

LSC Greenbook

Analysis of the Enacted Budget

Auditor of State

Terry Steele, Senior Budget Analyst
Legislative Service Commission

August 2013

TABLE OF CONTENTS

OVERVIEW	1
Agency Overview.....	1
Appropriations Overview	1
Statutory Provisions in H.B. 59 that Affect the Auditor of State	2
Responsibilities under the JCARR Rule-making Process.....	2
Surety Bonds for State Elected Office Holders	2
Approval of School District Energy Conservation Measures.....	2
ANALYSIS OF ENACTED BUDGET	3
Category 1: Auditing	3
Operating Expenses (070321)	3
Public Audit Expense – Intrastate (070601).....	3
Public Audit Expense – Local Government (070602).....	4
LEAP Revolving Loans (070606).....	4
Category 2: Local Government Services	5
Fiscal Watch/Emergency Technical Assistance (070403).....	5
Training Program (070603)	5
Uniform Accounting Network (070605)	6

ATTACHMENT:

Budget Spreadsheet By Line Item

Auditor of State

- Total funding of \$144.9 million for the FY 2014-FY 2015 biennium
- Budget is 61% supported by fees and 39% supported by GRF

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 serving political subdivisions. The Auditor of State also provides consulting services to local governments and training for public officers. The office is divided into three sections: Audit, Legal, and Administration. Regional 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. According to June 2013 payroll records, the Auditor of State employs 776 individuals statewide. Most of the employees are full-time audit staff.

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, such as associations, boards, foster care organizations, companies, and nursing homes.

Appropriations Overview

As Table 1 below shows, under H.B. 59 there is a \$4.4 million (6.5%) increase between FY 2013 spending of \$68.0 million and FY 2014 appropriations of just over \$72.4 million. For FY 2015, there is a slight increase in appropriations to just under \$72.5 million.

Fund Group	FY 2013*	FY 2014	% change, FY 2013-FY 2014	FY 2015	% change, FY 2014-FY 2015
General Revenue Fund	\$28,424,060	\$28,234,452	-0.7%	\$28,234,452	0.0%
Auditor of State	\$39,580,306	\$44,196,066	11.7%	\$44,219,012	0.1%
TOTAL	\$68,004,366	\$72,430,518	6.5%	\$72,453,464	<0.1%

*FY 2013 figures represent actual spending.

About 61% of the amount appropriated (\$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. Appropriations for these purposes are all under the Auditor of State Fund Group. The remaining 39.0% of funding (\$28.2 million in each fiscal year) is from the GRF.

Statutory Provisions in H.B. 59 that Affect the Auditor of State

Responsibilities under the JCARR Rule-Making Process

Under rule-making procedures in current law, the Auditor of State is exempt from a requirement to produce a summary and fiscal analysis related to any proposed rule or rule revision. H.B. 59 removes this exemption, thus requiring the Auditor of State to prepare these summaries and fiscal estimates. In a related change, H.B. 59 also allows the Auditor of State to send public notices announcing hearings on proposed rules in electronic format. Currently, these notices must be sent via mail. While there might be some small savings in public notice expenses, there is unlikely to be any additional cost associated with the requirement to prepare summaries and fiscal analyses since the Auditor of State already prepares these documents for proposed rules. All rule-making costs are paid from the Auditor of State's main operating expense appropriation under GRF appropriation item 070321, Operating Expenses.

Surety Bonds for State Elected Office Holders

H.B. 59 eliminates provisions in current law requiring that statewide elected office holders obtain a surety bond that has been issued by a surety provider approved by the Governor, and instead allows the bond to be issued by any surety provider authorized to do business in the state.

Approval of School District Energy Conservation Measures

In various changes to permanent law concerning the installation of energy conservation measures in school district buildings, H.B. 59 permits the School Facilities Commission, in consultation with the Auditor of State, to deny a request from a school district board that is declared to be in a state of fiscal watch to incur indebtedness for any such project if either the Commission or the Auditor of State determines that the expenditure of funds would not be in the best interest of the school district. As of this writing, there are three school districts in Ohio that are in a state of fiscal watch.

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

Appropriations 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 appropriation for this GRF line item is \$27.4 million in both FY 2014 and FY 2015, a decrease of 1.6% from FY 2013 spending of \$27.9 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, 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 established by the Statewide Cost Allocation Plan (SWCAP) and is currently set at \$63.69. Fund 1090 took in approximately \$9.3 million in FY 2013. Overall, the

appropriation for this line item is \$9.1 million in FY 2014, an increase of 18.8% compared to FY 2013 spending of \$7.6 million on state audits. FY 2015 funding is \$9.2 million, approximately 1.4% greater than the FY 2014 appropriation.

Public Audit Expense – Local Government (070602)

The amount appropriated for this line item in FY 2014 is \$31.1 million, a 9.7% increase from FY 2013 spending of \$28.3 million. The appropriation 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 \$33.9 million in fees in FY 2013. 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. Under this program, the Auditor of State loaned \$303,362 in FY 2012 and \$307,494 in FY 2013. The appropriation for this line item in both FY 2014 and FY 2015 is \$650,000, an increase of 111.4% over FY 2013 spending.

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.

Appropriations 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 24 local governments in fiscal emergency and three local governments in fiscal watch. There are six school districts in fiscal emergency and three school districts in fiscal watch. The appropriation of \$800,000 in FY 2014 and FY 2015 is an increase of 47.7% from FY 2013 spending of \$541,568 for audit services provided to political subdivisions in fiscal watch or fiscal emergency.

Training Program (070603)

This line item is used to pay for the 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 \$109,540 in receipts in FY 2013. The budget appropriates \$181,730 in FY 2014 and \$181,250 in FY 2015 for local government training

services, amounts that are substantially higher than FY 2013 spending of \$105,970 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). UAN services approximately 1,700 townships, villages, libraries, and 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). Receipts from these subscriber fees in FY 2013 were approximately \$4.7 million.

The budget appropriates \$3.2 million in FY 2014 for the UAN system, a decrease of 0.5% from FY 2013 spending of slightly more than \$3.2 million on system expenses. FY 2015 appropriations are slightly less than \$3.2 million, approximately 2.5% lower than the FY 2014 appropriation.

AUD.docx/lb

FY 2014 - FY 2015 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

			FY 2012	FY 2013	Appropriation FY 2014	FY 2013 to FY 2014 % Change	Appropriation FY 2015	FY 2014 to FY 2015 % Change
Report For Main Operating Appropriations Bill			Version: Enacted					
AUD Auditor of State								
GRF	070321	Operating Expenses	\$ 26,481,280	\$ 27,882,492	\$ 27,434,452	-1.61%	\$ 27,434,452	0.00%
GRF	070403	Fiscal Watch/Emergency Technical Assistance	\$ 537,377	\$ 541,568	\$ 800,000	47.72%	\$ 800,000	0.00%
General Revenue Fund Total			\$ 27,018,657	\$ 28,424,060	\$ 28,234,452	-0.67%	\$ 28,234,452	0.00%
1090	070601	Public Audit Expense - Intrastate	\$ 9,567,834	\$ 7,633,111	\$ 9,069,804	18.82%	\$ 9,196,081	1.39%
4220	070602	Public Audit Expense - Local Government	\$ 28,855,575	\$ 28,306,962	\$ 31,052,999	9.70%	\$ 31,031,044	-0.07%
5840	070603	Training Program	\$ 166,043	\$ 105,970	\$ 181,730	71.49%	\$ 181,250	-0.26%
5JZ0	070606	LEAP Revolving Loans	\$ 303,362	\$ 307,494	\$ 650,000	111.39%	\$ 650,000	0.00%
6750	070605	Uniform Accounting Network	\$ 3,472,132	\$ 3,226,770	\$ 3,241,533	0.46%	\$ 3,160,637	-2.50%
Auditor of State Fund Group Total			\$ 42,364,947	\$ 39,580,306	\$ 44,196,066	11.66%	\$ 44,219,012	0.05%
Auditor of State Total			\$ 69,383,603	\$ 68,004,366	\$ 72,430,518	6.51%	\$ 72,453,464	0.03%