

LSC Redbook

Analysis of the Executive Budget Proposal

Auditor of State

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Auditor of State

- Total of \$144.1 million recommended for the FY 2012-FY 2013 biennium
- Budget is 61% supported by fees and 39% supported by GRF
- Additional performance audits required under S.B. 4

OVERVIEW

Responsibilities of the Office

The Auditor of State is an elected official responsible for auditing all public offices in Ohio. This includes state departments and commissions as well as offices of the state's political subdivisions, such as cities and villages, counties and townships, schools and universities, and libraries. The Auditor also provides consulting services to local governments and training for public officers. As of March 2011, the office employs approximately 810 people among three divisions: Audit, Legal, and Administration. Most employees are full-time audit staff who work from headquarters or one of the eight regional offices. These offices are located in Canton/Akron, Cincinnati, Cleveland, Columbus, Dayton, Southeast, Toledo, and Youngstown. Each regional office is staffed by a Chief Auditor and an Assistant Chief Auditor.

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

Appropriations

By Fund Group

As Table 1 below shows, the executive budget provides the Auditor of State with funding of \$72.3 million in FY 2012, a decrease of 3.6% when compared to estimated FY 2011 spending. The amount recommended for FY 2013 is \$71.7 million, a decrease of less than 1% from the proposed FY 2012 amount. About 61% of the recommended funding (\$44.1 million in FY 2012 and \$43.4 million in FY 2013) is derived from audit fees paid by state agencies and political subdivisions, as well as local government users of the Uniform Accounting Network (UAN). A small portion also comes from fees charged for training sessions. These revenues are deposited into four separate funds

within the Auditor of State Fund Group. The remaining 39% of funding, \$28.2 million in each fiscal year, is from the GRF.

Fund Group	FY 2011*	FY 2012	% change, FY 2011-FY 2012	FY 2013	% change, FY 2012-FY 2013
General Revenue Fund	\$29,979,031	\$28,234,452	(5.8%)	\$28,234,452	0%
Auditor of State	\$44,717,975	\$44,104,209	(1.4%)	\$43,434,249	(1.5%)
TOTAL	\$74,697,006	\$72,338,661	(3.2%)	\$71,668,701	(0.9%)

*FY 2011 figures represent estimated spending.

By Type of Expense

Approximately 89.5% of the proposed \$144.1 million biennial budget is for personal services costs. Supplies and maintenance account for another 7.7% of the proposed amount. These costs are for maintaining IT systems, including the UAN and IT networks for field offices across the state. Next, about 1.7% of the proposed budget is for equipment costs. Finally, accounting for only 1.1% of the budget are purchased services, which is mostly to pay for contracts with auditing firms to conduct biennial audits of certain larger agencies.

Funded Positions

Table 2 below shows funded positions during the current biennium as well as those proposed for the FY 2012-FY 2013 biennium. Based upon the proposed funding levels, the table shows that the number of funded positions would decrease by 26 (3.2%), from 809 in FY 2011 to 783 in FY 2012. Twenty of the 26 funded positions that are reduced in FY 2012 will be in the Audit Division, and six will be in the Administration Division. The number of funded positions for FY 2013 is the same as FY 2012.

Division	FY 2010	FY 2011	Estimate	
			FY 2012	FY 2013
Administration	98	92	86	86
Audits	719	704	684	684
Legal	20	13	13	13
TOTAL	837	809	783	783

FY 2010 Operating Statistics

In FY 2010, the Auditor of State issued more than 4,200 financial audits. Of these, 200 contained findings for recovery, identifying dollars that were either misspent or stolen and owed to the public. The office also released 32 performance audits for school districts in fiscal caution, watch, or emergency, as well as political subdivisions in fiscal watch or emergency. These audits contained 785 recommendations that could, if implemented, generate \$41.0 million in savings or enhanced revenue. Finally, the Auditor released 35 special audits in FY 2010. 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 \$5.8 million in findings for recovery.

Cost Saving Measures

The Auditor of State has implemented several cost saving measures over the course of the FY 2010-FY 2011 biennium. The first of these was an Early Retirement Incentive (ERI) that was accepted by 50 employees. This will result in an annualized savings of approximately \$3.5 million. The Auditor also implemented a new audit management software system during the last biennium. This software is expected to reduce the time necessary to complete audits and to reduce travel costs, a significant expense related to the auditing process. Finally, the office also cut the mileage reimbursement to \$.40 per mile, which will result in savings of approximately \$500,000 annually.

S.B. 4 Performance Audits

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

To help state agencies and political subdivisions pay for performance audits, S.B. 4 creates the Leverage for Efficiency, Accountability, and Performance (LEAP) Fund (Fund 5JZ0). The initial capitalization for the revolving loan fund will be through a \$1.5 million cash transfer from the Uniform Accounting Network Fund (Fund 6750), which is used by the Auditor of State to support state-mandated accounting and financial reporting functions of local government.

Under current law, the Performance Auditing Section within the Auditor's Office routinely conducts performance audits for public and quasi-public entities upon request. According to the Auditor, performance audits take approximately 16 to 32 weeks to complete and consist of three distinct stages, including planning, field work,

and report preparation. Ultimately, the audits produce recommendations for operational improvements. The Performance Auditing Section consists of about 28 employees, down from 44 in FY 2010, because of funding constraints, and spends approximately \$2.6 million each fiscal year to conduct performance audits of state agencies and local governments. Given the increase in demand for performance audit services, the Auditor of State may have to adjust staffing throughout the office in order to handle the additional volume of work under S.B. 4. The office will contract out some of these performance audits as well.

ANALYSIS OF EXECUTIVE PROPOSAL

Category 1: Auditing

The line items included within this category are used to fund primary auditing functions, including financial audits of state agencies and local governments, as well as other performance, healthcare provider, and special audits. Just less than 41% of the funding for these activities is provided from the GRF.

Governor's Recommended Amounts for Auditing				
Fund		ALI and Name	FY 2012	FY 2013
General Revenue Fund				
GRF	070321	Operating Expenses	\$27,434,452	\$27,434,452
General Revenue Fund Subtotal			\$27,434,422	\$27,434,452
Auditor of State Fund Group				
1090	070601	Public Audit Expense – Intrastate	\$9,000,000	\$8,700,000
4220	070602	Public Audit Expense – Local Government	\$31,422,959	\$31,052,999
Auditor of State Fund Group Subtotal			\$40,422,959	\$39,752,999
Total Funding: Auditing			\$67,857,381	\$67,187,451

Operating Expenses (070321)

The executive recommendation for this GRF line item is \$27.4 million in both FY 2012 and FY 2013; a decrease of 6.3% from estimated FY 2011 spending of \$29.3 million. This line item is used to pay the personnel, maintenance, and equipment costs throughout the agency. Additionally, all IT costs for the Columbus headquarters and field offices are paid from this line item. The funding also covers the expenses of the Division of Administration, which oversees the office's human resources, training and recruitment, fiscal, and IT operations. The financial management system that assists local governments in handling their accounting and payroll responsibilities, the Uniform Accounting Network (UAN) is also under the purview of the Division. UAN is described in more detail under Category 2: Local Government Services.

Public Audit Expense – Intrastate (070601)

This line item is used to pay for the costs of annual, biennial, and special audits the Auditor of State performs on state agencies. The appropriation is supported by fees paid by state agencies for the costs of performing these audits and deposited in the Public Audit Expense – Intrastate Fund (Fund 1090). The billable hourly rate for FY 2010 was \$58.79 and increased to \$62.64 in FY 2011. The proposed rate for FY 2012 is

\$61.24. Fund 1090 took in approximately \$7.2 million in FY 2010. Receipts for FY 2011 are expected to be in the \$8.7 million range.

The recommended funding for this line item is \$9.0 million in FY 2012, a decrease of 10.0% compared to the FY 2011 estimate of \$1.0 million. The FY 2013 recommendation is \$8.7 million, or 3.3% less than the FY 2012 amount.

Public Audit Expense – Local Government (070602)

The amount recommended for this line item in FY 2012 is \$31.4 million; an increase of 1.2% when compared to the FY 2011 estimate of \$31.1 million. The recommended amount for FY 2013 is \$31.0 million, a decrease of 1.2% from the FY 2012 amount. This line item is used to pay for the costs of annual, biennial, and special audits performed on political subdivisions. The appropriation is supported by fees paid by political subdivisions for the costs of performing these audits and deposited in the Public Audit Expense – Local Governments Fund (Fund 4220). The billable hourly rate for local government entities is \$50 per hour.

Fund 4220 collected approximately \$32.3 million in fees in FY 2010. FY 2011 receipts are expected to be \$31.1 million. Overall, the revenue collected for local government audits remains contingent upon the ability of those local governments to pay. If there is an increase in the number of local governments that fall into fiscal watch or fiscal emergency during the FY 2012-FY 2013 biennium, the revenue collected from local government audits could decrease.

As mentioned in the **Overview**, S.B. 4, currently pending in the General Assembly, creates a revolving loan fund that state and local governments can use to finance the cost of performance audits conducted by the Auditor of State. These performance audits can take between 16 and 32 weeks to complete. The loan must be repaid within one year after the audit is completed. The loan fund is capitalized by a cash transfer of \$1.5 million from the Uniform Accounting Network Fund (Fund 6750).

Category 2: Local Government Services

This category funds various other services the Auditor of State offers to local governments, including auditing services to political subdivisions in fiscal watch or emergency, training for political subdivision employees, and the Uniform Accounting Network. Approximately \$3.7 million in each fiscal year (just over 80.0%) of the proposed funding in this category is derived from fees charged to the political subdivisions using these services.

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

Fiscal Watch/Emergency Technical Assistance (070403)

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

The costs of these services largely depend upon how many local governments and school districts are in fiscal watch or fiscal emergency. In FY 2010, there were 24 local governments and 14 school districts in fiscal watch or fiscal emergency. The executive recommends an appropriation of \$800,000 in FY 2012 and FY 2013, an increase of 14.3% over the estimated FY 2011 expenditure of \$700,000 for these activities.

Training Program (070603)

This line item is used to pay for training of newly elected local fiscal officials and ongoing training of county treasurers and village clerks. The Auditor of State Training Fund (Fund 5840) consists of fees collected from township clerks, city auditors, village clerks, county treasurers, and staff of these officials that attend these training sessions. This fund collected approximately \$132,000 in receipts in FY 2010. Anticipated FY 2011 receipts are expected to grow by about 21.0% to \$160,000. The executive recommends

funding of \$181,250 in both FY 2012 and FY 2013 for local government training services, an increase of 9.8% from estimated FY 2011 expenditures of \$165,000 for these purposes.

Uniform Accounting Network (070605)

This line item is used to pay for computer maintenance, upgrades, consulting, and other costs associated with maintaining the Uniform Accounting Network (UAN). The Uniform Accounting Network Fund (Fund 6750) consists of annual fees from local governments, ranging from \$8 per month for entities with annual revenues under \$50,000 to \$325 per month for entities with revenues higher than \$10 million in annual revenues. As is the case with other service funds used by the Auditor of State, the financial status of participating local governments affects the amount of fees received. Receipts for FY 2010 were approximately \$3.5 million. AUD estimates that amount to decline to \$1.1 million in FY 2011. The executive recommends an appropriation of \$3.5 million in both FY 2012 and FY 2013 for this line item, matching estimated FY 2011 expenditures.

As noted previously, S.B. 4 of the 129th General Assembly will require the Auditor of State to transfer \$1.5 million from Fund 6750 to the newly created Leverage for Efficiency, Accountability, and Performance (LEAP) Fund (Fund 5JZ0). This cash transfer is intended to provide the working capital to fund loans that state agencies and political subdivisions can use to pay for their performance audits. The current cash balance in Fund 6750, before the transfer required under S.B. 4, is approximately \$5.1 million.

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Auditor of State

General Revenue Fund

GRF 070321 Operating Expenses

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$30,814,327	\$30,242,362	\$29,358,887	\$29,279,031	\$27,434,452	\$27,434,452
	-1.9%	-2.9%	-0.3%	-6.3%	0.0%

Source: General Revenue Fund

Legal Basis: ORC 117.09; Section 225.10 of Am. Sub. H.B. 1 of the 128th G.A.

Purpose: This line item is used to pay for personnel, maintenance, and equipment expenses across the office. The line item also covers all IT costs for the Office's headquarters and field offices. In addition to these purposes, the appropriation supports the Administrative Division, which oversees human resources, training and recruitment, fiscal, and IT operations, including the Uniform Accounting Network (UAN), the financial management system that assists local governments in handling their accounting and payroll responsibilities.

GRF 070403 Fiscal Watch/Emergency Technical Assistance

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$570,000	\$599,991	\$699,997	\$700,000	\$800,000	\$800,000
	5.3%	16.7%	0.0%	14.3%	0.0%

Source: General Revenue Fund

Legal Basis: Section 225.10 of Am. Sub. H.B. 1 of the 128th G.A. (originally established by Am. Sub. H.B. 283 of the 123rd G.A.)

Purpose: This line item is 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. At the beginning of FY 2011, there were 19 local governments and nine school districts in fiscal emergency, and five local governments and five school districts in fiscal watch. Uncodified law reappropriates the unexpended, unencumbered portion of the line item from FY 2010 for the same purpose in FY 2011.

Auditor of State

GRF 070405 Electronic Data Processing Administration

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$27,782	\$0	\$0	\$0	\$0	\$0
	-100%	N/A	N/A	N/A	N/A

Source: General Revenue Fund

Legal Basis: Discontinued line item

Purpose: This line item was 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.

GRF 070406 Uniform Accounting Network/Technology Improvements Fund

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$335,032	\$0	\$0	\$0	\$0	\$0
	-100%	N/A	N/A	N/A	N/A

Source: General Revenue Fund

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

Purpose: This appropriation was 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 070321, Operating Expenses. The network is now entirely supported by user fees under Fund 6750 appropriation item 070605, Uniform Accounting Network.

Auditor of State Fund Group

1090 070601 Public Audit Expense-Intrastate

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$9,293,360	\$10,538,162	\$7,750,884	\$10,000,000	\$9,000,000	\$8,700,000
	13.4%	-26.4%	29.0%	-10.0%	-3.3%

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

Legal Basis: ORC 117.13; Section 225.10 of Am. Sub. H.B. 1 of the 128th G.A.

Purpose: This appropriation is used to pay costs related to financial audits of state agencies.

Auditor of State

4220 070602 Public Audit Expense-Local Government

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$29,999,647	\$32,877,699	\$33,666,420	\$31,052,975	\$31,422,959	\$31,052,999
	9.6%	2.4%	-7.8%	1.2%	-1.2%

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

Legal Basis: ORC 117.13; Section 225.10 of Am. Sub. H.B. 1 of the 128th G.A.

Purpose: This line item is used to pay for costs related to audits of non-state public agencies.

5840 070603 Training Program

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$155,150	\$49,801	\$165,598	\$165,000	\$181,250	\$181,250
	-67.9%	232.5%	-0.4%	9.8%	0.0%

Source: Auditor of State Fund Group: 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; Section 225.10 of Am. Sub. H.B. 1 of the 128th G.A.

Purpose: This line item is used to pay for training newly elected local government officials with fiscal management responsibilities, as well as ongoing training for those officials.

6750 070605 Uniform Accounting Network

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$2,052,058	\$4,114,569	\$2,501,717	\$3,500,000	\$3,500,000	\$3,500,000
	100.5%	-39.2%	39.9%	0.0%	0.0%

Source: Auditor of State Fund Group: 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; Section 225.10 of Am. Sub. H.B. 1 of the 128th G.A.

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

FY 2012 - FY 2013 Introduced Appropriation Amounts

All Fund Groups

Line Item Detail by Agency			FY 2010	Estimate FY 2011	Introduced FY 2012	FY 2011 to FY 2012 % Change	Introduced FY 2013	FY 2012 to FY 2013 % Change
Report For Main Operating Appropriations Bill			Version: As Introduced					
AUD Auditor of State								
GRF	070321	Operating Expenses	\$ 29,358,887	\$ 29,279,031	\$ 27,434,452	-6.30%	\$ 27,434,452	0.00%
GRF	070403	Fiscal Watch/Emergency Technical Assistance	\$ 699,997	\$ 700,000	\$ 800,000	14.29%	\$ 800,000	0.00%
General Revenue Fund Total			\$ 30,058,884	\$ 29,979,031	\$ 28,234,452	-5.82%	\$ 28,234,452	0.00%
1090	070601	Public Audit Expense-Intrastate	\$ 7,750,884	\$ 10,000,000	\$ 9,000,000	-10.00%	\$ 8,700,000	-3.33%
4220	070602	Public Audit Expense-Local Government	\$ 33,666,420	\$ 31,052,975	\$ 31,422,959	1.19%	\$ 31,052,999	-1.18%
5840	070603	Training Program	\$ 165,598	\$ 165,000	\$ 181,250	9.85%	\$ 181,250	0.00%
6750	070605	Uniform Accounting Network	\$ 2,501,717	\$ 3,500,000	\$ 3,500,000	0.00%	\$ 3,500,000	0.00%
Auditor of State Fund Group Total			\$ 44,084,618	\$ 44,717,975	\$ 44,104,209	-1.37%	\$ 43,434,249	-1.52%
Auditor of State Total			\$ 74,143,502	\$ 74,697,006	\$ 72,338,661	-3.16%	\$ 71,668,701	-0.93%