

LSC Redbook

Analysis of the Executive Budget Proposal

Auditor of State

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Auditor of State

- Total of \$144.9 million for the FY 2014-FY 2015 biennium
- Budget is 61% supported by fees and 39% supported by GRF
- Three interim performance audit reports released under S.B. 4

OVERVIEW

Agency Overview

The Auditor of State is an elected official responsible for auditing all public offices in Ohio. This includes state departments, commissions, and offices of the state's political subdivisions, such as cities and villages, counties and townships, schools and universities, and libraries. The Auditor of State also provides consulting services to local governments and training for public officers. As of February 2013, the office employs approximately 777 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 Auditor of State's 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 Auditor of State 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 Overview

As Table 1 shows, the executive budget provides the Auditor of State with funding of just over \$72.4 million in each fiscal year of the FY 2014-FY 2015 biennium. Overall, there is a \$2.4 million (3.2%) decrease between the amount of estimated FY 2013 spending and the recommended FY 2014 amount, primarily attributable to the cost for hardware and software upgrades to the Uniform Accounting Network incurred in FY 2013. About 61% of the recommended funding (\$44.2 million in both FY 2014 and FY 2015) is derived from audit fees paid by state agencies and political subdivisions, as well as local government users of the Uniform Accounting Network. A small portion also comes from fees charged for training sessions. These revenues are deposited into

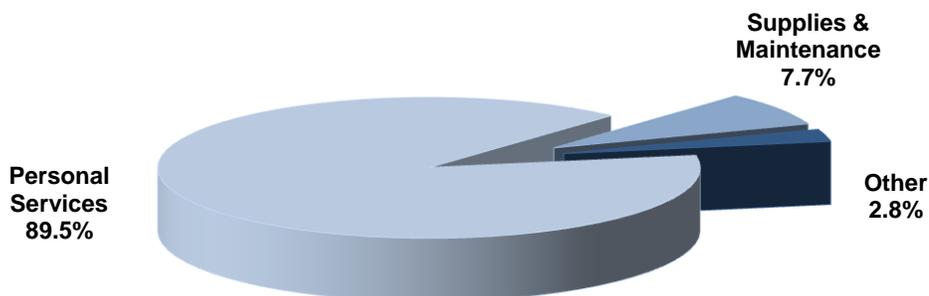
four separate funds listed in the table under the Auditor of State Fund Group. The remaining 39.0% of funding (\$28.2 million in each fiscal year) is from the GRF.

Table 1. Executive Budget Recommendations by Fund Group, FY 2014-FY 2015					
Fund Group	FY 2013*	FY 2014	% change, FY 2013-FY 2014	FY 2015	% change, FY 2014-FY 2015
General Revenue Fund	\$28,234,452	\$28,234,452	0.0%	\$28,234,452	0.0%
Auditor of State	\$46,609,249	\$44,196,066	-5.2%	\$44,219,012	0.05%
TOTAL	\$74,843,701	\$72,430,518	-3.2%	\$72,453,464	0.03%

*FY 2013 figures represent estimated spending.

As Chart 1 below shows, 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 Uniform Accounting Network and IT networks for field offices across the state. The remaining 2.8% of the proposed budget is for equipment costs and purchased services. Purchased services are mostly to pay for contracts with auditing firms to conduct biennial audits of certain larger agencies.

Chart 1: Biennial Executive Budget Recommendations by Expense Type, FY 2014-FY 2015



Funded Positions

Table 2 below shows funded positions during the current biennium as well as those proposed for the FY 2014-FY 2015 biennium. Based upon the proposed funding levels, the table shows that the number of funded positions would increase by 36 (4.6%), from 777 in FY 2013 to 813 in FY 2014. It should be noted that the Auditor was authorized to fill more positions in FY 2013, but due to attrition, that staffing level was lower than FY 2012. Thirty-four of the 36 funded positions that are increased in FY 2014 will be in the Audit Division, and two will be in the Legal Division. The number of funded positions for FY 2015 is the same as FY 2014.

Table 2. Auditor of State Funded Positions, FY 2012-FY 2015 (est.)				
Division	FY 2012	FY 2013	FY 2014 (est.)	FY 2015 (est.)
Administration	97	90	90	90
Audits	714	678	712	712
Legal	12	9	11	11
TOTAL	823	777	813	813

FY 2012 Audit Statistics

In FY 2012, the Auditor of State issued more than 3,696 audit reports. Of these, 132 contained findings for recovery identifying \$2.5 million in public money that was either misspent or stolen. The Auditor of State also completed 12 Medicaid provider audits that resulted in \$1.2 million in findings for recovery. Finally, there were 22 special audits released in FY 2012. 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 \$2.4 million in findings for recovery.

Performance Audits

S.B. 4 of the 129th General Assembly required the Auditor of State to conduct performance audits of at least four state agencies each biennium. The first four state agencies to receive performance audits were the Department of Education (ODE), the Department of Job and Family Services (ODJFS), the Department of Transportation (ODOT), with a particular focus on the possible realignment of transportation districts, and the Ohio Housing Finance Agency (OHFA). Thus far, the Auditor of State has released two interim reports related to the performance audit of ODOT. The first interim report examined fleet management practices and found \$6.0 million in potential savings. The second interim report examined biodiesel fuel policy and found \$800,000 in potential savings. The Auditor of State also released an interim report on ODJFS which focused on the Unemployment Compensation Review Commission and identified \$1.0 million in potential savings. Additionally, the office issued 19 performance audits of local governments in FY 2012. Those audits contained 308 recommendations that identified approximately \$22.0 million in potential savings.

To help state agencies and political subdivisions pay for performance audits, S.B. 4 created the Leverage for Efficiency, Accountability, and Performance (LEAP) Fund (Fund 5JZ0). The initial capitalization for the revolving loan fund was provided through a \$1.5 million cash transfer in FY 2012 from the Uniform Accounting Network Fund (Fund 6750), which is used to support state-mandated accounting and financial reporting functions of local government. As of this writing, no state agencies have requested to receive a loan from Fund 5JZ0 to pay for their performance audit.

However, 12 local government entities have been approved for loans to help pay the cost of performance audits. Of those, performance audits for four local governments are complete. These completed audits contained 66 recommendations that identified nearly \$3.6 million in potential savings. Of the remaining eight local governments undergoing performance audits with assistance from the fund, four audits are in the field work stage and four audits have not yet begun.

Internal Performance Audit

In 2011, the Auditor of State underwent a performance audit conducted by Plant and Moran at a cost of \$340,000. The final report was issued in November 2011. The report examined 15 different areas of the office and issued recommendations for improvement. A number of those recommendations have been implemented and are expected to save over \$600,000 annually.

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 41.0% of the funding for these activities is provided from the GRF.

Governor's Recommended Amounts for Auditing				
Fund	ALI and Name		FY 2014	FY 2015
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	\$9,069,804	\$9,196,081
4220	070602	Public Audit Expense – Local Government	\$31,052,959	\$31,031,044
5JZ0	070606	LEAP Revolving Loans	\$650,000	\$650,000
Auditor of State Fund Group Subtotal			\$40,122,763	\$40,227,125
Total Funding: Auditing			\$67,557,185	\$67,661,557

Operating Expenses (070321)

The executive recommendation for this GRF line item is \$27.4 million in both FY 2014 and FY 2015, matching the estimated amount of FY 2013 spending. 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, but is paid for from other sources. 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 into the Public Audit Expense – Intrastate Fund (Fund 1090). The billable hourly rate for state agencies is a flat rate established by the Statewide Cost Allocation Plan (SWCAP). The

current hourly rate under this plan is \$63.69. Fund 1090 took in approximately \$10.4 million in FY 2012. Receipts for FY 2013 are expected to be in the \$9.0 million range. Overall, the recommended funding for this line item is \$9.1 million in FY 2014, an increase of 4.3% compared to the FY 2013 estimate of \$8.7 million. The FY 2015 recommendation is \$9.2 million, 1.4% greater than the FY 2014 recommended amount.

Public Audit Expense – Local Government (070602)

The amount recommended for this line item in FY 2014 is \$31.1 million, equal to the amount of estimated FY 2013 spending. The recommended amount for FY 2015 is \$31.0 million. 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 into the Public Audit Expense – Local Governments Fund (Fund 4220). The billable hourly rate for local government entities is \$41 per hour. Fund 4220 collected approximately \$31.7 million in fees in FY 2012. FY 2013 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 2014-FY 2015 biennium, the revenue collected from local government audits could decrease.

LEAP Revolving Loans (070606)

This line item is used to distribute loans to state agencies and local governments from the Leverage for Efficiency, Accountability, and Performance Fund (Fund 5JZ0) to pay for performance audits required under S.B. 4 of the 129th General Assembly. As of this writing, there have been 12 local governments approved for such loans. The Auditor of State loaned \$303,362 in FY 2012 and has loaned \$163,339 thus far in FY 2013 under this program. Of these applicants, four local governments have had a performance audit completed. These completed audits contained 66 recommendations that identified nearly \$3.6 million in potential savings. Performance audits for four of the loan recipients are in the field work stage, and four have not yet begun. The recommended amount budgeted for the Leverage for Efficiency, Accountability, and Performance Program in both FY 2014 and FY 2015 is \$650,000, equal to the amount of estimated spending for this purpose in FY 2013.

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 \$3.4 million in each fiscal year (just over 81.0%) 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 2014	FY 2015
General Revenue Fund				
GRF	070403	Fiscal Watch/Emergency Technical Assistance	\$800,000	\$800,000
<i>General Revenue Fund Subtotal</i>			<i>\$800,000</i>	<i>\$800,000</i>
Auditor of State Fund Group				
5840	070603	Training Program	\$181,730	\$181,250
6750	070605	Uniform Accounting Network	\$3,241,533	\$3,160,637
<i>Auditor of State Fund Group Subtotal</i>			<i>\$3,423,263</i>	<i>\$3,341,887</i>
Total Funding: Local Government Services			\$4,223,263	\$4,141,887

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. As of this writing, there are 25 local governments in fiscal emergency and three local governments in fiscal watch. There are six school districts in fiscal emergency and four school districts in fiscal watch. The executive recommends an appropriation of \$800,000 in FY 2014 and FY 2015, matching the estimated FY 2013 expenditure 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 \$159,000 in receipts in FY 2012. FY 2013 receipts are anticipated to be \$160,000. The executive recommends funding of approximately

\$181,000 in both fiscal years for local government training services, in line with estimated FY 2013 spending.

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). As of December 2012, UAN serviced 1,155 townships, 435 villages, 136 libraries, and 88 special districts with essential auditing and payroll functions. The system is supported by subscriber fees ranging from \$8 per month for entities with annual revenues under \$50,000 to \$325 per month for entities with revenues higher than \$10.0 million in annual revenues. These amounts are deposited into the Uniform Accounting Network Fund (Fund 6750). 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 2012 were approximately \$4.3 million, an amount that is expected to increase to \$4.4 million in FY 2013.

The executive recommends funding of \$3.2 million in FY 2014 for the UAN, a decrease of 46.2% from FY 2013 estimated expenditures of \$6.0 million on the system. Note, however, that the FY 2013 amount includes approximately \$2.5 million for system upgrades authorized by the Controlling Board in December 2012. Overall, this project entails providing new hardware and software to the 1,814 local government users mentioned above. The goal is to procure the hardware and software by May 2013.

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General Revenue Fund

GRF 070321 Operating Expenses

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$29,358,887	\$29,337,255	\$26,481,280	\$27,434,452	\$27,434,452	\$27,434,452
	-0.1%	-9.7%	3.6%	0.0%	0.0%

Source: General Revenue Fund

Legal Basis: ORC 117.09; Section 225.10 of Am. Sub. H.B. 153 of the 129th G.A.

Purpose: This line item 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. In addition to these purposes, the appropriation is used to pay for personnel, maintenance, and equipment expenses across the office.

GRF 070403 Fiscal Watch/Emergency Technical Assistance

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$699,997	\$704,063	\$537,377	\$800,000	\$800,000	\$800,000
	0.6%	-23.7%	48.9%	0.0%	0.0%

Source: General Revenue Fund

Legal Basis: Section 225.10 of Am. Sub. H.B. 153 of the 129th 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 2013, there were 28 local governments and 10 school districts in fiscal watch or emergency. Uncodified law reappropriates the unexpended, unencumbered portion of the line item from FY 2012 for the same purpose in FY 2013.

Auditor of State

Auditor of State Fund Group

1090 070601 Public Audit Expense - Intrastate

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$7,750,884	\$8,088,414	\$9,567,834	\$8,700,000	\$9,069,804	\$9,196,081
	4.4%	18.3%	-9.1%	4.3%	1.4%

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

Legal Basis: ORC 117.13; Section 225.10 of Am. Sub. H.B. 153 of the 129th G.A.

Purpose: This appropriation is used to pay costs related to financial audits of state agencies to determine if these entities have complied with accounting rules, laws, and other applicable requirements.

4220 070602 Public Audit Expense - Local Government

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$33,666,420	\$30,231,912	\$28,855,575	\$31,052,999	\$31,052,999	\$31,031,044
	-10.2%	-4.6%	7.6%	0.0%	-0.1%

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

Legal Basis: ORC 117.13; Section 225.10 of Am. Sub. H.B. 153 of the 129th G.A.

Purpose: This line item is used to pay for costs related to audits of non-state public agencies to determine if the entities have complied with all applicable accounting rules, laws, ordinances, and orders.

5840 070603 Training Program

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$165,598	\$107,406	\$166,043	\$181,250	\$181,730	\$181,250
	-35.1%	54.6%	9.2%	0.3%	-0.3%

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. 153 of the 129th 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.

Auditor of State

5JZ0 070606 LEAP Revolving Loans

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$0	\$0	\$303,362	\$650,000	\$650,000	\$650,000
	N/A	N/A	114.3%	0.0%	0.0%

Source: Auditor of State Fund Group: One time cash transfer of \$1.5 million from the Uniform Accounting Network Fund (Fund 6750) in FY 2012; loan repayments from entities receiving performance audits

Legal Basis: ORC 117.47; Section 225.10 of Am. Sub. H.B. 153 of the 129th G.A.

Purpose: The line item is used to distribute loans to state agencies and local governments from the Leverage for Efficiency, Accountability, and Performance Fund (Fund 5JZ0) to pay for performance audits required under Sub. S.B. 4 of the 129th General Assembly.

6750 070605 Uniform Accounting Network

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$2,501,717	\$2,339,608	\$3,472,132	\$6,025,000	\$3,241,533	\$3,160,637
	-6.5%	48.4%	73.5%	-46.2%	-2.5%

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. 153 of the 129th 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. Over 1,800 Ohio townships, villages, public libraries and special districts use UAN to manage their daily financial operations. There was a one time expenditure of \$2.5 million in FY 2013 to acquire new computer hardware and software for all UAN users.

FY 2014 - FY 2015 Introduced Appropriation Amounts

All Fund Groups

Line Item Detail by Agency			FY 2012	Estimate FY 2013	Introduced FY 2014	FY 2013 to FY 2014 % Change	Introduced FY 2015	FY 2014 to FY 2015 % Change
Report For Main Operating Appropriations Bill			Version: As Introduced					
AUD Auditor of State								
GRF	070321	Operating Expenses	\$ 26,481,280	\$ 27,434,452	\$ 27,434,452	0.00%	\$ 27,434,452	0.00%
GRF	070403	Fiscal Watch/Emergency Technical Assistance	\$ 537,377	\$ 800,000	\$ 800,000	0.00%	\$ 800,000	0.00%
General Revenue Fund Total			\$ 27,018,657	\$ 28,234,452	\$ 28,234,452	0.00%	\$ 28,234,452	0.00%
1090	070601	Public Audit Expense - Intrastate	\$ 9,567,834	\$ 8,700,000	\$ 9,069,804	4.25%	\$ 9,196,081	1.39%
4220	070602	Public Audit Expense - Local Government	\$ 28,855,575	\$ 31,052,999	\$ 31,052,999	0.00%	\$ 31,031,044	-0.07%
5840	070603	Training Program	\$ 166,043	\$ 181,250	\$ 181,730	0.26%	\$ 181,250	-0.26%
5JZ0	070606	LEAP Revolving Loans	\$ 303,362	\$ 650,000	\$ 650,000	0.00%	\$ 650,000	0.00%
6750	070605	Uniform Accounting Network	\$ 3,472,132	\$ 6,025,000	\$ 3,241,533	-46.20%	\$ 3,160,637	-2.50%
Auditor of State Fund Group Total			\$ 42,364,947	\$ 46,609,249	\$ 44,196,066	-5.18%	\$ 44,219,012	0.05%
Auditor of State Total			\$ 69,383,603	\$ 74,843,701	\$ 72,430,518	-3.22%	\$ 72,453,464	0.03%