

Auditor of State

House Higher Education Subcommittee

*Terry Steele, Budget Analyst
Legislative Service Commission*

March 28, 2007

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LSC Redbook for the Auditor of State

House Higher Education Subcommittee

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ATTACHMENTS:

- Catalog of Budget Line Items
- LSC Budget Spreadsheet By Line Item

March 28, 2007

Auditor of State

- Total recommended appropriation of \$161,438,206 in FY 2008 and FY 2009
- Office transition to new Auditor of State
- Increasing staffing levels to conduct audits

OVERVIEW

The current Auditor of State, an elected constitutional officer, is serving a four-year term beginning with the FY 2008-2009 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 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 925 full-time employees and is currently operating with an annual budget of approximately \$78.8 million (based on current estimated spending), an increase of approximately 5% from FY 2006. 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:

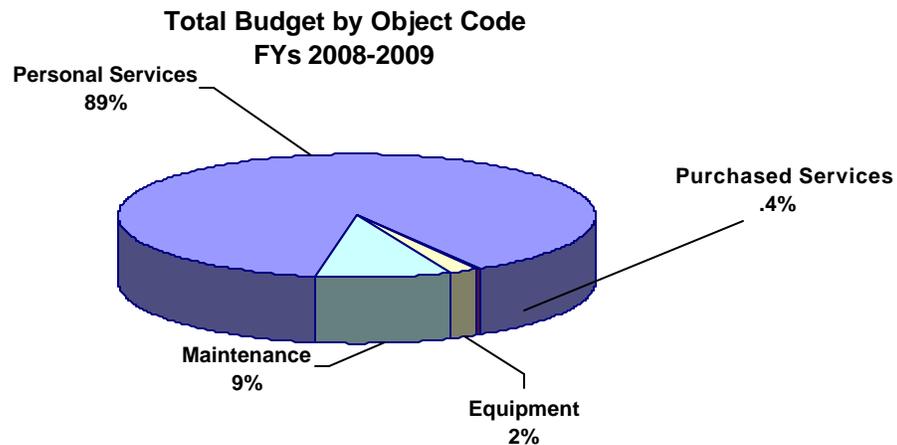
- Audit Division
- Administration Division
- Legal Division

Detailed descriptions of the work these divisions do and challenges for FYs 2008-2009 follow the "FYs 2008-2009 Executive Recommendations" section.

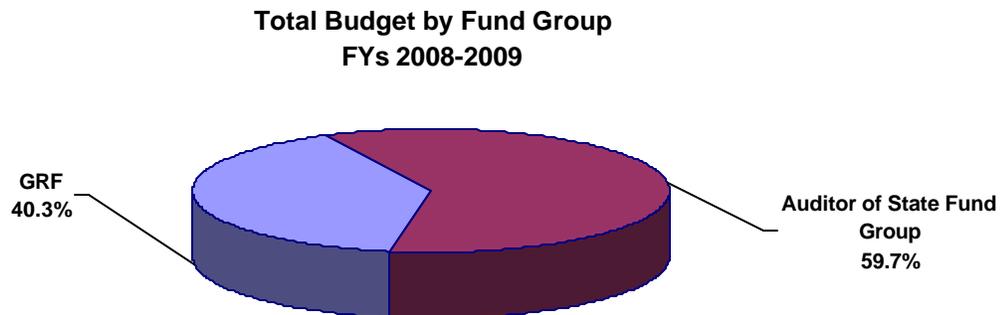
FYs 2008-2009 Executive Recommendations

The executive recommends appropriations of \$79,568,138 in FY 2008, a 1.1% increase over estimated spending of \$78,702,708 in FY 2007. The FY 2009 recommendation is \$81,870,068, an increase of 2.9% over FY 2008 recommendations. 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, and shows that the most significant part of the Auditor's budget is used for staffing.



The following chart illustrates the Auditor of State's budget sources based upon fund groups, and shows 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.



FYs 2008-2009 Budget Issues

Local Government Services Funding Concerns

Approximately three-fifths 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's office has been experiencing reductions in payments from local governments over the last two biennia. If the number of local governments that fall into the category of fiscal watch or emergency increases, there could be continued reductions in payments received. Currently, there are 21 local governments in fiscal watch or emergency.

In the most recent operating budget bill (Am. Sub. H.B. 66 of the 126th General Assembly), the General Assembly appropriated money within the Department of Education's budget for performance audits of school districts pursuant to a recommendation of the Governor's Blue Ribbon Task Force on Financing Student Success. This appropriation has allowed for performance audits to make recommendations for improved operations before a school district reaches the level of fiscal watch, caution, or emergency.

Fraud and Investigative Audit Group – Increased Priority

The previous 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 were reassigned. This initiated a redefined Fraud, Waste, and Abuse Prevention Division (FWAP) with an expanded focus compared to the former organization. The redefined FWAP focused on uncovering public corruption, and the misuse and abuse of public money. The new Auditor of State will continue this push, continuing under the new name as the Fraud and Investigative Audit Group.

Supplemental Request by New Auditor – Increased Staffing Levels

The Auditor of State has undergone a transition to a new administration since the time that the agency's budget request was submitted. Because of this, the new administration submitted a revised request to reflect some of the priorities of the new administration. The new Auditor will continue to emphasize the core function of conducting financial audits on state agencies and local governments. However, since 2003, the Auditor's staff has been reduced by approximately 130 full time employees. As such, it has become increasingly difficult for the agency to complete these audits given the current staffing levels. The revised budget proposal contained supplemental requests for additional GRF funding to replenish some of the previously eliminated staffing positions to fill 49 vacancies within the Auditor's office. The executive recommendations allow for these positions to be restored. As illustrated in the staffing level table (see Staffing Levels section), 45 of these positions will be contained within the Financial Audit Division, while the remaining 4 positions will be in the Local Government Services Division. The request also eliminates line item 070-406 (UAN/Technology Improvements), and transfers that appropriation to appropriation item 070-321, Operating Expenses. Line item 070-406, UAN/Technology Improvements is no longer necessary because the UAN is now fully funded from user fees.

Transfer of the Warrant Issuance and Reconciliation and EFT (Wire) Program

The Auditor of State is in the process of transferring the state's payment process (warrant writing and electronic fund transfers) to the Office of Budget and Management. Concurrently, the office is implementing a business software solution, Microsoft Dynamics GP, to improve and modernize the business functions of the office. Once the office is capable of implementing the software solution and fully transfers the payment process to the Office of Budget and Management, the Auditor of State will be able to decommission its existing mainframe. This is expected to generate significant savings to the office.

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 2005, the Auditor issued more than 3,400 audits. Of these, 200 contained findings for recovery, identifying dollars that were either misspent or stolen and owed back to the public office. Overall, nearly \$1.4 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 2006, 22 performance audits were released. There were 534 recommendations presented in these audits, which, if fully implemented, would result in more than \$35.7 million in potential savings and revenue enhancements were identified. When this figure is adjusted for implementation costs by the audited agency, the net annual savings is estimated to be \$28.7 million.

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 1,500 consumer calls from its inception through September 2006. During FY 2006, three special audits were released, in which approximately \$13.9 million in findings for recovery were identified. Additionally, since calendar year 2003, special audits have led to the conviction of 53 individuals, with several more criminal cases pending.

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, has conducted 198 seminars for approximately 11,520 attendees including law enforcement, local government officials, and the media from the time of its creation through September 2006.

One of the important tasks of this group is attempting to rescue local governments and school districts from projected insolvency. It should be noted that 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, as 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. 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					
Program Series/Division	Estimated				
	2005	2006	2007	2008	2009
Financial Audit	591	591	593	638	638
Fraud/Invest Audit and Special Audits	35	35	35	35	35
LGS	58	58	63	67	67
UAN	18	18	17	17	17
Performance Audit	31	31	50	50	50
WIRE	10	10	0	0	0
Program Management	105	105	119	119	119
Totals	848	848	877	926	926

FACTS AND FIGURES

The following table illustrates the various sources of revenue collected by the Auditor of State since FY 2004. As the table shows, the Auditor of State has experienced an increase in revenue collected from the Uniform Accounting Network since FY 2004.

Revenue Source	FY 2004	FY 2005	FY 2006	FY 2007 (as of Feb. 2007)
Financial Audit	\$35,505,103	\$35,506,754	\$35,505,103	\$20,817,201
Local Government Services	\$2,662,379	\$2,924,691	\$2,662,379	\$1,592,582
Training	\$176,270	\$141,911	\$164,257	\$170,264
Subtotal	\$38,343,752	\$38,521,496	\$38,343,752	\$22,468,482
Health Care Contract Audits	\$1,747,432	\$2,280,111	\$1,747,432	\$1,152,691
Subtotal	\$40,091,184	\$40,801,607	\$40,091,184	\$23,621,173
Uniform Accounting Network	\$2,119,606	\$2,491,034	\$3,717,362	\$3,104,200
Grand Total	\$42,210,790	\$42,813,701	\$42,210,790	\$25,182,263

Please note that the FY 2007 figures presented are only amounts collected as of February 2007. The fiscal year end results are likely to be similar to the previous years.

MASTER TABLE: EXECUTIVE'S RECOMMENDATIONS FOR FY 2008 AND FY 2009

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.

Executive Recommendations for FY 2008 and FY 2009, By Line Item and Program				
Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	070-321	Operating Expenses	\$31,469,552	\$32,771,482
		<u>Program Series 1: Financial Audit Services</u>		
		Program 1: Financial Audits	\$17,099,021	\$18,012,353
		<u>Program Series 2: Fraud and Investigative Audit</u>		
		Program 1: Health Care Contract Audit	\$401,245	\$426,474
		Program 2: Special Audits	\$306,630	\$326,722
		<u>Program Series 3: Performance Audit Services</u>		
		Program 1: Performance Audits	\$1,218,637	\$1,310,282
		<u>Program Series 4: Local Government Services</u>		
		Program 1: Local Government Services	\$2,252,256	\$2,406,331
		<u>Program Series 5: Program Management</u>		
		Program 1: Administration	\$10,191,763	\$10,289,320
GRF	070-403	Fiscal Watch/Emergency Tech Assistance	\$600,000	\$600,000
		<u>Program Series 3: Performance Audit Services</u>		
		Program 1: Performance Audits	\$223,316	\$229,294
		<u>Program Series 4: Local Government Services</u>		
		Program 1: Local Government Services	\$376,684	\$370,706
General Revenue Fund Subtotal			\$32,069,552	\$33,371,482
Agency Fund Group				
109	070-601	Public Audit Exp Intra-State	\$11,000,000	\$11,000,000
		<u>Program Series 1: Financial Audit Services</u>		
		Program 1: Financial Audits	\$5,841,425	\$5,953,174
		<u>Program Series 2: Fraud and Investigative Audit</u>		
		Program 1: Health Care Contract Audit	\$1,768,758	\$1,763,056
		Program 2: Special Audits	\$512,454	\$493,062
		<u>Program Series 3: Performance Audit Services</u>		
		Program 1: Performance Audits	\$1,951,486	\$1,965,696
		<u>Program Series 5: Program Management</u>		
		Program 1: Administration	\$925,877	\$825,012
422	070-601	Public Audit Exp Local Government	\$33,000,000	\$34,000,000
		<u>Program Series 1: Financial Audit Services</u>		
		Program 1: Financial Audits	\$28,704,246	\$29,805,618
		<u>Program Series 2: Fraud and Investigative Audit</u>		
		Program 2: Special Audits	\$300,291	\$294,100
		<u>Program Series 3: Performance Audit Services</u>		

Executive Recommendations for FY 2008 and FY 2009, By Line Item and Program				
Fund	ALI	Title	FY 2006	FY 2007
		Program 1: Performance Audits	\$467,493	\$465,308
		<u>Program Series 4: Local Government Services</u>		
		Program 1: Local Government Services	\$2,733,982	\$2,813,417
		<u>Program Series 5: Program Management</u>		
		Program 1: Administration	\$793,988	\$621,557
584	070-603	Training Program	\$181,250	\$181,250
		<u>Program Series 4: Local Government Services</u>		
		Program 1: Local Government Services	\$181,250	\$181,250
675	070-605	Uniform Accounting Network	\$3,317,336	\$3,317,336
		<u>Program Series 4: Local Government Services</u>		
		Program 2: Uniform Accounting Network	\$3,179,170	\$3,180,998
		<u>Program Series 5: Program Management</u>		
		Program 1: Administration	\$138,166	\$136,338
Agency Fund Subtotal			\$47,498,586	\$48,498,586
Total Recommended			\$79,568,138	\$81,870,068

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 program, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2008	FY 2009
General Revenue Fund				
GRF	070-321	Operating Expenses	\$17,099,021	\$18,012,353
General Revenue Fund Subtotal			\$17,099,021	\$18,012,353
Auditor of State Fund Group				
109	070-601	Public Audit Expense Intra-State	\$5,841,425	\$5,953,174
422	070-601	Public Audit Expense Local Government	\$28,704,246	\$29,805,618
Auditor of State Fund Group Subtotal			\$34,545,671	\$35,758,792
Total Funding: Financial Audit Services			\$51,644,692	\$53,771,145

The Financial Audit Services program series contains a single program:

■ **Program 1.01: Financial Audit**

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 \$51,664,692 in FY 2008 and \$53,771,145 in FY 2009. 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. As previously noted, the recommended levels will allow the Auditor of State to add an additional 45 employees to the Financial Audit Division.

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 2008	FY 2009
General Revenue Fund				
GRF	070-321	Operating Expenses	\$691,424	\$705,565
General Revenue Fund Subtotal			\$691,424	\$705,565
Auditor of State Fund Group				
109	070-601	Public Audit Expense Intra-State	\$2,085,832	\$2,069,007
422	070-601	Public Audit Expense Local Government	\$300,291	\$294,100
Auditor of State Fund Group Subtotal			\$2,386,123	\$2,363,107
Total Funding: Fraud and Investigative Audit Services			\$3,077,547	\$3,068,672

There are two programs funded within this program series:

- **Program 2.01: Health Care Contract Audit**
- **Program 2.02: 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 the Ohio Department of Job and Family Services (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 2008	FY 2009
GRF	070-321	Operating Expenses	\$401,245	\$426,474
109	070-601	Public Audit Expense Intra-State	\$1,768,758	\$1,763,056

Implication of Executive Recommendation: This program is funded at the requested level of \$2,170,003 in FY 2008, and \$2,189,530 in FY 2009. 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 provisions 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 1,500 consumer calls from its inception through September 2006. During FY 2006, three special audits were released, in which approximately \$13.9 million in findings for recovery were identified. Additionally, since calendar year 2003, special audits have led to the conviction of 53 individuals, with several more criminal cases pending.

Funding Source: GRF, fees

Line Items: The following line items support this program:

Fund	ALI	Title	FY 2008	FY 2009
GRF	070-321	Operating Expenses	\$306,630	\$326,722
109	070-601	Public Audit Expense Intra-State	\$512,454	\$493,062
422	070-601	Public Audit Expense Local Government	\$300,291	\$294,100

Implication of Executive Recommendation: The Special Audits program is funded through the GRF, in addition to fees charged to the entity that is being audited. The executive funds this program at \$1,119,375 in FY 2008 and \$1,113,884 in FY 2009. 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 \$57.25 for FY 2007 and will increase to \$58.36 in FY 2008. 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 2008	FY 2009
General Revenue Fund				
GRF	070-321	Operating Expenses	\$1,218,637	\$1,310,282
GRF	070-403	Fiscal Watch/Emergency Tech Assistance	\$223,316	\$229,294
General Revenue Fund Subtotal			\$1,441,953	\$1,539,576
Auditor of State Fund Group				
109	070-601	Public Audit Expense Intra-State	\$1,951,486	\$1,965,696
422	070-601	Public Audit Expense Local Government	\$467,493	\$465,308
Auditor of State Fund Group Subtotal			\$2,418,979	\$2,431,004
Total Funding: Performance Audit Services			\$3,860,932	\$3,970,580

The Performance Audit Services series funds one program:

■ **Program 3.01: 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 and the 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 \$3,860,932 in FY 2008 and \$3,970,580 in FY 2009. This funding level will allow the Auditor of State to conduct performance audits on local entities, including supporting travel and equipment costs, which will allow for these audits to be performed on site.

Temporary and Permanent Law Provisions

Fiscal Watch/Emergency Technical Assistance (Section 229.10). The provision requires the Auditor's Office to use appropriation item 070-403, Fiscal Watch/Emergency Technical Assistance, to pay for all expenses incurred in its role relating to fiscal watch or fiscal emergency activities under Chapters 118. and 3316. of the Revised Code.

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 (LGS) program series, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2008	FY 2009
General Revenue Fund				
GRF	070-321	Operating Expenses	\$2,252,256	\$2,406,331
GRF	070-403	Fiscal Watch/Emergency Tech Assistance	\$376,684	\$370,706
General Revenue Fund Subtotal			\$2,628,940	\$2,777,037
Auditor of State Fund Group				
422	070-601	Public Audit Expense Local Government	\$2,733,982	\$2,813,417
584	070-603	Training Program	\$181,250	\$181,250
675	070-605	Uniform Accounting Network	\$3,179,170	\$3,180,998
Auditor of State Fund Group Subtotal			\$6,094,402	\$6,175,6652
Total Funding: Local Government Services			\$8,723,342	\$8,952,702

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

- **Program 4.01: Local Government Services**
- **Program 4.02: 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.

Funding Source: GRF, fees

Line Items: The following line items support this program:

Fund	ALI	Title	FY 2008	FY 2009
GRF	070-321	Operating Expenses	\$2,252,256	\$2,406,331
GRF	070-403	Fiscal Watch/Emergency Tech Assistance	\$376,684	\$370,706
422	070-601	Public Audit Expense Local Government	\$2,733,982	\$2,813,417
584	070-603	Training Program	\$181,250	\$181,250

Implication of Executive Recommendation: This program is funded through client fees, training fees, and GRF. This program is funded at the requested level of \$5,544,172 in FY 2008, and \$5,771,704 in FY 2009. The Auditor of State indicates that previous biennial budgets were 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. At the end of FY 2006, there were 21 local governments and 23 school districts that were in fiscal watch or emergency, and another 6-10 that may potentially fall into this category over the next biennium. 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. This funding level will allow the Auditor to continue to provide consulting services to local governments and add an additional 4 employees to the program series.

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: AUS

Line Items: The following line items support this program:

Fund	ALI	Title	FY 2008	FY 2009
675	070-605	Uniform Accounting Network	\$3,179,170	\$3,180,998

Implication of Executive Recommendation: This program is funded at the requested level of \$3,179,170 in FY 2008 and \$3,180,998 in FY 2009. This will allow the Auditor of State to continue providing hardware, software, support, and training to political subdivisions across Ohio. The Auditor anticipates that with the replacement of the operating system, and expected growth in new users, that the demand for training to use UAN will grow over the next biennium. The Auditor's office is also invoking several cost-saving measures for this program as well. The office will be dispensing information on CD instead of mailing hardcopies, eliminating UAN provided e-mail, and conducting centralized training in Columbus in lieu of regional training modules.

Temporary and Permanent Law Provisions

Uniform Accounting Network/Technology Improvements Fund Transfer (Section 229.10). The provision requires that on July 1, or as soon as possible thereafter, the appropriation balance in GRF appropriation item 070-406, Uniform Accounting Network/Technology Improvements Fund, be transferred to GRF appropriation item 070-321, Operating Expenses.

Program Series

5: 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 2008	FY 2009
General Revenue Fund				
GRF	070-321	Operating Expenses	\$10,191,763	\$10,289,320
General Revenue Fund Subtotal			\$10,191,763	\$10,289,320
Auditor of State Fund Group				
109	070-601	Public Audit Expense Intra-state	\$925,877	\$825,0127
422	070-601	Public Audit Expense Local Government	\$793,988	\$621,557
675	070-605	Uniform Accounting Network	\$138,166	\$136,338
Auditor of State Fund Group Subtotal			\$1,858,130	\$1,582,907
Total Funding: Program Management			\$12,049,893	\$11,872,227

The Program Management program series contains a single program:

■ **Program 5.01: Administration**

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, AUS

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 \$12,049,794 in FY 2008 and \$11,872,227 in FY 2009. 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 of \$79,568,138 in FY 2008 and \$81,870,068 in FY 2009.

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General Revenue Fund

GRF 070-321 Operating Expenses

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$29,810,293	\$27,882,634	\$30,220,355	\$29,144,425	\$31,469,552	\$32,771,482
	-6.5%	8.4%	-3.6%	8.0%	4.1%

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

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$400,000	\$500,000	\$497,843	\$502,157	\$600,000	\$600,000
	25.0%	-0.4%	0.9%	19.5%	0.0%

Source: GRF

Legal Basis: Section 203.51 of Am. Sub. H.B. 66 of the 126th 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

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$807,513	\$797,434	\$795,926	\$857,156	\$0	\$0
	-1.2%	-0.2%	7.7%		

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

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$1,553,003	\$1,450,837	\$1,696,716	\$1,595,544	\$0	\$0
	-6.6%	16.9%	-6.0%		

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. For FY 2008, the available balance in this appropriation item is transferred to GRF appropriation item 070-321, Operating Expenses. This is because the network is to be entirely supported by user fees under appropriation item 070-605, Uniform Accounting Network (Fund 675).

Auditor of State Fund Group

109 070-601 Public Audit Expense-Intrastate

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$8,217,753	\$8,198,809	\$9,637,966	\$12,000,000	\$11,000,000	\$11,000,000
	-0.2%	17.6%	24.5%	-8.3%	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

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$30,720,895	\$29,723,379	\$28,756,359	\$31,104,840	\$33,000,000	\$34,000,000
	-3.2%	-3.3%	8.2%	6.1%	3.0%

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

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$188,509	\$129,978	\$182,560	\$181,250	\$181,250	\$181,250
	-31.0%	40.5%	-0.7%	0.0%	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

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$3,537,192	\$2,001,697	\$3,104,119	\$3,317,336	\$3,317,336	\$3,317,336
	-43.4%	55.1%	6.9%	0.0%	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

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$29,680	\$105,577	\$13,306	\$0	\$0	\$0
	255.7%	-87.4%			

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 203.51 of Am. Sub. H.B. 66 of the 126th 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 2008 - FY 2009

Fund	ALI	ALI Title	2006	Estimated 2007	Executive 2008	% Change 2007 to 2008	Executive 2009	% Change 2008 to 2009
AUD Auditor of State								
GRF	070-321	Operating Expenses	\$ 30,220,355	\$29,144,425	\$ 31,469,552	8.0%	\$ 32,771,482	4.1%
GRF	070-403	Fiscal Watch/Emergency Technical Assistance	\$ 497,843	\$502,157	\$ 600,000	19.5%	\$ 600,000	0.0%
GRF	070-405	Electronic Data Processing Administration	\$ 795,926	\$857,156	\$ 0	-100.0%	\$ 0	N/A
GRF	070-406	Uniform Accounting Network/Technology Improvements Fund	\$ 1,696,716	\$1,595,544	\$ 0	-100.0%	\$ 0	N/A
General Revenue Fund Total			\$ 33,210,839	\$ 32,099,282	\$ 32,069,552	-0.1%	\$ 33,371,482	4.1%
109	070-601	Public Audit Expense-Intrastate	\$ 9,637,966	\$12,000,000	\$ 11,000,000	-8.3%	\$ 11,000,000	0.0%
422	070-601	Public Audit Expense-Local Government	\$ 28,756,359	\$31,104,840	\$ 33,000,000	6.1%	\$ 34,000,000	3.0%
584	070-603	Training Program	\$ 182,560	\$181,250	\$ 181,250	0.0%	\$ 181,250	0.0%
675	070-605	Uniform Accounting Network	\$ 3,104,119	\$3,317,336	\$ 3,317,336	0.0%	\$ 3,317,336	0.0%
R06	070-604	Continuous Receipts	\$ 13,306	\$0	\$ 0	N/A	\$ 0	N/A
Auditor of State Fund Group Total			\$ 41,694,310	\$ 46,603,426	\$ 47,498,586	1.9%	\$ 48,498,586	2.1%
Total All Budget Fund Groups			\$ 74,905,149	\$ 78,702,708	\$ 79,568,138	1.1%	\$ 81,870,068	2.9%