

# Greenbook

## LBO Analysis of Enacted Budget

### Auditor of State

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Attachment:

Appropriation Spreadsheet

# LBO Greenbook

## Auditor of State

### Quick look...

- The Auditor of State is responsible for auditing all public offices in Ohio, both state and local, as well as providing consulting services to local governments and training for public officers.
  - Total of 798 employees as of July 2021.
  - The five major functional units are: Audit Administration, Financial Audits, Local Government Services, Ohio Performance Team, and Special Investigations Unit.
- Approximately \$100.3 million (53.6%) of total biennial funding comes from fees charged for auditing services and other payments for services. Of this fee-based funding:
  - Approximately \$67.6 million (68.0%) will be for local government audits and services.
  - Approximately \$22.9 million (22.2%) will be for state agency audits.
  - Approximately \$9.8 million (9.8%) of this total will be used to provide Uniform Accounting Network services and training.
- GRF funding of \$13.2 million in each fiscal year will be used to offset auditing costs for political subdivisions currently recouped through fees and paid into the Public Audit Expense – Local Government Fund (Fund 4220).

Fund Group	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
General Revenue	\$29,218,962	\$29,081,898	\$30,147,114	\$30,472,391
Dedicated Purpose	\$56,790,866	\$57,087,057	\$62,432,415	\$63,984,912
Total	\$86,009,828	\$86,168,955	\$92,579,529	\$94,457,303
% change	--	0.2%	7.4%	2.0%
<i>GRF % change</i>	--	-0.5%	3.7%	1.1%

### 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. The office currently employs 798 people. It includes five major functional units: Audit Administration, Financial Audits, Local Government Services, Ohio Performance Team, and Special Investigations Unit. There are seven local audit regions and one state region. Each region is led 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 selected state agencies; 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.

## **Auditor of State provisions in H.B. 110**

### **Auditor of State employees**

The main operating budget contains a provision which modifies the statutory prescriptions of the Auditor of State's hiring authority with a general authority to hire, appoint, and fix the compensation of auditors, investigators, and other key staff. The bill eliminates the current law limitation that the Auditor appoint no more than six deputy inspectors and supervisors and a clerk. The bill eliminates the entitlement of Auditor of State employees to compensation when testifying when called in legal proceedings. The overall impact on payroll costs would ultimately depend on any staffing decisions made by the Auditor of State.

### **Economic development awards**

The bill transfers to the Auditor of State (AUD), from the Attorney General (AGO), the duty to determine if an entity is in compliance with the terms and conditions of a state award for economic development. The bill further requires the Department of Development, not more than 30 days after the end of the state fiscal year, to send the Auditor of State a list of state awards for economic development. From this list, AUD is required to review each award and determine if an entity is in compliance with the terms and conditions of the award, and publish a report of its review within 90 days after receiving this list. The administrative costs for determining compliance with terms and conditions of the state economic development incentives will shift from AGO to AUD. These costs will be paid from GRF appropriation item 070401, Audit Management and Services.

## **Analysis of FY 2022-FY 2023 budget**

The budget provides the Auditor of State with funding of nearly \$92.6 million in FY 2022 and almost \$94.5 million in FY 2023. Overall, there is a \$6.4 million (7.4%) increase between FY 2021 spending and the FY 2022 appropriation. The primary sources of the increase in funding, approximately \$6.2 million, is related to public audit services for local governments.

Over half of the total funding (\$50.2 million in FY 2022 and \$50.1 million in FY 2023) 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 within the Dedicated Purpose Fund Group. About one-third of total funding (approximately \$30.1 million in FY 2022 and \$30.5 million in FY 2023) is from the GRF. Finally, just under 15.0% of total funding over the biennium comes from tax revenue transferred into the Local Government Audit Support Fund (Fund 5VP0).

## Funding for audits

The line items included below are used to fund primary auditing functions, including financial audits of state agencies and local governments, as well as other performance, health care provider, and special audits. Approximately 33.9% of the funding for auditing services comes from GRF appropriations.

### Audit Management and Services (ALI 070401)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>GRF ALI 070401, Audit Management Services</b>					
\$0	\$0	\$11,468,245	\$11,958,091	\$12,046,143	\$12,344,795
% change	--	N/A	4.3%	0.7%	2.5%

This line item is used to support costs of the Auditor of State that are not recovered through charges to local governments and state entities, including those costs that cannot be recovered from audit clients under federal indirect cost allocation guidelines. This appropriation item pays a portion of those costs that were previously paid from appropriation item 070321, Operating Expenses, which includes expenses to cover Audit Administration (IT, finance, human resources, legal, and facilities and operations) and costs that the Local Government Services area does not recover through charges to clients. The appropriation for this line item is almost \$12.0 million in FY 2022, a decrease of 0.7% from FY 2021 spending. The FY 2023 appropriation of \$12.3 million represents a 2.5% increase from FY 2022 funding levels.

### Performance Audits (ALI 070402)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>GRF ALI 070402, Performance Audits</b>					
\$0	\$0	\$1,556,085	\$1,479,345	\$1,950,971	\$1,977,596
% change	--	N/A	-4.9%	31.9%	1.3%

This line item is used to provide support costs for providing performance audits for local governments, school districts, state agencies, and colleges and universities that are not recovered through charges to those entities, including costs that cannot be recovered from audit clients under federal indirect cost allocation guidelines. This line item includes funding that was previously allocated to appropriation items 070409, School District Performance Audits, and 070321, Operating Expenses. The appropriation for this line item is approximately \$1.9 million in FY 2022, a 31.8% increase from FY 2021 spending of just below \$1.5 million for these purposes. A smaller 1.3% increase in funding to just below \$2.0 million is appropriated for FY 2023.

A provision in the budget details how school districts currently under oversight of an academic distress commission (ADC) may be relieved of that oversight by implementing a three-year academic improvement plan. Part of this process requires the Auditor of State, once during the improvement plan three-year implementation period, to complete a performance

audit of a school district to which the bill applies and submit the audit results to the district board and its ADC. The Auditor of State would be required to pay the cost of that audit from the line item.

### **Fraud/Corruption Audits and Investigations (ALI 070404)**

<b>FY 2018 Actual</b>	<b>FY 2019 Actual</b>	<b>FY 2020 Actual</b>	<b>FY 2021 Actual</b>	<b>FY 2022 Appropriation</b>	<b>FY 2023 Appropriation</b>
<b>GRF ALI 070404, Fraud/Corruption Audits and Investigations</b>					
\$0	\$0	\$2,230,135	\$2,374,282	\$2,400,000	\$2,400,000
% change	--	N/A	6.5%	1.1%	0.0%

This line item is used to provide a portion of funding for the Auditor of State to conduct various types of special audits, specifically those conducted by the Special Investigations Unit (SIU). SIU primarily investigates allegations of fraud, theft, and misappropriation of public funds in conjunction with law enforcement. This appropriation item also provides funding for SIU to provide education and internal control emphasis training where possible. This line item provides the primary funding for these investigations, audits, and other services and is used in conjunction with Fund 1090 appropriation items 070601, Public Audit Expense – Intrastate and Fund 4220 appropriation item 070602, Public Audit Expense – Local Government.

### **Local Government Audit Support (ALI 070412)**

<b>FY 2018 Actual</b>	<b>FY 2019 Actual</b>	<b>FY 2020 Actual</b>	<b>FY 2021 Actual</b>	<b>FY 2022 Appropriation</b>	<b>FY 2023 Appropriation</b>
<b>GRF ALI 070412, Local Government Audit Support</b>					
\$0	\$0	\$12,474,788	\$12,977,637	\$13,200,000	\$13,200,000
% change	--	N/A	4.0%	1.7%	0.0%

This GRF line item is used to provide supplementary funding for the Auditor of State to conduct financial audits of political subdivisions in conjunction with Fund 4220 appropriation item 070602, Public Audit Expense – Local Government. The funding covers a portion of the costs of annual, biennial, and special audits performed on political subdivisions that would otherwise be covered by payments from those entities that are deposited into Fund 4220. This GRF support will allow the Auditor of State to maintain its current hourly billable rate of \$41/hour that is charged to local governments for financial audits.

## Public Audit Expense – Intrastate (ALI 070601)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 1090 ALI 070601, Public Audit Expense – Intrastate</b>					
\$10,103,736	\$10,377,673	\$9,895,773	\$10,542,226	\$11,818,035	\$11,065,646
% change	2.7%	-4.6%	6.5%	12.1%	-6.4%

This line item is used to pay for the costs of annual, biennial, and special audits the Auditor of State performs on state agencies. While about half of the appropriation each fiscal year is for financial audits, the funding is also used to cover the cost of conducting health care contract audits, performance audits, and other special audits. 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). Fund 1090 took in approximately \$8.8 million in FY 2020. Receipts for FY 2021 were \$10.9 million.

## Public Audit Expense – Local Government (ALI 070602)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 4220 ALI 070602, Public Audit Expense – Local Government</b>					
\$36,966,761	\$38,690,294	\$33,562,619	\$29,923,293	\$33,931,168	\$32,983,559
% change	4.7%	-13.3%	-10.8%	13.4%	-2.8%

This line item is used to pay for the costs of annual, biennial, and special audits performed on political subdivisions. Approximately \$27.1 million in FY 2022 and \$26.4 million in FY 2023, about 80% of the total appropriation over the biennium, will be used for financial audits. 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 Government Fund (Fund 4220). The billable hourly rate for local government entities is \$41 per hour, and will remain unchanged in the FY 2022-FY 2023 biennium. Receipts from these sources in FY 2021 totaled \$31.2 million. The current cash balance of the fund is approximately \$8.7 million.

### Local government services fee increases

Beginning in FY 2021, the Auditor of State implemented a three-tiered payment rate for work provided by Local Government Services (LGS). This includes financial reporting compilation, consulting, and review services to local governments, agencies, and schools. The prior rate for these services was \$50 per hour. The table below shows the new tiered rates for these services in FY 2021. For all other LGS projects not included in the table, the rate remains \$50 per hour.

LGS Billing Rate for Financial Reporting, Compilation, and Review Services				
	Counties	Municipalities and Other Local Governments	Schools	LGS Billing Rate
Tier I	\$100,000,001 or more	\$50,000,001 or more	\$50,000,001 or more	\$65/hour
Tier II	\$50,000,001-\$100,000,000	\$10,000,001-\$50,000,000	\$10,000,001-\$50,000,000	\$60/hour
Tier III	\$50,000,000 or less	\$10,000,000 or less	\$10,000,000 or less	\$55/hour

Note: rates established by revenues collected by local entities

### Local Government Audit Support Fund (ALI 070611)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 5VP0 ALI 070611, Local Government Audit Support Fund</b>					
\$0	\$0	\$8,385,995	\$9,964,806	\$12,215,435	\$13,905,599
% change	--	--	18.8%	22.6%	13.8%

The Local Government Audit Support Fund (Fund 5VP0) and line item is used to provide supplementary funding for the Auditor of State to conduct financial audits of political subdivisions in conjunction with Fund 4220 appropriation item 070602, Public Audit Expense – Local Government. This funding is used to cover a portion of the costs of annual, biennial, and special audits performed on political subdivisions that would otherwise be billed to local public offices, the proceeds from which are deposited into Fund 4220. Political subdivisions continue to be billed for these audits in the same manner as they are currently.

This supplementary funding mechanism was enacted under H.B. 166, the main operating budget for the FY 2020-FY 2021 biennium. Specifically, the provision in H.B. 166 requires the Director of Budget and Management to credit, on a monthly basis, a portion of total tax revenue credited to the GRF equal to  $\frac{1}{12}$  of the annual fiscal appropriation from the fund. The current cash balance of the fund is slightly more than \$2.2 million.

### LEAP Revolving Loans (ALI 070606)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 5JZ0 ALI 070606, LEAP Revolving Loans</b>					
\$89,061	\$111,013	\$105,629	\$95,522	\$125,000	\$125,000
% change	24.6%	-4.8%	-9.6%	30.9%	0.0%

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 129<sup>th</sup> General Assembly. This line item is also

used to cover the costs of feasibility studies for local governments and schools at the request of these entities.

## Funding for local government services

The line items below fund 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 \$4.7 million in each fiscal year (about 73%) of the funding in this category is derived from fees charged to the political subdivisions using these services. The remainder of funding is from the GRF.

### Fiscal Watch/Emergency Technical Assistance (ALI 070403)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>GRF ALI 070403, Fiscal Watch/Emergency Technical Assistance</b>					
\$570,988	\$637,359	\$521,070	\$292,543	\$550,000	\$550,000
% change	11.6%	-18.2%	-43.9%	88.0%	0.0%

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 August 2021, there are 11 local governments in fiscal emergency and three local governments in fiscal watch. There is one school district in fiscal emergency. There are no school districts in fiscal watch.

### Training Program (ALI 070603)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 5840 ALI 070603, Training Program</b>					
\$373,062	\$204,600	\$217,166	\$1,579	\$200,000	\$200,000
% change	-45.2%	6.1%	-99.3%	12,563.7%	0.0%

This line item is used to pay for training of newly elected local fiscal officials and ongoing training of county treasurers and village clerks and the Auditor of State's annual fraud conference. 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 primary use of this funding is to host the Auditor of State's annual fraud conference. There were no standard training sessions during FY 2021 due to the COVID-19 pandemic, explaining the significant decline in spending for that fiscal year.



### Uniform Accounting Network (ALI 070605)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 6750 ALI 070605, Uniform Accounting Network</b>					
\$3,118,107	\$3,234,975	\$4,623,684	\$6,559,631	\$4,142,777	\$5,705,108
% change	3.7%	42.9%	41.9%	-36.8%	37.7%

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 the end of FY 2021, UAN serviced 2,085 local government entities 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 annually. All users pay a monthly hardware surcharge of \$50. 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 2020 were approximately \$4.2 million. In FY 2021, Fund 6750 collected \$5.3 million in fee revenue. The current cash balance of Fund 6750 is approximately \$9.2 million.

The increase in funding between FY 2022 and FY 2023 will be used to cover the accounting needs of an additional 91 users of the system. The increases will also cover hardware and software upgrades to update and maintain UAN. Additionally, changes to Government Accounting Standards Board requirements and pension system reporting standards have necessitated further training and modifications. These have resulted in external cost increases to UAN.

FY 2022 - FY 2023 Final Appropriations

All Fund Groups

Line Item Detail by Agency			Appropriations			FY 2021 to FY 2022	Appropriations	FY 2022 to FY 2023
			FY 2020	FY 2021	FY 2022	% Change	FY 2023	% Change
Report For: Main Operating Appropriations Bill			Version: As Enacted					
AUD Auditor of State								
GRF	070321	Operating Expenses	\$ 942,755	\$ 0	\$ 0	N/A	\$ 0	N/A
GRF	070401	Audit Management and Services	\$ 11,468,245	\$ 11,958,091	\$ 12,046,143	0.74%	\$ 12,344,795	2.48%
GRF	070402	Performance Audits	\$ 1,556,085	\$ 1,479,345	\$ 1,950,971	31.88%	\$ 1,977,596	1.36%
GRF	070403	Fiscal Watch/Emergency Technical Assistance	\$ 521,070	\$ 292,543	\$ 550,000	88.01%	\$ 550,000	0.00%
GRF	070404	Fraud/Corruption Audits and Investigations	\$ 2,230,135	\$ 2,374,282	\$ 2,400,000	1.08%	\$ 2,400,000	0.00%
GRF	070409	School District Performance Audits	\$ 25,885	\$ 0	\$ 0	N/A	\$ 0	N/A
GRF	070412	Local Government Audit Support	\$ 12,474,788	\$ 12,977,637	\$ 13,200,000	1.71%	\$ 13,200,000	0.00%
General Revenue Fund Total			\$ 29,218,962	\$ 29,081,898	\$ 30,147,114	3.66%	\$ 30,472,391	1.08%
1090	070601	Public Audit Expense - Intrastate	\$ 9,895,773	\$ 10,542,226	\$ 11,818,035	12.10%	\$ 11,065,646	-6.37%
4220	070602	Public Audit Expense - Local Government	\$ 33,562,619	\$ 29,923,293	\$ 33,931,168	13.39%	\$ 32,983,559	-2.79%
5840	070603	Training Program	\$ 217,166	\$ 1,579	\$ 200,000	12,563.68%	\$ 200,000	0.00%
5JZ0	070606	LEAP Revolving Loans	\$ 105,629	\$ 95,522	\$ 125,000	30.86%	\$ 125,000	0.00%
5VPO	070611	Local Government Audit Support Fund	\$ 8,385,995	\$ 9,964,806	\$ 12,215,435	22.59%	\$ 13,905,599	13.84%
6750	070605	Uniform Accounting Network	\$ 4,623,684	\$ 6,559,631	\$ 4,142,777	-36.84%	\$ 5,705,108	37.71%
Dedicated Purpose Fund Group Total			\$ 56,790,866	\$ 57,087,057	\$ 62,432,415	9.36%	\$ 63,984,912	2.49%
Auditor of State Total			\$ 86,009,828	\$ 86,168,954	\$ 92,579,529	7.44%	\$ 94,457,303	2.03%