

LSC Greenbook

Analysis of the Enacted Budget

Auditor of State

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ATTACHMENT:

Budget Spreadsheet By Line Item

Auditor of State

- Total of \$153.5 million for the FY 2016-FY 2017 biennium
- Budget is 61% supported by fees and 39% supported by GRF
- Eliminated 2% pay reduction for certain employees that had been in effect since the FY 2010-FY 2011 biennium

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 July 2015, the Office employs approximately 791 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.

Appropriations Overview

Appropriations by Fund Group, FY 2016-FY 2017					
Fund Group	FY 2015*	FY 2016	% change, FY 2015-FY 2016	FY 2017	% change, FY 2016-FY 2017
General Revenue	\$28,288,046	\$29,551,872	4.5%	\$29,551,872	0.0%
Dedicated Purpose	\$41,438,515	\$47,101,512	13.7%	\$47,307,512	0.4%
TOTAL	\$69,726,562	\$76,653,384	9.9%	\$76,859,384	0.3%

*FY 2015 figures represent actual spending.

The table above shows, the budget provides the Auditor of State with funding of nearly \$76.7 million in FY 2016 and \$76.9 million in FY 2017. Overall, there is a nearly \$7.0 million (9.9%) increase between FY 2015 spending and the appropriated FY 2016 amount. Almost half of this increase (\$3.4 million) is attributable to added spending in the area of local government auditing.

Of the total funding for the FY 2016-FY 2017 biennium, about 61.5% (\$47.1 million in FY 2016 and \$47.3 million in FY 2017) 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 Dedicated Purpose Fund Group. The remaining 38.5% of funding (\$29.6 million in each fiscal year) is from the GRF.

Budget Provisions

Performance Audits for Entities in Fiscal Distress

H.B. 64 allows the Auditor of State, on the Auditor's own initiative, to conduct a performance audit of political subdivisions in fiscal distress. This would mean that any local government or school district in fiscal caution, watch, or emergency would be subject to a performance audit if selected by the Auditor. As of July 2015, there are 22 local governments in fiscal emergency and two local governments in fiscal watch. Additionally, there are five school districts in fiscal emergency and two in fiscal watch. This provision of the budget bill also allows for the Auditor of State to request additional funding from the Controlling Board, if necessary, to conduct these performance audits. As a matter of implementation, the Auditor of State indicated that the Office will select applicable political subdivisions and conduct performance audits as available staffing allows. The expenses of these audits will be paid from the Public Audit Expense – Local Governments Fund (Fund 4220). The hourly billable rate for audits of local governments was \$41 per hour in both FY 2014 and FY 2015. However, given the straitened finances of the entities that would be audited, the Auditor's Office will bear these costs.

Forfeiture Proceeds

H.B. 64 permits the Auditor of State, when the Auditor is substantially involved in the seizure of forfeited property as part of a law enforcement investigation, to receive a share of the proceeds of the forfeiture. This would potentially help to offset costs to the Auditor's Office for its involvement in these investigations.

Auditor of State Pay Schedules

H.B. 64 removes a provision from current law that has kept certain Auditor of State's pay schedules 2% lower than it would otherwise be according to current state pay scales. The provision was instituted as an alternative to the statewide Cost Saving Days (CSD) payroll reduction strategy in effect during the FY 2010-FY 2011 biennium. Specifically, the provision required employees of the Auditor of State's Office that are exempt from collective bargaining and paid in accordance with Schedule E-1 or Schedule E-1 for step 7 only, and are paid under the schedule of rates in section 124.152(B) or (C), to have their hourly and annual pay reduced by 2%. H.B. 64 includes funding for the added pay as follows: (1) GRF appropriation item 070321, Operating Expenses, was raised by \$1,153,825 in FY 2016 and \$1,154,825 in FY 2017, (2) Fund 1090 appropriation item 070601, Public Audit Expense – Intra-State, was increased by \$204,100 in each fiscal year, (3) Fund 4220 appropriation item 070602, Public Audit Expense – Local Government, was increased by \$572,900 in each fiscal year, and (4) Fund 6750 appropriation item 070605, Uniform Accounting Network, was raised by \$27,000 each fiscal year.

ANALYSIS OF ENACTED BUDGET

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 39.8% of the funding for these activities is provided from the GRF.

Appropriations for Auditing				
Fund	ALI and Name		FY 2016	FY 2017
General Revenue Fund				
GRF	070321	Operating Expenses	\$28,751,872	\$28,751,872
General Revenue Fund Subtotal			\$28,751,872	\$28,751,872
Dedicated Purpose Fund Group				
1090	070601	Public Audit Expense – Intrastate	\$9,600,181	\$9,600,181
4220	070602	Public Audit Expense – Local Government	\$33,509,944	\$33,715,944
5JZ0	070606	LEAP Revolving Loans	\$400,000	\$400,000
Dedicated Purpose Fund Group Subtotal			\$43,510,125	\$43,716,125
Total Funding: Auditing			\$72,261,997	\$72,467,997

Operating Expenses (070321)

The appropriation for this GRF line item is \$28.7 million in both FY 2016 and FY 2017, an increase of 4.3% over FY 2015 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 (see "**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 \$65.92. Fund 1090 took in approximately

\$9.4 million in FY 2014. Receipts for FY 2015 were just over \$9.3 million. Overall, the appropriation for this line item is \$9.6 million in FY 2016, an increase of 13.92% compared to FY 2015 spending of \$8.4 million. The FY 2017 appropriation is also \$9.6 million, matching the FY 2016 appropriated amount.

Public Audit Expense – Local Government (070602)

The amount appropriated for this line item in FY 2016 is \$33.5 million, an increase of 11.3% over FY 2015 spending. The appropriation for FY 2017 is \$33.7 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 \$34.2 million in fees in FY 2014 and \$33.4 million in FY 2015. 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 2016-FY 2017 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 (LEAP) Fund (Fund 5JZ0) to pay for performance audits required under S.B. 4 of the 129th General Assembly. As of this writing, no state agencies have requested to receive a loan from Fund 5JZ0 to pay for their performance audit. However, in FY 2014, four local government entities receiving loans from the LEAP Fund had performance audits released, while another two local governments receiving LEAP funding are currently undergoing performance audits. The Auditor of State loaned \$198,679 in FY 2014 and \$63,390 in FY 2015 under this program. The appropriated amount for the LEAP Program in both FY 2016 and FY 2017 is \$400,000.

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 \$3.6 million in each fiscal year (81.8%) of the proposed funding in this category is derived from fees charged to the political subdivisions using these services. The remainder of funding is from the GRF.

Appropriations for Local Government Services				
Fund	ALI and Name		FY 2016	FY 2017
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	\$403,750	\$403,750
6750	070605	Uniform Accounting Network	\$3,187,637	\$3,187,637
Auditor of State Fund Group Subtotal			\$3,591,387	\$3,591,387
Total Funding: Local Government Services			\$4,391,387	\$4,391,387

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 22 local governments in fiscal emergency and two local governments in fiscal watch. There are five school districts in fiscal emergency and two school districts in fiscal watch. The budget appropriates \$800,000 in FY 2016 and FY 2017 for these purposes, an increase of 11.0% from FY 2015 expenditures related to these activities.

Training Program (070603)

This line item is used to pay for training newly elected local fiscal officials and ongoing training provided to 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 the training sessions. The budget provides funding of \$403,750 in both fiscal years for local government training services, an increase of 37.3% for these activities. This increase in appropriation is for hosting the Auditor of State's annual fraud conference. The

conference is paid for primarily through registration fees of participating members. Originally, this revenue was deposited into and the associated conference expenses were paid out of the Public Audit Expense – State Government Fund (Fund 1090). For FY 2016-FY 2017, the conference-related receipts and costs will be accounted for under the Training Program Fund (Fund 5840).

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 2014, UAN serviced 1,159 townships, 454 villages, 141 libraries, and 105 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. All users also pay a monthly hardware surcharge of \$50. These amounts are deposited into the Uniform Accounting Network Fund (Fund 6750). During the FY 2014-FY 2015 biennium, the Auditor of State began offering online training options to UAN clients, and eliminated regional training classes. The Auditor of State estimates that training costs for the latest software upgrade on the UAN were reduced by approximately \$400,000 due to this change.

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 2014 were approximately \$3.9 million and slightly more than \$3.7 million in FY 2015. The budget provides funding of just under \$3.2 million in both FY 2016 and FY 2017 for the UAN, an increase of 25.4% from FY 2015 spending of \$2.5 million.

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FY 2016 - FY 2017 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

			FY 2014	FY 2015	Appropriation FY 2016	FY 2015 to FY 2016 % Change	Appropriation FY 2017	FY 2016 to FY 2017 % Change
Report For Main Operating Appropriations Bill			Version: As Enacted					
AUD Auditor of State								
GRF	070321	Operating Expenses	\$ 26,947,285	\$ 27,567,617	\$ 28,751,872	4.30%	\$ 28,751,872	0.00%
GRF	070403	Fiscal Watch/Emergency Technical Assistance	\$ 653,630	\$ 720,429	\$ 800,000	11.04%	\$ 800,000	0.00%
General Revenue Fund Total			\$ 27,600,915	\$ 28,288,046	\$ 29,551,872	4.47%	\$ 29,551,872	0.00%
1090	070601	Public Audit Expense - Intrastate	\$ 8,259,624	\$ 8,428,106	\$ 9,600,181	13.91%	\$ 9,600,181	0.00%
4220	070602	Public Audit Expense - Local Government	\$ 29,969,366	\$ 30,111,392	\$ 33,509,944	11.29%	\$ 33,715,944	0.61%
5840	070603	Training Program	\$ 130,378	\$ 294,161	\$ 403,750	37.25%	\$ 403,750	0.00%
5JZ0	070606	LEAP Revolving Loans	\$ 198,679	\$ 63,390	\$ 400,000	531.01%	\$ 400,000	0.00%
6750	070605	Uniform Accounting Network	\$ 4,267,689	\$ 2,541,466	\$ 3,187,637	25.43%	\$ 3,187,637	0.00%
Dedicated Purpose Fund Group Total			\$ 42,825,736	\$ 41,438,515	\$ 47,101,512	13.67%	\$ 47,307,512	0.44%
Auditor of State Total			\$ 70,426,652	\$ 69,726,562	\$ 76,653,384	9.93%	\$ 76,859,384	0.27%