



Dave Yost • Auditor of State

Senate Finance – General Government and Agency Review Subcommittee

Shawn Busken, Director of Policy and Legislative Affairs Auditor of State Budget Testimony – House Bill 49 May 18, 2017

Chairman Jordan, Vice Chair O'Brien, and members of the Senate Finance General Government and Agency Review Subcommittee, I am honored to come before you to provide testimony regarding the proposed budget for the Auditor of State's Office for Fiscal Years 18 and 19.

Over the last six years, the Auditor of State's Office has worked towards a skinnier, smarter government. The Auditor of State is dedicated to protecting tax dollars from theft and providing transparency in how government spends money.

Most of our work is funded through fees for service to more than 5900 entities whose financial statements we audit. The General Revenue Fund (GRF) appropriations are used for costs relating to personnel, training, recruitment and various other administrative functions.

RESPONSIBILITIES & PRIORITIES

Independent Guardian of Public Funds. The Auditor of State's Office is responsible for ensuring that taxpayers' money is spent legally and appropriately by Ohio's approximately 5900 governments and the individuals entrusted with that money. This includes auditing public schools (traditional and community), universities, local governments, special districts, state agencies, as well as boards and commissions.

Pursuant to Ohio Revised Code Chapter 117, our audits opine on the financial statements, internal controls, and also examine compliance with Ohio statutes.

The Office performs three types of audits to ensure public funds are being properly managed, accounted for and reported to the public in accordance with accounting standards and law.

Regular Financial Audits. The Financial Audit Section conducts financial audits of all public entities and others that receive public money. These audits must be performed on an annual or bi-annual basis depending on the funding of the public office.

In Fiscal Year 2016, the Auditor of State's Office released 3,820 financial audits. The Office identified \$2,193,241 in findings for recovery, where public dollars had been stolen or misspent. In Fiscal Year 2017 to date, the Office has released 2,670 audits and identified \$1,290,806 in findings for recovery.

Special Audits. A special audit is a limited scope examination of financial records and other information designed to investigate fraud, theft, and the general misuse of public funds. A top priority for the Auditor of State is rooting out fraud and corruption. Each year, we receive hundreds of tips regarding suspected fraud in government. Since the outset of Auditor Yost's term, the Public Integrity Assurance Team in our Office has contributed to 110 criminal convictions. Recently, the team introduced a cyber-security training program statewide to help educate local officials on the risks and indicators associated with this type of fraud.

Performance Audits. This Office conducts performance audits of four state agencies each biennium. From these audits, in total we have identified more than \$102 million in savings since 2011. In addition to these state agency performance audits, the Ohio Performance Team conducts performance audits of local entities to identify cost savings and efficiencies which have identified an additional \$100 million in potential savings. Performance audits continue to play an important role in streamlining government from the statehouse to the schoolhouse.

We applaud the General Assembly's efforts to extend performance audits to our state's colleges and universities with the recent passage of HB 384 of the 131st General Assembly. Our Office is working with The Ohio State University to determine the scope of that first performance audit. We are excited for this partnership with the state's flagship university and look forward to reporting our results to the legislature upon completion of the audit.

Reducing Audit Costs. In an effort to diminish the cost to the taxpayer and our clients, we have utilized the same billing rates for local governments since 2011. Local governments pay \$41 per hour for the work our Office conducts while state agencies pay a higher rate of \$68 per hour as a result of the Statewide Cost Allocation Plan. The AOS believes these rates are fair and our budget proposal continues to use these billing rate numbers.

PARTNERING WITH LOCAL GOVERNMENT

Another priority of the Auditor of State's Office is to provide financial consulting services to local governments through our Local Government Services Section ("LGS"). This includes the preparation and examination of financial forecasts, Generally Accepted Accounting Principles ("GAAP") conversion assistance, annual financial report preparation, assistance to entities in fiscal watch or emergency, as well as reconstruction and reconciliation of financial records. LGS charges a billing rate of \$50 per hour for the services they provide to local governments.

The Auditor of State's Office provides several other important services for our constituents. The Uniform Accounting Network ("UAN") is a computerized, integrated financial management and information system designed for local governments. This software, along with computer equipment and technical support provided by UAN, makes it easy for public officials to apply required accounting standards to their financial record keeping. Currently more than 1900 townships, villages, libraries, and special districts throughout Ohio are using UAN in their daily operations.

The Auditor's Office also sponsors training and conferences throughout the year to increase local knowledge of what governments can do to become more efficient, and learn the best practices of record keeping.

FUNDING

Over the course of the biennium, the Auditor of State's Office has requested funding in the amount of \$83,953,354 for FY18 and \$85,453,354 for FY19. Funding for the Auditor of State's Office comes from two main revenue sources: the General Revenue Fund, which makes up approximately 37.5% of the Office's appropriations, and Dedicated Purpose Funds, which supply the remaining 62.5%. In FY18 and FY19, our Office is not increasing our General Revenue Fund resources. The Dedicated Purpose Funds receive fees paid for our audit services, training, and participation in the Uniform Accounting Network. They are also used for the day-to-day administrative support that is necessary to run our operations and provide services. The proposed appropriations included in HB 49 provide the Auditor of State's Office an additional \$1,911,000 for FY18 and FY19 compared to FY17. The additional appropriations will allow the AOS to meet obligations for scheduled step increases as well as retain our experienced audit staff.

Our Office has been able to do more with less since Auditor Yost took office. We have decreased the staffing level of our Office by 5% since 2011. We have placed an emphasis on retaining a highly trained audit staff while releasing the same number of audits as we had in years past.

LANGUAGE REQUESTS

Currently Included

In addition to the appropriations request in HB 49, there are a few language requests currently pending in the legislation. First, HB 49 makes several minor technical changes to entities filing reports with our Office. We are eliminating duplicative filing requirements in some of the reports submitted to the Office. These changes have no financial impact on our Office or the reporting entities.

The following items are contained in the House passed version of HB 49:

1. **Require the Deputy Auditor of State to be a CPA.** The Auditor of State appoints a Deputy Auditor at the outset of each term to oversee the 600 plus audit staff the Office employs. There are currently no requirements to hold the position of the Deputy Auditor. The AOS currently employs a CPA as this position and feels that this qualification should be carried on as a baseline level of competence for a position critical to the Office.
2. **Expand Cybersecurity Training in Local Government.** Under current law, fiscal officers of cities, villages, and townships are required to complete a certain number of initial and continuing education hours during the course of their term in office. The law allows for training in the areas of government accounting, budgeting and financing, financial report preparation, and the rules adopted by the Auditor of State. The Auditor of State has seen an upward trend of cyber-attacks on local governments and has reacted by offering more training in the subject area. Cybersecurity should be added to the allowable training areas for fiscal officers to count towards the training requirements under current law.
3. **Extend the Affidavit Review Period for Removal of a Fiscal Officer.** Under current law a city, village, township, or county fiscal officer may be removed for malfeasance or nonfeasance. Under current law, the AOS is instructed to review all affidavits alleging wrongdoing within ten business days to determine whether clear and convincing evidence supports the allegations. This time frame is too short for our investigators to verify the allegations. We are asking for the review period to be extended to thirty calendar days to allow for a thorough investigation.

4. **Streamlining Voluntary Village Dissolution.** The Auditor of State currently acts as a facilitator for the process of dissolving a village into the neighboring township. The language included in HB 49 codifies our current role while also lowering the signature threshold to place the dissolution on the ballot from 40% to 30%. If the village council fails to act upon the petition, the citizens may take the petition directly to the board of elections to be placed upon the ballot. The language also sets forth a timeline for the village to transfer all remaining assets and cash balances to the township. Additionally, a process for transferring a village owned water or sewer utility to a township or county is present in HB 49. This language is needed to dissolve a village in a timely manner as instructed by the vote of the citizens. In 2016 alone, 3 villages voted on dissolving with all three being unsuccessful at the ballot box. Just recently, the Village of Brady Lake in Portage County voted in favor of dissolution and our Office has already been working with village officials to initiate the process. The trend of villages seeking dissolution could continue in an upward fashion. It is time to provide certainty to Ohio's townships and villages on this matter.
5. **Escalation from Fiscal Watch to Fiscal Emergency.** Current law allows the AOS to escalate an entity in fiscal watch to fiscal emergency if they fail to act on or implement a financial recovery plan within 90 days of the declaration of fiscal watch. The provision allowing the AOS to escalate an entity from fiscal watch to emergency was placed into temporary law and will sunset at the end of the current biennium. We are seeking this provision be put into permanent law.

Additional Requests

As mentioned briefly before, HB 49 currently contains language which would streamline the village dissolution process and make it easier for villages to voluntarily dissolve. During the course of budget negotiations, our Office worked with American Municipal Power ("AMP") to clarify the process for dissolving a village owned electric utility. AMP is in support of this amendment. This proposed separate process recognizes that a county or a township is unable to absorb or operate an electric utility. Additionally, clarifying language needs to be added stating village owned utilities are able to aggregate additional liabilities in order to continue to operate the utility.

The House added HB 3, the DataOhio Initiative to the budget bill. The DataOhio language directs our Office to establish a uniform chart of accounts and uniform accounting procedures within 2 years from the effective date of the legislation amongst other provisions. However, the provisions inserted into HB 49 did not contain the needed appropriation (\$350,000) for the Auditor of State's Office to develop and implement a uniform chart of accounts. This appropriation has been in the measure for the past three years, and is essential for our Office to fulfill the mandates of DataOhio. The Auditor of

State's Office supports DataOhio and respectfully asks that the appropriation be put back into HB 49.

CONCLUSION

The Auditor's Office is the watchdog of taxpayer dollars. We seek efficiency, transparency, and accountability at all levels of government. The current funding proposal and additional policy requests will allow us to continue to serve in that role.

Chairman Jordan, members of the General Government and Agency Review Subcommittee, we look forward to working with the Committee in the coming weeks to adopt a budget for this Office and the entire state that works hard to improve the efficiency and accountability of government. I am happy to answer any questions the Committee may have.