to the number of school districts to be audited in a given year. Presumably, this number would depend on the resources available within the Auditor's office in a given year.

As Introduced (Executive)	As Passed by the House
(CD-805-AUD) Fiscal Watch/Emergency Technical Assistance	
Section: *203.51*	Section: *203.51*
Requires that GRF appropriation 070-403, Fiscal Watch/Emergency Technical Assistance, be used for all expenses incurred by the Auditor of State in its role relating to fiscal watch or emergency services activities.	Same as the Executive.
(CD-806-AUD) Electronic Data Processing	
Section: *203.51*	Section: *203.51*
Requires that the unencumbered balance of GRF appropriation item 070-405, Electronic Data Processing, at the end of FY 2006 is to be transferred to FY 2007 for use under the same appropriation item.	Same as the Executive.
(CD-807-AUD) Uniform Accounting Network/Technology Improvements Fund	
Section: *203.51*	Section: *203.51*
Requires that GRF appropriation item 070-406, Uniform Accounting Network/Technology Improvements Fund, be used to pay the costs of developing and implementing the Uniform Accounting Network and technology improvements for the Auditor of State. Authorizes the transfer of the unencumbered balance of this appropriation at the end of FY 2006 will be transferred to the same appropriation for the same use in FY 2007.	Same as the Executive.