

# Auditor of State

*Terry Steele, Budget Analyst*

- Total budget of \$161,438,206 in FY 2008 and FY 2009
- Warrant issuance function transferred to OBM
- Increasing staffing levels to conduct audits

## OVERVIEW

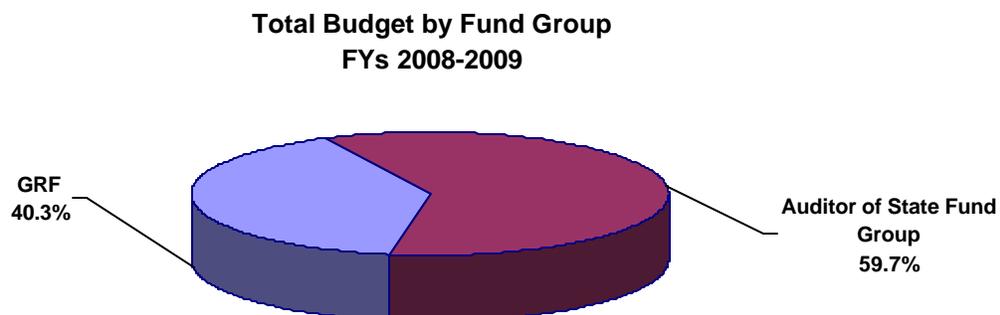
### Duties and Responsibilities

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, and training for public officers. Under this budget, the Auditor's warrant-drafting responsibilities (state payroll, vendor payments, income tax refunds) are transferred to the Office of Budget and Management.

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, administration, and legal.

As the chart below shows, 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 ability of local governments to pay the Auditor for services has a significant impact on the Auditor's budget.



## FYs 2008 - 2009 Budget Issues

### Local Government Services Funding Concerns

Approximately 60% 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 could create budgetary pressures for the Auditor of State. Indeed, the previous two biennia have seen reductions in payments from local governments. 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.

### Increased Staffing Levels

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 budget contains additional GRF funding to replenish some of the previously eliminated staffing positions to fill 49 vacancies within the Auditor's office. 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 budget 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.

### Agency in Brief

Agency In Brief					
Number of Employees*	Total Appropriations - All Funds		GRF Appropriations		Appropriation Bill(s)
	2008	2009	2008	2009	
897	\$79.57 million	\$81.87 million	\$32.07 million	\$33.37 million	Am. Sub. H.B. 119

\*Employee count obtained from the Department of Administrative Services (DAS) payroll reports as of June 2007.

The Auditor's budget is \$79,568,138 in FY 2008, a 1.1% increase over the adjusted appropriation of \$78,702,708 in FY 2007. The FY 2009 appropriation is \$81,870,068, an increase of 2.9% over FY 2008.

## ANALYSIS OF THE BUDGET

### 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 FYs 2008 - 2009 funding levels.

Fund	ALI	Title	FY 2008	FY 2009
<b>General Revenue Fund</b>				
GRF	070-321	Operating Expenses	\$17,099,021	\$18,012,353
<b>General Revenue Fund Subtotal</b>			<b>\$17,099,021</b>	<b>\$18,012,353</b>
<b>Auditor of State Fund Group</b>				
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
<b>Auditor of State Fund Group Subtotal</b>			<b>\$34,545,671</b>	<b>\$35,758,792</b>
<b>Total Funding: Financial Audit Services</b>			<b>\$51,644,692</b>	<b>\$53,771,145</b>

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 equality 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

**Implication of the Budget:** Funded through fees charged directly to clients as well as GRF moneys, this program is funded at a level of \$51,664,692 in FY 2008 and \$53,771,145 in FY 2009. These appropriations will allow the Auditor of State to add an additional 45 employees to the Financial Audit Division. These additional employees will be used to handle state-mandated auditing of various state agencies, a task previously contracted to auditing firms.

**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 FYs 2008 - 2009 funding levels.

Fund	ALI	Title	FY 2008	FY 2009
<b>General Revenue Fund</b>				
GRF	070-321	Operating Expenses	\$691,424	\$705,565
<b>General Revenue Fund Subtotal</b>			<b>\$691,424</b>	<b>\$705,565</b>
<b>Auditor of State Fund Group</b>				
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
<b>Auditor of State Fund Group Subtotal</b>			<b>\$2,386,123</b>	<b>\$2,363,107</b>
<b>Total Funding: Fraud and Investigative Audit Services</b>			<b>\$3,077,547</b>	<b>\$3,068,672</b>

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

**Implication of the Budget:** This program is funded at a level of \$2,170,003 in FY 2008 and \$2,189,530 in FY 2009. It should be noted that approximately 80% of this program's funding comes directly from state agencies with which the Auditor of State enters into interagency agreements.

**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.

**Funding Source:** GRF; fees

**Implication of the Budget:** The budget funds this program at \$1,119,375 in FY 2008 and \$1,113,884 in FY 2009. The Special Audits program is funded through the GRF, in addition to fees charged to the entity that is being audited. For state agencies, this is determined by the Statewide Cost Allocation Plan (SWCAP), which allows for an hourly rate of \$58.36 in FY 2008. Local governments are charged the hourly wage of the employee performing the audit in addition to an add-on fee. The budgeted amounts will allow the Auditor's office to continue this program at current levels, and on those occasions in which the entity being audited cannot pay, potentially subsidize the costs of the special audit.

## 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 FYs 2008 - 2009 funding levels.

Fund	ALI	Title	FY 2008	FY 2009
<b>General Revenue Fund</b>				
GRF	070-321	Operating Expenses	\$1,218,637	\$1,310,282
GRF	070-403	Fiscal Watch/Emergency Tech Assistance	\$223,316	\$229,294
<b>General Revenue Fund Subtotal</b>			<b>\$1,441,953</b>	<b>\$1,539,576</b>
<b>Auditor of State Fund Group</b>				
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
<b>Auditor of State Fund Group Subtotal</b>			<b>\$2,418,979</b>	<b>\$2,431,004</b>
<b>Total Funding: Performance Audit Services</b>			<b>\$3,860,932</b>	<b>\$3,970,580</b>

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

**Implication of the Budget:** The Performance Audit program is funded primarily through GRF and client fees and is funded at \$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 permit these audits to be performed on site.

## Program Series

## 4: Local Government Services

**Purpose:** This program series offers a series of consulting services, which include accounting and technical assistance, training for local elected officials and financial and accounting expertise to local governments in 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 FYs 2008 - 2009 funding levels.

Fund	ALI	Title	FY 2008	FY 2009
<b>General Revenue Fund</b>				
GRF	070-321	Operating Expenses	\$2,252,256	\$2,406,331
GRF	070-403	Fiscal Watch/Emergency Tech Assistance	\$376,684	\$370,706
<b>General Revenue Fund Subtotal</b>			<b>\$2,628,940</b>	<b>\$2,777,037</b>
<b>Auditor of State Fund Group</b>				
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
<b>Auditor of State Fund Group Subtotal</b>			<b>\$6,094,402</b>	<b>\$6,175,6652</b>
<b>Total Funding: Local Government Services</b>			<b>\$8,723,342</b>	<b>\$8,952,702</b>

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

**Implication of the Budget:** This program is funded through client fees, training fees, and GRF. This program is funded at \$5,544,172 in FY 2008 and \$5,771,704 in FY 2009. There continues to be a 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 2007, 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. This funding level will allow the Auditor to continue to provide consulting services to local governments and add an additional four 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:** Auditor of State Fund Group; user fees from local governments

**Implication of the Budget:** This program is funded at a 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 biennium. The Auditor's office is also invoking several cost-saving measures for this program as well. For example, the office will be dispensing information on CD instead of mailing hard copies, eliminating UAN provided e-mail, and conducting centralized training in Columbus in lieu of regional training modules.

**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 FYs 2008 - 2009 funding levels.

Fund	ALI	Title	FY 2008	FY 2009
<b>General Revenue Fund</b>				
GRF	070-321	Operating Expenses	\$10,191,763	\$10,289,320
<b>General Revenue Fund Subtotal</b>			<b>\$10,191,763</b>	<b>\$10,289,320</b>
<b>Auditor of State Fund Group</b>				
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
<b>Auditor of State Fund Group Subtotal</b>			<b>\$1,858,130</b>	<b>\$1,582,907</b>
<b>Total Funding: Program Management</b>			<b>\$12,049,893</b>	<b>\$11,872,227</b>

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; Auditor of State Fund Group

**Implication of the Budget:** This program is funded at a 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.

**FY 2008 - 2009 Final Appropriation Amounts**

**All Fund Group**

**Line Item Detail by Agency**

FY 2005:      FY 2007 Adj.      FY 2008      % Change      FY 2009      % Change  
 FY 2006: Appropriations: Appropriations: 2007 to 2008: Appropriations: 2008 to 2009:

**Report For: Main Operating Appropriations Bill**

**Version: Enacted**

**AUD Auditor of State**

GRF	070-321	Operating Expenses	\$ 27,882,634	\$ 30,220,355	\$ 29,144,425	\$ 31,469,552	7.98%	\$ 32,771,482	4.14%
GRF	070-403	Fiscal Watch/Emergency Technical Assistance	\$ 500,000	\$ 497,843	\$ 502,157	\$ 600,000	19.48%	\$ 600,000	0.00%
GRF	070-405	Electronic Data Processing Administration	\$ 797,434	\$ 795,926	\$ 857,156	----	N/A	----	N/A
GRF	070-406	Uniform Accounting Network/Technology Improvements Fund	\$ 1,450,837	\$ 1,696,716	\$ 1,595,544	----	N/A	----	N/A
<b>General Revenue Fund Total</b>			<b>\$ 30,630,905</b>	<b>\$ 33,210,839</b>	<b>\$ 32,099,282</b>	<b>\$ 32,069,552</b>	<b>-0.09%</b>	<b>\$ 33,371,482</b>	<b>4.06%</b>
109	070-601	Public Audit Expense-Intrastate	\$ 8,198,809	\$ 9,637,966	\$ 12,000,000	\$ 11,000,000	-8.33%	\$ 11,000,000	0.00%
422	070-601	Public Audit Expense-Local Government	\$ 29,723,379	\$ 28,756,359	\$ 31,104,840	\$ 33,000,000	6.09%	\$ 34,000,000	3.03%
584	070-603	Training Program	\$ 129,978	\$ 182,560	\$ 181,250	\$ 181,250	0.00%	\$ 181,250	0.00%
675	070-605	Uniform Accounting Network	\$ 2,001,697	\$ 3,104,119	\$ 3,317,336	\$ 3,317,336	0.00%	\$ 3,317,336	0.00%
R06	070-604	Continuous Receipts	\$ 105,577	\$ 13,306	\$ 0	\$ 0	N/A	\$ 0	N/A
<b>Auditor of State Fund Group Total</b>			<b>\$ 40,159,440</b>	<b>\$ 41,694,310</b>	<b>\$ 46,603,426</b>	<b>\$ 47,498,586</b>	<b>1.92%</b>	<b>\$ 48,498,586</b>	<b>2.11%</b>
<b>Auditor of State Total</b>			<b>\$ 70,790,346</b>	<b>\$ 74,905,149</b>	<b>\$ 78,702,708</b>	<b>\$ 79,568,138</b>	<b>1.10%</b>	<b>\$ 81,870,068</b>	<b>2.89%</b>