



# Ohio Legislative Service Commission

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## Fiscal Note & Local Impact Statement

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**Bill:** [Sub. S.B. 67 of the 130th G.A.](#)

**Date:** May 29, 2013

**Status:** As Reported by House State and Local Government

**Sponsor:** Sen. Peterson

**Local Impact Statement Procedure Required:** No

**Contents:** Authorizes the use of agreed upon audit procedures for certain political subdivisions and makes other changes

### State Fiscal Highlights

- The bill requires the Auditor of State, by rule, to establish agreed upon audit procedures (AUPs) for certain qualifying political subdivisions with annual budgets of less than \$5 million. This codifies an audit policy in effect since September 2012 under Bulletin 2012-07. As a result of this change, more political subdivisions are statutorily eligible to obtain financial audits under the AUP audit process.
- The Auditor of State charges political subdivisions an hourly rate of \$41 to recoup the cost of conducting required financial audits. These fees are deposited into the Public Audit Expense – Local Governments Fund (Fund 4220). If more qualifying local governments opt for the AUP process, presumably state audit costs will be reduced.
- The bill removes a current exemption that allows the Auditor of State to forego the required step of filing a rule summary and fiscal analysis during the rule-making process. Since the Auditor of State is currently adhering to this requirement, this provision will have little, if any, fiscal effect on administrative expenses paid from the GRF.
- The bill permits the Auditor of State to send copies of a notice of a hearing on a proposed rule and copies of the proposed rule by electronic mail rather than standard mail. This could reduce printing and postage costs. The Auditor's Office indicated that the last proposed rule change resulted in the Office sending out 35,000 notices and cost \$1,600.
- The bill modifies the definition of the type of money that qualifies as public money subject to review by the Auditor of State. The modification applies to certain public assets sold or used by private entities and the lease of spirituous liquor distribution to JobsOhio. As a result of these exclusions, the Auditor of State will not incur costs that the office might otherwise have. Audits of state-level entities are paid from the

Public Audit Expense – Intrastate (Fund 1090). The fund consists of billings collected from entities that are subject to state audit.

## **Local Fiscal Highlights**

- The bill expands the number of political subdivisions statutorily eligible for financial audits under the AUP audit format from political subdivisions with budgets of \$1 million or under to those with budgets of \$5 million or under. This change codifies an audit policy that allows AUPs under Auditor of State Bulletin 2012-07. Overall, there were 1,050 AUP audits of political subdivisions completed in calendar year 2011.
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## **Detailed Fiscal Analysis**

The bill makes more political subdivisions statutorily eligible for financial audits under a streamlined financial audit technique referred to as an agreed upon audit procedure (AUP). This technique has been employed by the Auditor of State's Office since 2009, and was expanded in 2012 to encompass a greater number of political subdivisions that meet particular eligibility guidelines. Currently, certain political subdivisions that maintain budgets of \$1 million or less may qualify for the less costly AUP process if they meet various criteria. The bill increases the budget threshold for eligible political subdivisions to those maintaining budgets of \$5 million or under, in effect codifying existing Auditor of State policy in effect since December 2012 under Bulletin 2012-07. In addition to this provision, which could reduce audit costs for more political subdivisions, the bill makes two other changes that affect the Auditor of State's rule-making process. These provisions are described in more detail below.

### **Agreed upon audit procedures (AUP)**

The bill requires the Auditor of State, by rule, to establish AUPs for certain qualifying political subdivisions. To qualify for this streamlined auditing process, the chief requirements are that the political subdivision's annual budget not exceed \$5 million and that the political subdivision can demonstrate a "clean" audit history. In addition, the bill sets out seven other criteria for eligibility. As a rule, the streamlined AUP audit technique involves fewer hours of work and is thus less costly than a conventional financial audit. Thus, qualifying political subdivisions could reduce their audit expenses if they opt for an AUP audit. The hourly rate that the Auditor of State charges political subdivisions for financial audits is \$41. These fees are deposited into the Public Audit Expense – Local Governments Fund (Fund 4220) used by the Auditor of State to pay for the local government audit function.

The Auditor of State currently performs AUP audits on some political subdivisions, and has done so since November 2009 when an advisory bulletin authorized this audit technique for qualifying political subdivisions with annual

budgets of \$1 million or under. In September 2012, the Auditor of State expanded eligibility to political subdivisions with annual budgets of less than \$5 million. The Auditor of State estimates that 1,400 local government entities may now qualify for an AUP audit with this expansion, an increase of approximately 800 eligible entities over the 600 or so political subdivisions currently eligible. Qualifying subdivisions that are eligible include agricultural societies, county boards of health, cemeteries, conservancy districts, family and children first councils, fire districts, ambulance districts, fire and ambulance districts, libraries, park or recreation districts, regional planning commissions, solid waste districts, townships, villages, water districts, sewer districts, and water and sewer districts. According to the Auditor of State's Office, there were 1,050 AUP audits completed in FY 2011, and the use of AUP procedures saved approximately \$611,040 in audit costs.

### **Auditor of State rule-making process and notification procedure**

The bill eliminates a rule summary and fiscal analysis filing exemption granted to the Auditor of State. Currently, the Auditor of State's rule-making procedure exempts the Auditor of State from the abbreviated rule-making procedure's requirement to file a rule summary and fiscal analysis with a proposed rule or proposed rule in revised form. The bill eliminates this exemption so that the Auditor of State must file such a rule summary and fiscal analysis. Overall, this change will have little, if any, new fiscal effect since the Auditor of State is already following this requirement. Finally, the bill allows the Auditor of State to send notices of hearings on a proposed rule-making action and copies of a proposed rule by electronic mail as an alternative to mailing them. This provision would likely result in some savings to the Auditor in the form of reduced printing and postage costs. The Auditor's Office indicated that during its most recent rule change, the agency was required to send out approximately 35,000 notices at a cost of \$1,600.

### **Auditing of public money**

The bill specifies conditions under which certain types of revenue derived from a transaction between a public office and private entity are excluded from the definition of public money and thus from a public audit conducted by the Auditor of State. The first exclusion applies when money or revenue earned by or from a person's ownership, operation, or use of an asset, whether tangible or intangible, that either in whole or in part was sold, was leased, was licensed, was the granting of a franchise, or was otherwise transferred or conveyed by a public office to the person pursuant to an agreement, authorized by law, between the person and the public office in which the public office received consideration from the person for the asset that was sold, leased, licensed, franchised, or otherwise transferred or conveyed. The second exclusion under the bill applies to income derived from the state's lease of spirituous liquor distribution and sales system to JobsOhio under R.C. 4313.01. The bill also defines the circumstances under which the Auditor of State may audit public money in the hands of a private party. As a result of these exclusions, the Auditor of State will not incur costs that the

office might otherwise have. Audits of state-level entities are paid from the Public Audit Expense – Intrastate (Fund 1090). The fund consists of billings collected from entities that are subject of state audit.

Finally, the bill adds to existing audit requirements that apply to JobsOhio by requiring the following: (1) that the annual audit under current law use accounting principles and standards established by the Governmental Accounting Standards Board, (2) that the firm of independent certified public accountants engaged by JobsOhio to conduct the audit also conduct a supplemental compliance and control review pursuant to a written agreement by and among the firm, the Auditor of State, JobsOhio, and any nonprofit entity the sole member of which is JobsOhio, and (3) a copy of each financial audit report and each report of the results of the compliance and control review are to be provided to the Governor, the Auditor of State, the Speaker of the House of Representatives, and the President of the Senate. None of these requirements appear to have a fiscal impact on the state since they apply to the private nonprofit JobsOhio.