

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.
- Approximately \$102.2 million (55.9%) of total biennial funding comes from fees charged for auditing services and other payments for services.
 - Approximately \$69.5 million (68.0%) will be for local government audits.
 - Approximately \$22.7 million (22.2%) will be for state agency audits.
 - Approximately \$10.0 million (9.8%) of this total will be used to provide Uniform Accounting Network services and training.
- The budget provides \$10.0 million in additional funding each fiscal year to cover the cost of auditing local offices by using a portion of state tax revenue to be deposited into the new Local Government Audit Support Fund (Fund 5PV0).

Fund Group	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
General Revenue	\$29,117,496	\$30,578,365	\$30,298,471	\$30,359,612
Dedicated Purpose	\$50,650,726	\$52,618,555	\$60,578,934	\$61,552,131
Total	\$79,768,222	\$83,196,920	\$90,877,405	\$91,911,743
% change	--	4.3%	9.2%	1.1%
<i>GRF % change</i>	--	5.0%	-0.9%	0.2%

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 2019, the office employed approximately 790 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. Each regional office is staffed by a chief auditor and an assistant chief auditor.

Appropriation summary

The budget provides the Auditor of State with funding of nearly \$90.9 million in FY 2020 and just over \$91.9 million in FY 2021. The increase of approximately \$7.7 million (9.2%) between FY 2019 spending and the amount appropriated for FY 2020 is primarily attributable to

a new \$10.0 million appropriation backed by a portion of tax revenue credited to the GRF to supplement funding for local government financial audits that would otherwise be covered by payments from local governments into the Public Audit Expense – Local Government Fund (Fund 4220). This supplementary funding will make up for payments from local governments that have not reflected the actual audit costs incurred.

Analysis of FY 2020-FY 2021 budget

Audit funding changes

H.B. 166 makes several revisions to the line items making up the Auditor of State’s budget, particularly GRF line items that pay for audit services. The purpose for these funding revisions is to more clearly delineate the specific purposes for which the GRF funding is provided. Two GRF appropriation items are discontinued and four new ones are established as a result of these changes. The discontinued GRF line items are 070321, Operating Expenses, and 070409, School District Performance Audits. Because there is no money budgeted for these line items, they do not appear in the list of line items below; however, prior spending for them is shown in the Budget in Detail spreadsheet attached to this analysis. The three new appropriation items are described in greater detail in the “**Funding for Audits**” section below. Other provisions that have a fiscal effect, either on the Auditor of State’s Office or state agencies and local offices that are subject to audit by the Auditor of State, are described under the appropriate line item within this analysis.

Vetoed provision

Medicaid auditing for FY 2020-FY 2023

The Governor vetoed a provision of H.B. 166 regarding audits of medical assistance programs. The provision had two parts both of which would have expired June 30, 2023.

The first part would have provided that (1) the Auditor of State was not responsible for the costs the Auditor incurred in auditing medical assistance recipients and examining any records regarding those programs in the possession of the Medicaid Director or any county director of job and family services and (2) all audits authorized by state law be charged in accordance with a provision of state law that makes state and local agencies responsible for certain audit costs. Because of the veto, the Auditor will continue to be responsible for the costs incurred in auditing medical assistance recipients and examining any records regarding medical assistance programs in the possession of the Medicaid Director or a county director of job and family services.

The second part would have permitted the Auditor to conduct audits of Medicaid providers and required the Auditor to conduct audits of Medicaid managed care organizations. Despite the veto, the Auditor will continue to be permitted to audit the accounts of any Medicaid provider under another provision of state law.

Auditing services

The following eight line items 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. Just less than 45.4% of the funding for these activities is provided from the GRF.

Audit Management and Services (ALI 070401)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
GRF ALI 070401, Audit Management Services					
\$0	\$0	\$0	\$0	\$11,998,471	\$12,209,612
% change	--	--	--	--	1.8%

This newly created line item is to be 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 such as IT costs, human resources, and other such costs within the Division of Administration.

Performance Audits (ALI 070402)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
GRF ALI 070402, Performance Audits					
\$0	\$0	\$0	\$0	\$1,750,000	\$1,600,000
% change	--	--	--	--	-8.6%

This newly created line item is to be 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.

Fraud/Corruption Audits and Investigations (ALI 070404)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
GRF ALI 070404, Fraud/Corruption Audits and Investigations					
\$0	\$0	\$0	\$0	\$2,550,000	\$2,550,000
% change	--	--	--	--	0.0%

This newly created line item is to be used to provide a portion of funding for the Auditor of State to conduct various types of special audits, specifically those conducted by the Public Integrity Assurance Team (PIAT). PIAT primarily investigates allegations of fraud, theft, and

misappropriation of public funds in conjunction with law enforcement. This appropriation item also provides funding for the PIAT to provide education and internal control emphasis training where possible. This line item provides the primary funding for these investigations, audits, and other services 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)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
GRF ALI 070412, Local Government Audit Support					
\$0	\$0	\$0	\$0	\$13,300,000	\$13,300,000
% change	--	--	--	--	0.0%

This newly created line item is to be 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 GRF money will be used to pay 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. Political subdivisions will continue to be billed for these audits in the same manner as they are currently.

Public Audit Expense – Intrastate (ALI 070601)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
Fund 1090 ALI 070601, Public Audit Expense – Intrastate					
\$8,469,520	\$9,370,591	\$10,103,736	\$10,377,673	\$11,184,958	\$11,545,067
% change	10.6%	7.8%	2.7%	7.8%	3.2%

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). The hourly rate under this plan for FY 2019 was \$68.00. Receipts for FY 2019 were nearly \$9.2 million. The current cash balance in Fund 1090 is \$5.2 million.

Audit costs billed to state agencies

The budget modifies how the cost of audits of state agencies and local public offices are calculated and billed to these entities. Specifically, a permanent law provision includes within

the definition of recoverable costs both direct and indirect costs. The provision also gives the Auditor of State the flexibility to determine the amounts of direct and indirect costs that will be charged to the public entity being audited. Overall, these modifications would appear to allow the Auditor of State to collect additional revenue from state entities to cover the costs of audits.

Department of Education performance audit

The budget requires the Auditor of State to conduct a performance audit of selected offices or programs within the Department of Education, and requires the audit to be completed by October 1, 2020. The Department would be responsible for paying the costs of this performance audit, the overall cost of which will ultimately depend on which offices or programs are subject to the performance audit and the time and resources involved.

Public Audit Expense – Local Government (ALI 070602)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
Fund 4220 ALI 070602, Public Audit Expense – Local Government					
\$30,703,206	\$32,881,709	\$36,966,761	\$38,690,294	\$34,477,707	\$35,053,886
% change	7.1%	12.4%	4.7%	-10.9%	1.7%

This line item is used to pay for the costs of annual, biennial, and special audits performed on political subdivisions. Approximately \$27.6 million in FY 2020 and \$28.2 million in FY 2021, 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.

Fund 4220 collected approximately \$31.5 million in fees in FY 2018 and collected just over \$32.2 million in FY 2019. The current cash balance of the fund is approximately \$8.9 million. Overall, the revenue collected for local government audits remains contingent upon the ability of those local governments to pay. Because the cash balance of the fund has been drawn down, and expenses have outpaced revenues in the past few fiscal years, this line item will be used in conjunction with GRF appropriation item 070412, Local Government Audit Support, and Fund 5VPO appropriation item 070611, Local Government Audit Support Fund, to cover the full cost of local government audits.

Audit costs billed to public offices

Just as with audit costs charged to state entities, the same provision similarly modifies how the cost of audits of local public offices are calculated and billed by including within the definition of recoverable costs both direct and indirect costs. Likewise, the provision also gives the Auditor of State the flexibility to determine the amounts of direct and indirect costs that will be charged to the public entity being audited. While it is uncertain how these changes would affect billings to local governments, some of the audit expenses could be covered by GRF appropriations under item 070412, Local Government Audit Support and Fund 5VPO

appropriation item 070611, Local Audit Support Fund, described in further detail immediately below.

Local Government Audit Support Fund (ALI 070611)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
Fund 5VP0 ALI 070611, Local Government Audit Support Fund					
\$0	\$0	\$0	\$0	\$10,000,000	\$10,000,000
% change	--	--	--	--	0.0%

The newly created Local Government Audit Support Fund (Fund 5VP0) and line item is to be 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 will be 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 will continue to be billed for these audits in the same manner as they are currently.

Source of revenue for the Local Government Audit Support Fund

To generate the revenue needed for this purpose, the budget includes a provision requiring 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, which is \$10.0 million in each fiscal year.

LEAP Revolving Loans (ALI 070606)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
Fund 5JZ0 ALI 070606, LEAP Revolving Loans					
\$6,525	\$112,693	\$89,061	\$111,013	\$250,000	\$250,000
% change	1,627.0%	-21.0%	24.6%	125.2%	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 129th General Assembly. As of this writing, no state agencies have requested to receive a loan from Fund 5JZ0 to pay for a performance audit. During the previous biennium, the Auditor of State released the results of the first feasibility study, which outlined the methods in which several school districts in Belmont County could achieve cost savings and increase efficiencies through sharing school bus facilities and maintenance resources. A part of this increase is attributable to the anticipated continued use of the LEAP Fund for grants to local entities requesting feasibility studies into the efficacy of sharing equipment or services through the ShareOhio Portal.

Local government services

The following three line items 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 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
GRF ALI 070403, Fiscal Watch/Emergency Technical Assistance					
\$632,953	\$687,055	\$570,988	\$637,359	\$700,000	\$700,000
% change	8.5%	-16.9%	11.6%	9.8%	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 2019, there are 14 local governments in fiscal emergency and three local governments in fiscal watch. There are two school districts in fiscal emergency and zero school districts in fiscal watch.

Training Program (ALI 070603)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
Fund 5840 ALI 070603, Training Program					
\$408,030	\$412,353	\$373,062	\$204,600	\$475,000	\$475,000
% change	1.10%	-9.5%	-45.2%	17.5%	0.1%

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. The fund collected approximately \$371,400 in FY 2019.

Uniform Accounting Network (ALI 070605)

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
Fund 6750 ALI 070605, Uniform Accounting Network					
\$3,515,964	\$5,222,773	\$3,118,107	\$3,234,975	\$4,191,269	\$4,228,178
% change	48.5%	-40.3%	3.7%	29.6%	0.9%

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 this writing, UAN services 1,210 townships, 494 villages, 154 libraries, 2 cities, and 134 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 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 2018 were approximately \$4.1 million. In FY 2019, Fund 6750 collected nearly \$4.7 million in fee revenue. The current cash balance of Fund 6750 is approximately \$10.9 million.

The increase in funding of approximately \$790,000 between FY 2019 and FY 2020 will be used to cover the accounting needs of an additional 46 users of the system. Secondly, the Auditor of State periodically acquires hardware and software upgrades to update and maintain the UAN. Additionally, changes to GASB and pension system reporting standards have required further training and modifications, which have resulted in external cost increases to the UAN.

FY 2020 - FY 2021 Final Appropriations

All Fund Groups

Line Item Detail by Agency			Appropriations			FY 2019 to FY 2020	Appropriations	FY 2020 to FY 2021
			FY 2018	FY 2019	FY 2020	% Change	FY 2021	% Change
Report For: Main Operating Appropriations Bill			Version: As Enacted					
AUD Auditor of State								
GRF	070321	Operating Expenses	\$ 27,704,539	\$ 29,122,582	\$ 0	-100.00%	\$ 0	N/A
GRF	070401	Audit Management and Services	\$ 0	\$ 0	\$ 11,998,471	N/A	\$ 12,209,612	1.76%
GRF	070402	Performance Audits	\$ 0	\$ 0	\$ 1,750,000	N/A	\$ 1,600,000	-8.57%
GRF	070403	Fiscal Watch/Emergency Technical Assistance	\$ 570,988	\$ 637,359	\$ 700,000	9.83%	\$ 700,000	0.00%
GRF	070404	Fraud/Corruption Audits and Investigations	\$ 0	\$ 0	\$ 2,550,000	N/A	\$ 2,550,000	0.00%
GRF	070409	School District Performance Audits	\$ 841,969	\$ 818,424	\$ 0	-100.00%	\$ 0	N/A
GRF	070412	Local Government Audit Support	\$ 0	\$ 0	\$ 13,300,000	N/A	\$ 13,300,000	0.00%
General Revenue Fund Total			\$ 29,117,496	\$ 30,578,365	\$ 30,298,471	-0.92%	\$ 30,359,612	0.20%
1090	070601	Public Audit Expense - Intrastate	\$ 10,103,736	\$ 10,377,673	\$ 11,184,958	7.78%	\$ 11,545,067	3.22%
4220	070602	Public Audit Expense - Local Government	\$ 36,966,761	\$ 38,690,294	\$ 34,477,707	-10.89%	\$ 35,053,886	1.67%
5840	070603	Training Program	\$ 373,062	\$ 204,600	\$ 475,000	132.16%	\$ 475,000	0.00%
5JZ0	070606	LEAP Revolving Loans	\$ 89,061	\$ 111,013	\$ 250,000	125.20%	\$ 250,000	0.00%
5VPO	070611	Local Government Audit Support Fund	\$ 0	\$ 0	\$ 10,000,000	N/A	\$ 10,000,000	0.00%
6750	070605	Uniform Accounting Network	\$ 3,118,107	\$ 3,234,975	\$ 4,191,269	29.56%	\$ 4,228,178	0.88%
Dedicated Purpose Fund Group Total			\$ 50,650,726	\$ 52,618,555	\$ 60,578,934	15.13%	\$ 61,552,131	1.61%
Auditor of State Total			\$ 79,768,222	\$ 83,196,920	\$ 90,877,405	9.23%	\$ 91,911,743	1.14%