

Redbook

LBO Analysis of Executive Budget Proposal

Auditor of State

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Attachment:

Appropriation Spreadsheet

LBO Redbook

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 774 employees as of February 2023.
 - The five major functional units are: Audit Administration, Financial Audits, Local Government Services, Ohio Performance Team, and Special Investigations Unit.
- For the FY 2024-FY 2025 biennium, total proposed funding is approximately \$213.7 million.
 - Of that amount, \$142.1 million (66.5%) comes from Dedicated Purpose Funds mostly supported by fees charged to local governments and state agencies for auditing and financial services.
 - The remaining \$71.6 million (33.5%) comes from the GRF.
- The budget supports hiring 14 new positions: 12 performance audit staff (six in each fiscal year), one additional investigator in the Special Investigations Unit, and one fiscal specialist.
- The funding for local auditing services, a combination of Dedicated Purpose Funds and GRF, is designed to keep the hourly rate charged for those services at \$41.

Fund Group	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
General Revenue	\$31,493,666	\$32,077,420	\$35,143,388	\$36,423,514
Dedicated Purpose	\$60,619,999	\$67,397,958	\$68,315,067	\$73,788,629
Total	\$92,113,665	\$99,475,378	\$103,458,455	\$110,212,143
% change	--	8.0%	4.0%	6.5%
GRF % change	--	1.9%	9.6%	3.6%

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 774 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 (1) selected state agencies, (2) school districts under fiscal caution, watch, or emergency, and (3) local governments under fiscal watch or emergency help identify areas where operational efficiencies or better 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.

Highlights

Repurposing and changing the name of the Leverage for Efficiency, Accountability, and Performance (LEAP) Fund

The proposed budget impacts the LEAP Fund in two ways. First, it replaces the LEAP Fund with the Auditor's Innovation Fund to fund services including audit, accounting, and local government assistance. These projects would aim to expand the quality or quantity of services offered to local governments and schools. Secondly, it permits the Auditor of State to conduct a feasibility study requested by a state agency or local public office at the discretion of the Auditor of State, rather than as LEAP funds are allowed and available. The Auditor of State conducted five feasibility studies from FY 2018 to FY 2022. Future feasibility studies would likely be funded from GRF ALI 070402, Performance Audits.

Under current law, the LEAP Fund is used to distribute loans to state agencies and local governments. State and local government entities may apply for loans to pay for performance audits that they might not have been able to afford otherwise. This funding is also used for grants to local entities requesting feasibility studies about the efficacy of sharing equipment or services through the ShareOhio Portal. This program was last used in FY 2018.

Additional hiring

Under the proposed budget, the Auditor of State seeks to add 14 positions over the biennium. Of those new positions, 12 would be in the Ohio Performance Team, six in each fiscal year. Additionally in FY 2024, positions for one fiscal specialist and one Special Investigations Unit investigator would be added.

Analysis of FY 2024-FY 2025 budget proposal

The proposed budget for the Auditor of State provides funding of nearly \$103.5 million in FY 2024 and almost \$110.2 million in FY 2025. Overall, there is just less than a \$4.0 million (4.0%) increase between estimated FY 2023 spending and the recommended FY 2024 amount. Over half of the total recommended biennium funding, \$109.5 million (51.3%), is derived from audit fees paid by state agencies and political subdivisions, as well as local government users of the Uniform Accounting Network (UAN). 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. Of the remainder, about \$71.6 million (33.5%) is from the GRF. Finally, \$32.6 million (15.2%) of total funding over the biennium comes from tax revenue transferred into the Local Government Audit Support Fund (Fund 5VP0).

Audit Administration

Audit Management and Services (ALI 070401)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
GRF ALI 070401, Audit Management and Services					
\$11,468,245	\$11,958,091	\$12,713,060	\$12,829,245	\$13,444,578	\$13,748,552
% change	4.3%	6.3%	0.9%	4.8%	2.3%

This ALI 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 covers costs incurred by the Audit Administration area, including information technology (IT), finance, human resources, legal, and facilities and operations. The ALI also covers costs that the Local Government Services area does not recover through charges to clients. Overall, some \$23.1 million (85.0%) of the funding goes toward personal services costs, with the remaining amount of approximately \$4.1 million going to supplies and maintenance, purchased personal services, and equipment.

Audit Services

The ALIs 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 33.5% of the funding for auditing services comes from GRF appropriations.

Public Audit Expense – Local Government (ALI 070602)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 4220 ALI 070602, Public Audit Expense – Local Government					
\$33,562,619	\$29,923,293	\$32,137,707	\$33,859,886	\$33,346,525	\$33,464,635
% change	-10.8%	7.4%	5.4%	-1.5%	0.4%

This ALI 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 Government Fund (Fund 4220). The billable hourly rate for local government entities is \$41 per hour, and will likely remain unchanged in the FY 2024-FY 2025 biennium. Because the cost of those services cannot be recouped at this \$41 per hour rate, supplementary funding for these auditing functions is provided under GRF ALI 070412, Local Government Audit Support and Fund 5VP0 ALI 070611, Local Government Audit Support Fund (Fund 5VP0). These two line items are described in more detail immediately following.

The Auditor of state has a three-tiered payment rate for work provided by Local Government Services (LGS) beyond the audit functions described above. This includes financial

reporting compilation, consulting, and review services to local governments, agencies, and schools. The table below shows the current tiered rates for these services in FY 2023. 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	\$110,000,001 or more	\$55,000,001 or more	\$55,000,001 or more	\$85/hour
Tier II	\$55,000,001-\$110,000,000	\$11,000,001-\$55,000,000	\$11,000,001-\$55,000,000	\$75/hour
Tier III	\$55,000,000 or less	\$11,000,000 or less	\$11,000,000 or less	\$60/hour

Note: Rates established by revenues collected by local entities

Fund 4220 collected approximately \$30.6 million in fees in FY 2022 and has collected over \$18.2 million year to date as of February 2023 in FY 2023. The current cash balance of the fund is approximately \$8.6 million.

Local Government Audit Support (ALI 070412)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
GRF ALI 070412, Local Government Audit Support					
\$12,474,788	\$12,977,637	\$14,037,380	\$14,171,488	\$16,010,000	\$16,550,000
% change	4.0%	8.2%	1.0%	13.0%	3.4%

This GRF ALI is used to provide supplementary funding for the Auditor of State to conduct financial audits of political subdivisions in conjunction with Fund 4220 ALI 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. As mentioned previously, this GRF support will allow the Auditor of State to maintain its current hourly billable rate of \$41 per hour that is charged to local governments for financial audits.

Local Government Audit Support Fund (ALI 070611)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5VP0 ALI 070611, Local Government Audit Support Fund					
\$8,385,995	\$9,964,806	\$12,755,742	\$14,342,887	\$16,010,000	\$16,550,000
% change	18.8%	28.0%	12.4%	11.6%	3.4%

The Local Government Audit Support Fund (Fund 5VP0) is used to provide supplementary funding for the Auditor of State to conduct financial audits of political subdivisions in conjunction with Fund 4220 ALI 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. The funding increases proposed for FY 2024 and FY 2025 are intended to avoid the need to increase the hourly billable rate to local governments.

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 approximately \$1.6 million.

Public Audit Expense – Intrastate (ALI 070601)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 1090 ALI 070601, Public Audit Expense – Intrastate					
\$9,895,773	\$10,542,226	\$11,204,707	\$11,355,549	\$12,170,518	\$12,539,160
% change	6.5%	6.3%	1.3%	7.2%	3.0%

This ALI 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). The hourly rate for FY 2023 is \$85. It will remain so in FY 2024. An increase to \$90 is under consideration for FY 2025. Auditing costs which may not be recovered through charges are covered by GRF ALI 070401, Audit Management and Services.

Fund 1090 took in approximately \$11.1 million in FY 2022. Receipts for FY 2023 thus far as of February 2023 are approximately \$7.2 million. The current cash balance in Fund 1090 is approximately \$5.2 million.

Fraud/Corruption Audits and Investigations (ALI 070404)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
GRF ALI 070404, Fraud/Corruption Audits and Investigations					
\$2,230,135	\$2,374,282	\$2,530,038	\$2,503,565	\$2,877,140	\$3,004,055
% change	6.5%	6.6%	-1.0%	14.9%	4.4%

This GRF ALI 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). The SIU primarily investigates allegations of fraud, theft, and misappropriation of public funds in conjunction with law enforcement. For the FY 2024-FY 2025 biennium in particular, the proposed funding would cover the cost of one additional investigator who will deal with fraud and embezzlement cases. The ALI covers all of the cost for these investigative activities. The GRF ALI also covers costs the Auditor of State incurs and which cannot be charged to the entity subject to special audit.

The costs SIU bears for doing special audits are shared among various other ALIs under the Auditor of State budget. These include Fund 4220 ALI 070602, Public Audit Expense – Local Government; GRF ALI 070412, Local Government Audit Support; and Fund 5VPO ALI 070611, Local Government Audit Support Fund, all described previously.

Performance Audits (ALI 070402)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
GRF ALI 070402, Performance Audits					
\$1,556,085	\$1,479,345	\$2,028,280	\$2,023,122	\$2,311,670	\$2,620,907
% change	-4.9%	37.1%	-0.3%	14.3%	13.4%

This ALI covers some of the costs for providing performance audits of 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. The increase budgeted for the FY 2024-FY 2025 biennium is to cover the cost of a total of 12 new performance audit staff, six in each fiscal year. Other ALIs used to cover performance costs are the following: (1) GRF ALI 070412, Fund 4220 ALI 070602, and Fund 5VPO ALI 070611 for local government audits, and (2) Fund 1090 ALI 070601 for state government audits.

Auditor's Innovation Fund (ALI 070606)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5JZ0 ALI 070606, Auditor's Innovation Fund					
\$105,629	\$95,522	\$7,507	\$125,000	\$300,000	\$300,000
% change	-9.6%	-92.1%	1,565.1%	140.0%	0.0%

Beginning in the FY 2024-FY 2025 biennium, the Auditor of State proposes to rename and repurpose this ALI. The new purpose of the ALI, named the Auditor's Innovation Fund, includes funding audit, accounting, or local government assistance services. These projects would aim to expand the quality or quantity of services offered to local governments and schools.

Currently, this ALI 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. This line item is also used to cover the costs of feasibility studies for local governments and schools at the request of these entities.

Local Government Services

The ALIs 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.

Uniform Accounting Network (ALI 070605)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 6750 ALI 070605, Uniform Accounting Network					
\$4,623,684	\$6,559,631	\$4,506,362	\$7,514,636	\$6,288,024	\$10,734,834
% change	41.9%	-31.3%	66.8%	-16.3%	70.7%

This ALI is used to pay for computer maintenance, upgrades, consulting, and other costs associated with maintaining the Uniform Accounting Network (UAN). As of February 2023, UAN serviced 2,126 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 2022 were approximately \$5.9 million. Thus far in FY 2023, Fund 6750 has collected \$3.2 million in fee revenue. The current cash balance of Fund 6750 is approximately \$11.1 million.

During the FY 2022-FY 2023 biennium, the Auditor of State hired a contractor to do a multi-year software update project, which includes shifting to a cloud-based operating system. This project will be completed in FY 2025. Additionally, FY 2025 will include hardware upgrade costs for computers and printers that are typically spread out over a four-year period. This one-time hardware refresh will complement the cloud-based operating system.

Fiscal Distress Technical Assistance (ALI 070403)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
GRF ALI 070403, Fiscal Distress Technical Assistance					
\$521,070	\$292,543	\$184,908	\$550,000	\$500,000	\$500,000
% change	-43.9%	-36.8%	197.4%	-9.1%	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 caution, 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. The Auditor of State's budget request noted that, as of October 2022, there were 12 local governments in fiscal emergency, four in fiscal caution, and three local governments in fiscal watch. There were no school districts in fiscal emergency, fiscal caution, or fiscal watch at that time.

Training Program (ALI 070603)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5840 ALI 070603, Training Program					
\$217,166	\$1,579	\$7,974	\$200,000	\$200,000	\$200,000
% change	-99.3%	404.9%	2,408.2%	0.0%	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 Local Government Officials Conference, as well as other trainings that may be offered. 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 Auditor of State canceled or converted training events to a virtual format during the COVID-19 pandemic, explaining the significant tail-off in spending in FY 2021 and FY 2022. A registration fee was not charged for these virtual events. Registration fees for events are, however, being charged in FY 2023. In the future, the Auditor of State will host some sessions in person (such as the annual Local Government Officials Conference), while some trainings will be offered in virtual or hybrid formats.

FY 2024 - FY 2025 Appropriations - As Introduced

All Fund Groups

Line Item Detail by Agency			FY 2022	Estimate FY 2023	Introduced FY 2024	FY 2023 to FY 2024 % Change	Introduced FY 2025	FY 2024 to FY 2025 % Change
Report For: Main Operating Appropriations Bill			Version: As Introduced					
AUD Auditor of State								
GRF	070401	Audit Management and Services	\$ 12,713,060	\$ 12,829,245	\$ 13,444,578	4.80%	\$ 13,748,552	2.26%
GRF	070402	Performance Audits	\$ 2,028,280	\$ 2,023,122	\$ 2,311,670	14.26%	\$ 2,620,907	13.38%
GRF	070403	Fiscal Distress Technical Assistance	\$ 184,908	\$ 550,000	\$ 500,000	-9.09%	\$ 500,000	0.00%
GRF	070404	Fraud/Corruption Audits and Investigations	\$ 2,530,038	\$ 2,503,565	\$ 2,877,140	14.92%	\$ 3,004,055	4.41%
GRF	070412	Local Government Audit Support	\$ 14,037,380	\$ 14,171,488	\$ 16,010,000	12.97%	\$ 16,550,000	3.37%
General Revenue Fund Total			\$ 31,493,666	\$ 32,077,420	\$ 35,143,388	9.56%	\$ 36,423,514	3.64%
1090	070601	Public Audit Expense - Intrastate	\$ 11,204,707	\$ 11,355,549	\$ 12,170,518	7.18%	\$ 12,539,160	3.03%
4220	070602	Public Audit Expense - Local Government	\$ 32,137,707	\$ 33,859,886	\$ 33,346,525	-1.52%	\$ 33,464,635	0.35%
5840	070603	Training Program	\$ 7,974	\$ 200,000	\$ 200,000	0.00%	\$ 200,000	0.00%
5JZ0	070606	Auditor's Innovation Fund	\$ 7,507	\$ 125,000	\$ 300,000	140.00%	\$ 300,000	0.00%
5VP0	070611	Local Government Audit Support Fund	\$ 12,755,742	\$ 14,342,887	\$ 16,010,000	11.62%	\$ 16,550,000	3.37%
6750	070605	Uniform Accounting Network	\$ 4,506,362	\$ 7,514,636	\$ 6,288,024	-16.32%	\$ 10,734,834	70.72%
Dedicated Purpose Fund Group Total			\$ 60,619,999	\$ 67,397,958	\$ 68,315,067	1.36%	\$ 73,788,629	8.01%
Auditor of State Total			\$ 92,113,665	\$ 99,475,378	\$ 103,458,455	4.00%	\$ 110,212,143	6.53%