LSC Redbook

Analysis of the Executive Budget Proposal

Auditor of State

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READER'S GUIDE

The Legislative Service Commission prepares an analysis of the executive budget proposal for each agency. These analyses are commonly called "Redbooks." This brief introduction is intended to help readers navigate the Redbook for the Auditor of State (AUD), which includes the following three sections.

1. Overview: Provides a brief description of AUD and an overview of the provisions of the executive budget that affect the office, as well as relevant operating statistics.
2. Analysis of Executive Proposal: Provides a detailed analysis of the executive budget recommendations for AUD, including funding for each appropriation line item.
3. Attachments: Includes the Catalog of Budget Line Items (COBLI) for AUD, which briefly describes each line item, and the accompanying LSC budget spreadsheet.

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Catalog of Budget Line Items
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Auditor of State

- Total of $156.1 million recommended for the FY 2010-FY 2011 biennium
- Budget is 60% supported by fees and 40% supported by GRF

OVERVIEW

Agency Overview

The Auditor of State (AUD) is an elected constitutional officer responsible for auditing all public offices in Ohio. This includes state departments and commissions as well as offices of the state's political subdivisions, such as cities and villages, counties and townships, schools and universities, and libraries. The Auditor also provides consulting services to local governments and training for public officers.

The office consists of three operational divisions – Audit, Administration, and Legal – and employs approximately 880 full-time employees (FTEs), the majority of which are auditors who work from headquarters or one of the eight regional offices. These offices are located in Canton/Akron, Cincinnati, Cleveland, Columbus, Dayton, Southeast, Toledo, and Youngstown. Each regional office is staffed by a Chief Auditor and an Assistant Chief Auditor.

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

Staffing

Table 1 below shows funded positions during the current biennium as well as those proposed for the FY 2010-FY 2011 biennium. Based upon the proposed funding levels, the table shows that the number of funded positions would decrease by 37 (4.2%), from 881 in FY 2009 to 844 in FY 2010. Twenty-one of the 37 funded positions that would be decreased in FY 2010 are in the Audit Division, and 16 would be in the Administration Division. The number of funded positions decreased by a further seven in FY 2011.

Table 1. Auditor of State Funded Positions

			Estimate	
Division	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Administration	116	116	100	98
Audits	736	745	724	719
Legal	20	20	20	20
TOTAL	**872**	**881**	**844**	**837**

Appropriation Overview

The executive recommendation of $75.9 million in FY 2010 is a decrease of 0.6% from FY 2009 adjusted appropriations. The FY 2011 recommendation is $76.2 million, a 0.3% increase over the FY 2010 amount. About 60% of the total recommended appropriation is derived from revenue generated from service fees paid by state agencies and political subdivisions and local government users of the Uniform Accounting Network (UAN). A small portion also comes from fees charged for training sessions. The remaining 40% of funding is from the General Revenue Fund (GRF).

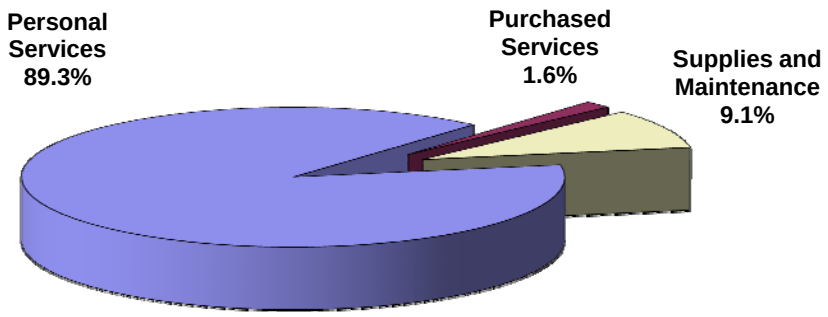
Table 2. Executive Budget Recommendations by Fund Group, FY 2010-FY 2011

Fund Group	FY 2009*	FY 2010	% change, FY 2009-FY 2010	FY 2011	% change, FY 2010-FY 2011
General Revenue Fund	$29,958,622	$30,599,775	2.1%	$30,599,775	0%
Auditor of State	$46,420,886	$45,326,586	(2.4%)	$45,551,586	0.5%
TOTAL	**$76,379,508**	**$75,926,361**	**(0.6%)**	**$76,151,361**	**0.3%**

*FY 2009 figures represent adjusted appropriations.

Chart 1 below illustrates AUD's budget by spending category. Nearly 90% of the budget is for personal services costs. Supplies and maintenance account for approximately 9% of expenses. These costs are for maintaining IT systems, including the UAN and networks for field offices across the state. Purchased services expenses consist mostly of contracts with auditing firms to conduct biennial audits of certain larger agencies.

Chart 1: Biennial Executive Budget Recommendations by Expense Category, FY 2010-FY 2011



FY 2008 Operating Statistics

In FY 2008, AUD issued more than 4,000 financial audits. Of these, 167 contained findings for recovery, identifying dollars that were either misspent or stolen and owed to the public. Since calendar year 2007, AUD has identified approximately $16.3 million for recovery. Regarding performance audits conducted for school districts in fiscal caution, watch, or emergency, as well as political subdivisions in fiscal watch or emergency, AUD released 24 audits during FY 2008. Combined, these audits contained 993 recommendations that could, if implemented, generate $46.9 million in savings or enhanced revenue. AUD released ten special audits in FY 2008. These involved a review of the finances of private entities that receive public funding, including institutions, associations, boards, and so forth, as well as public entities. The special audits identified $7.7 million in findings for recovery.

ANALYSIS OF EXECUTIVE PROPOSAL

This section provides an analysis of the Governor's recommended funding for each appropriation item in AUD's budget. In this analysis, AUD's line items are grouped into two major categories. For each category a table is provided listing the recommended appropriation in each fiscal year of the biennium. Following the table, a narrative describes how the appropriation is used and any changes affecting the appropriation that are proposed by the Governor.

The categories under which AUD's six appropriation items are grouped within this analysis are (1) Auditing and (2) Local Government Services. The following table shows the category in which each appropriation has been placed, listing the line items in order within their respective fund groups and funds. This is the same order the line items appear in the budget bill.

Categorization of AUD's Appropriation Line Items for Analysis of Executive Proposal				
Fund	**ALI and Name**		**Category**	
General Revenue Fund Group				
GRF	070321	Operating Expenses	1:	Auditing
GRF	070403	Fiscal Watch/Emergency Technical Assistance	2:	Local Government Services
Auditor of State Fund Group				
1090	070601	Public Audit Expense-Intrastate	1:	Auditing
4220	070602	Public Audit Expense-Local Government	1:	Auditing
5840	070603	Training Program	2:	Local Government Services
6750	070605	Uniform Accounting Network	2:	Local Government Services

Category 1: Auditing

This category of appropriations is used to fund AUD's primary auditing functions, including financial audits of state agencies and local governments, as well as other performance, healthcare provider, and special audits.

Governor's Recommended Amounts for Auditing				
Fund		**ALI and Name**	**FY 2010**	**FY 2011**
General Revenue Fund				
GRF	070321	Operating Expenses	$30,029,775	$30,029,775
		General Revenue Fund Subtotal	***$30,029,775***	***$30,029,775***
Auditor of State Fund Group				
1090	070601	Public Audit Expense-Intrastate	$11,000,000	$11,000,000
4220	070602	Public Audit Expense-Local Government	$30,828,000	$31,053,000
		Auditor of State Fund Group Subtotal	***$41,828,000***	***$42,053,000***
Total Funding: Auditing			**$71,857,775**	**$72,082,775**

Operating Expenses (070321)

The executive recommendation for this line item is $30.0 million in both FY 2010 and FY 2011, an increase of 2.3% from FY 2009 adjusted appropriation levels. This line item is used to pay the personnel, maintenance and equipment costs for the agency.

Additionally, all IT costs for AUD's headquarters and field offices are paid from this line item, as well as all costs of the Administrative Division, which oversees the office's human resources, training and recruitment, fiscal, and IT operations. Also under its purview is the UAN, the financial management system that assists local governments in handling their accounting and payroll responsibilities. This is described more completely under the Local Government Services category.

Public Audit Expense – Intrastate (070601)

This line item is used to pay for the costs of annual, biennial, and special audits performed on state agencies. The appropriation is supported by fees paid by state agencies for the costs of performing these audits and deposited in the Public Audit Expense Fund – Intrastate (Fund 1090). The billable hourly rates for FY 2008 and FY 2009 were $58.36 and $60.44, respectively. The proposed rate for FY 2010 is $64.43. This fund received approximately $9.3 million in such revenues in FY 2008. AUD anticipates that receipts for FY 2009 will be in the $10.5 million range. The executive recommendation for this line item is $11.0 million in both FY 2010 and FY 2011, an increase of 1.6% over FY 2009 levels.

Public Audit Expense – Local Governments (070602)

The amount recommended for this line item in FY 2010 is $30.8 million, a decrease of 4.0% from FY 2009 levels. The recommended amount for FY 2011 is $31.0 million, an increase of less than 1% over the FY 2010 amount. This line item is used to pay for the costs of annual, biennial, and special audits performed on political subdivisions. The appropriation is supported by fees paid by political subdivisions for the costs of performing these audits and deposited in the Public Audit Expense – Local Governments Fund (Fund 4220). The billable hourly rate for local government entities is $37 per hour, and has remained unchanged since FY 2006. Fund 4220 received approximately $30.5 million in revenues in FY 2008, and AUD estimates that this fund will receive approximately $31.1 million in FY 2009.

The revenue collected for local government audits remains contingent upon the ability of those local governments to pay. If there is an increase in the number of local governments that fall into fiscal watch or fiscal emergency, the revenue collected for local government audits could decrease.

Category 2: Local Government Services

This category funds various other services offered to local governments by the Auditor, including the payment of various auditing services to political subdivisions in fiscal watch or emergency, training for political subdivision employees, and the Uniform Accounting Network services available to political subdivisions.

Governor's Recommended Amounts for Local Government Services				
Fund		**ALI and Name**	**FY 2010**	**FY 2011**
General Revenue Fund				
GRF	070403	Fiscal Watch/Emergency Technical Assistance	$570,000	$570,000
		General Revenue Fund Subtotal	***$570,000***	***$570,000***
Auditor of State Fund Group				
5840	070603	Training Program	$181,250	$181,250
6750	070605	Uniform Accounting Network	$3,317,336	$3,317,336
		Auditor of State Fund Group Subtotal	***$3,498,586***	***$3,498,586***
Total Funding: Local Government Services			**$4,068,586**	**$4,068,586**

Fiscal Watch/Emergency Technical Assistance (070403)

This GRF line item is used to pay the costs of providing performance audits, accounting reports, annual forecasts, and supervisory, accounting, or auditing services for municipal corporations, counties, townships, and school districts in the determination or termination of fiscal watch or fiscal emergency. The costs of these audits largely depend upon how many local governments and school districts are in fiscal watch or fiscal emergency. In FY 2008, there were 21 local governments and 17 school districts in fiscal watch or fiscal emergency. The executive recommends an appropriation of $570,000 in both FY 2010 and FY 2011, or 3.9% under the FY 2009 amount of $593,002.

Training Program (070603)

This line item is used to pay for training of newly elected local fiscal officials and ongoing training of county treasurers and village clerks. The Auditor of State Training Fund (Fund 5840) consists of fees collected from township clerks, city auditors, village clerks, county treasurers, and staff of these officials that attend these training sessions. This fund collected approximately $159,000 in revenue in FY 2008, with approximately $151,000 anticipated in FY 2009. The executive recommends an appropriation of $181,250 in both FY 2010 and FY 2011, an increase of 17.5% from the FY 2009 appropriation of $154,250.

Uniform Accounting Network (070605)

This line item is used to pay for computer maintenance, upgrades, consulting, and other costs associated with maintaining the Uniform Accounting Network (UAN). The Uniform Accounting Network Fund (Fund 6750) consists of annual fees from local governments, ranging from $336 to $3,636, depending on the budgeted revenues of the local government. As is the case with other AUD service funds, the financial status of participating local governments affects the amount of fees received. Receipts for FY 2008 were approximately $4.0 million. AUD estimates that amount to decline to $3.2 million in FY 2009. The executive recommends an appropriation of $3.3 million in both FY 2010 and FY 2011, matching the FY 2009 appropriation.

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General Revenue Fund

GRF 070321 Operating Expenses

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$30,220,355	$29,238,265	$30,814,327	$29,365,620	**$30,029,775**	**$30,029,775**
	-3.2%	5.4%	-4.7%	**2.3%**	**0.0%**

Source: GRF

Legal Basis: ORC 117.09

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

GRF 070403 Fiscal Watch/Emergency Technical Assistance

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$497,843	$501,957	$570,000	$593,002	**$570,000**	**$570,000**
	0.8%	13.6%	4.0%	**-3.9%**	**0.0%**

Source: GRF

Legal Basis: Section 229.10 of Am. Sub. H.B. 119 of the 127th 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 070405 Electronic Data Processing Administration

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$795,926	$739,171	$27,782	$0	**$0**	**$0**
	-7.1%	-96.2%			

Source: GRF

Legal Basis: Discontinued line item

Purpose: Moneys were used to administer automated systems needed to support and/or implement warrant writing and electronic fund transfers for the state. Starting in FY 2008, warrant writing duties were transferred to the Office of Budget and Management in Am. Sub. H.B. 119 of the 127th G.A. This line item will no longer receive an appropriation.

GRF 070406 Uniform Accounting Network/Technology Improvements Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$1,696,716	$1,247,147	$335,032	$0	**$0**	**$0**
	-26.5%	-73.1%			

Source: GRF

Legal Basis: Discontinued line item (originally established in ORC 117.101)

Purpose: Moneys were 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. In FY 2008,the balance in this appropriation item was transferred to GRF appropriation item 070-321, Operating Expenses. The network is now entirely supported by user fees under Fund 6750 appropriation item 070-605, Uniform Accounting Network.

Auditor of State Fund Group

1090 070601 Public Audit Expense-Intrastate

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$9,637,966	$8,900,319	$9,293,360	$10,824,500	**$11,000,000**	**$11,000,000**
	-7.7%	4.4%	16.5%	**1.6%**	**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.

4220 070602 Public Audit Expense-Local Government

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$28,756,359	$29,612,826	$29,999,647	$32,124,800	**$30,828,000**	**$31,053,000**
	3.0%	1.3%	7.1%	**-4.0%**	**0.7%**

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.

5840 070603 Training Program

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$182,560	$169,244	$155,150	$154,250	**$181,250**	**$181,250**
	-7.3%	-8.3%	-0.6%	**17.5%**	**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.

6750 070605 Uniform Accounting Network

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$3,104,119	$2,359,098	$2,052,058	$3,317,336	**$3,317,336**	**$3,317,336**
	-24.0%	-13.0%	61.7%	**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.

R006 070604 Continuous Receipts

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$13,306	$0	$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: Discontinued line item

Purpose: This line item was used to hold certain payments made to the Auditor by the Attorney General until a determination was 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 2010 - FY 2011

Fund	ALI	ALI Title	2008	2009	As Introduced 2010	% Change 2009 to 2010	As Introduced 2011	% Change 2010 to 2011
AUD Auditor of State								
GRF	070321	Operating Expenses	$ 30,814,327	$ 29,365,620	$ 30,029,775	2.3%	$ 30,029,775	0.0%
GRF	070403	Fiscal Watch/Emergency Technical Assistance	$ 570,000	$ 593,002	$ 570,000	-3.9%	$ 570,000	0.0%
GRF	070405	Electronic Data Processing Administration	$ 27,782	$0	$0	N/A	$0	N/A
GRF	070406	Uniform Accounting Network/Technology Improvements Fund	$ 335,032	$0	$0	N/A	$0	N/A
General Revenue Fund Total			**$ 31,747,141**	**$ 29,958,622**	**$ 30,599,775**	**2.1%**	**$ 30,599,775**	**0.0%**
1090	070601	Public Audit Expense-Intrastate	$ 9,293,360	$ 10,824,500	$ 11,000,000	1.6%	$ 11,000,000	0.0%
4220	070602	Public Audit Expense-Local Government	$ 29,999,647	$ 32,124,800	$ 30,828,000	-4.0%	$ 31,053,000	0.7%
5840	070603	Training Program	$ 155,150	$ 154,250	$ 181,250	17.5%	$ 181,250	0.0%
6750	070605	Uniform Accounting Network	$ 2,052,058	$ 3,317,336	$ 3,317,336	0.0%	$ 3,317,336	0.0%
Auditor of State Fund Group Total			**$ 41,500,214**	**$ 46,420,886**	**$ 45,326,586**	**-2.4%**	**$ 45,551,586**	**0.5%**
Total All Budget Fund Groups			***$ 73,247,355***	***$ 76,379,508***	***$ 75,926,361***	***-0.6%***	***$ 76,151,361***	***0.3%***