Chairman Terhar, Vice Chair Lehner, Ranking Member Fedor, and members of the subcommittee, thank you for the opportunity to testify regarding the FY 2020/21 operating budget for the Auditor of State (AOS).

The AOS is the constitutional officer responsible for auditing all public offices in Ohio, including cities, counties, townships, villages, schools, colleges and universities, as well as state agencies, boards, commissions, and other political subdivisions – in all, over 6,000 units of government. It is the duty of this office to ensure that public funds are managed appropriately and legally expended in accordance with applicable accounting standards.

Our mission is to serve the interests of Ohio’s taxpayers, to ensure that their hard earned tax dollars are put to use in the most responsible way possible. In short, public resources and operations must be managed in an efficient, effective, and transparent way.

The AOS office is largely a fee for service organization, charging fees for various audit functions and other services. The office has over 800 employees, approximately 630 of which are auditors providing financial and performance audits to public customers throughout the state.

**Major functions of the office include:** Financial Audit; Performance Audit; the Special Investigations Unit; Local Government Services (LGS); and the Uniform Accounting Network (UAN).

The **Financial Audit** division includes: 1) The Financial Audit Section, conducting fiscal audits of public units of government; 2) The Medicaid/Contract Audit Section ensuring that Medicaid dollars are not illegally spent or wasted by those working under contract with state agencies; and 3) The Center for Audit Excellence, developing benchmarks and quality assurance programs based on national standards to ensure that all AOS employees are properly trained.

The **Performance Audit** team identifies options for government entities to improve the efficiency and effectiveness of their programs. The AOS is required to conduct at least four performance audits of state agencies each biennium and is authorized to conduct performance audits of any school district or local government in fiscal caution, watch, or emergency. Expanding the use of performance audits is a major priority of my administration and a key driver in seeking a more efficient, effective, and transparent government.

The **Special Investigations Unit** (SIU) promotes clean and ethical government by exposing corruption wherever it exists. The team includes investigators and forensic accountants and has strong relationships with law enforcement officials throughout the state. SIU teams work cases arising out of
the audit process and tips from concerned citizens, about 600 leads per year, generally through our fraud hotline.

**Local Government Services** (LGS), is a consulting and fiscal advisory group for all local government agencies and subdivisions. LGS is also a vital resource for local governments in fiscal caution, watch, and emergency.

The **Uniform Accounting Network** (UAN) is an integrated financial management and information system serving local governments. UAN provides the hardware, software, technology, training, and support public officials need to apply required accounting standards to their financial record keeping.

**Budget Background**

It’s important to note that AOS audit charges historically have not fully covered the costs of audits, with GRF funds utilized to offset the gap between costs billed and actual audit costs. State law governing audit cost recovery (ORC 117.13) does not contemplate the full recovery of audit costs from local governments. For local audits, the law allows the AOS to charge for only a portion of total costs, generally the compensation of auditors who work on an audit plus “the costs of typing, reviewing, and copying the reports.” For state agencies we are authorized to recover full cost, direct and indirect, subject to federal indirect cost allocation guidelines.

These audit charges are deposited into the two non-GRF funds, Fund 1090 (State Agencies) and Fund 4220 (Local Government). Just prior to assuming this office I learned that there is a substantial structural imbalance in both of these funds. In Fund 4220 (Local Government) projected current and future year spending exceeds projected revenue by $6,000,000 per year. In Fund 1090 (State Agencies) projected current and future year spending exceeds revenue by over $2,000,000 per year.

These structural imbalances have been building in recent years as audit charges have not been increased to cover the costs to conduct these audits. The AOS is currently charging a local audit rate of $41 an hour and that rate has not increased since 2011. The state agency rate is currently $68 an hour, well below the FY 2020 federally allowable rate of $84. This rate structure and level of spending was only possible in recent years by drawing down balances in these two funds. Unfortunately, this practice will not be sustainable through the upcoming biennial budget period.

**Executive Budget Recommendations**

The Executive Budget recommendations for the AOS are $90.9 million in FY 20 and $91.9 million in FY 21. The executive recommendations will support the current operations of the office and allow for the elimination the structural imbalances aforementioned. This budget helps avoid increasing the rate charged to local governments and schools for required financial audits, and in some instances begin to reduce financial and performance audit costs.

The budget achieves these objectives through a new $10 million GRF appropriation for Local Government Audit Support. All other GRF appropriations are essentially flat over the biennium and total non-GRF appropriations decline from expected spending levels this year (FY 2019).
I want to thank Governor DeWine for supporting a budget recommendation that will stabilize the budget of the AOS and benefit local governments as I have outlined above.

**Working Together for Greater Transparency**

While I am particularly appreciative that Governor DeWine’s Executive Budget includes funding to address the challenges I’ve outlined, I am seeking your assistance with three legislative language changes that were not contained in the executive recommendation, but have been submitted as amendments to HB 166 in the House. These changes, if enacted, would clarify how the AOS charges local public offices for audit services and make clear the role of the GRF or other state support in offsetting audit costs for local governments and schools.

First, to house and appropriately manage these additional state funds as recommended, my staff and I have prepared legislative language to establish a new Local Government Audit Support Fund (LGASF). This non-GRF fund would be funded like the Local Government Fund (LGF), but in addition to LGF resources, through a dedicated stream of general purpose tax dollars. Beyond helping address our inherited structural imbalance, the LGASF is a mechanism to make clear the role of state resources in offsetting audit costs charged to local governments, avoid a spike in audit charges for our local government customers, and in some cases, possibly begin to provide audit expense relief.

Next, we have prepared legislative language to realign AOS budget line items and temporary law language to better reflect the purpose and uses of our GRF appropriations, making it clear the GRF and other state support, like Local Government Audit Support Fund, directly assist local governments by offsetting audit costs that would otherwise be charged.

Finally, the language of Revised Code Section 117.13, which governs AOS audit charges to public offices, is antiquated and unclear in outlining how the AOS can recover the costs of audits. Our language does not fundamentally change what local governments will be charged, but clarifies what the AOS can charge for, and eliminates dated language surrounding those charges. Importantly, our proposal is also clear that charges billed to local public offices for the costs of audits shall be offset subject to the availability of resources from the Local Government Audit Support Fund, the GRF, or other state sources provided to the AOS for such purposes.

**What Our Request Means for Ohioans**

Our financial reality is crystal clear. The current way of doing business is no longer tenable. The simple fix to the existing fund imbalances would be to raise audit rates by at least $10 an hour on local governments, but that is not what I want to do. My goal is to remedy our financial issues without raising rates on local government as the cost of these required audits already places a heavy burden on many of our local partners.

Our budget submission is rooted in the premise of providing support for local governments, helping to ensure that our communities are getting the full benefit of their tax dollars, and increasing transparency. The additional $10 million requested will help to achieve this goal by avoiding the need for a large increase in the $41 audit rate.
These additional funds could also be key to helping make cost cutting performance audits more readily available for local government officials. By promoting and conducting performance audits we are able to better ensure that local tax dollars are being efficiently and effectively utilized. These audits not only provide cost-saving measures for the local governments and school districts that utilize them, they also provide some of the non-GRF dollars my office needs to operate. By granting this additional funding, the AOS can pursue avenues aimed at increasing capacity to conduct these audits, and the General Assembly will help provide cost saving measures for all of Ohio’s communities.

Mr. Chairman, members of the subcommittee, thank you for the important work you are doing in reviewing the state operating budget, and more specifically the budget of the AOS. In addition to this written testimony, I’ve included a listing of AOS funds and line items for your reference. I look forward to partnering with you to make sure Ohio taxpayers get the best return possible from their investment in state and local government. I am pleased to answer any questions you might have at this time.