

OHIO AUDITOR OF STATE KEITH FABER



House Finance Subcommittee on Higher Education

Auditor of State Keith Faber

Budget Testimony

March 4, 2021

Chairman Cross, Ranking Member Howse, and members of the subcommittee, thank you for the opportunity to testify regarding the FY 2022/23 operating budget for the Auditor of State (AOS). After sitting where you sit today, I appreciate the opportunity to come back, stand on this side of the podium, and answer any questions you might have about the good work we are doing in the Auditor's Office. And after testifying a couple weeks ago and sitting in the audience, I have cut down the length of my testimony today, knowing the pain others testifying are sitting through today.

Despite many misconceptions, the AOS does not audit individuals, businesses, or collect taxes – we act as the watchdog on those who spend government money. 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 and that government works in a lawful, efficient, and effective way. Our dedicated staff of near 800 professionals come to work every day, intent on making sure nobody is wasting or stealing taxpayer dollars. I inherited a great staff that is recognized as one of the best in the country.

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.

In addition to financial audits for our local governments, we offer other services such as performance audits, fraud investigations, and more. Our Uniform Accounting Network team helps run an accounting system that many small governments throughout the state take advantage of – they do great work and their clients are appreciative of the help. Our Local Government Services team helps struggling governments get their financial house in order – we like to say “If your books are a mess, call LGS!” They're particularly helpful for those entities experiencing fiscal distress. We also have a Special Investigations Unit, who investigate allegations of fraud and abuse, which includes former FBI and law enforcement officers, forensic auditors, and a couple of lawyers who prosecute those we find defrauding the people.

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. We have successfully completed performance audits requested by the legislature and hope to continue our partnership so that my office looks at what you are interested in to assist in your policy decision-making and you can hold agencies accountable to our recommendations.

Budget Background

I believe a more efficient government begins with our office. That's why I've taken steps to cut costs. We have reduced our footprint across the street in the Key Bank building by 20% and across the state in my regional and satellite offices we have been finding efficiencies, moving to cheaper office spaces and eliminating others so that we can be better stewards of taxpayer dollars.

If you talk with your local governments and ask them about the work we do, more often than not the first thing you will hear about is how expensive audits are. We are aware and we are working, with your help, to keep them at their current levels and to lower them through a variety of means.

One example of a successful cost-saving measure was our decision to raise the qualifying threshold for basic audits from \$100,000 per year to \$200,000 per year so that more entities could take advantage of this service. The results of this change were effective; my office provided 427 basic audits in FY 20 which was an increase over the 264 basic audits provided the previous year. This increase was significant because a basic audit provides local entities with an average savings of 93% when compared to the cost of a full audit.

Compared to the private sector, our audits are more affordable and our clients even say they are more thorough. In the last budget, you made the decision to approve \$10 million in the Local Government Audit Support Fund (LGASF) that allows us to keep our audit costs stable for our local partners. We are largely a fee for service organization, and that fund has been a blessing to many of those small governments that have many other expenses in addition to audit costs – especially after the financial hardships 2020 presented. We have an audit rate of \$41/hour for local governments, which thanks to your assistance in the Local Government Audit Support Fund and GRF money, has not increased since 2011. With your help we can keep it at that level.

In addition to the LGASF we are also working to leverage technology that will allow our auditors to do more testing in a quicker timeframe, allowing us to make our audits cheaper and more reliable. Just this past year we underwent a performance audit with KPMG that we will begin to use in the upcoming biennium to help us make that transition as an agency.

In the last General Assembly, you gave us the discretionary authority to do agreed upon procedure audits (AUP) based on our judgement instead of on a statutory timetable – this too has helped us keep costs low for local officials, so thank you. An AUP is an abbreviated audit for qualified, low-risk clients that can save up to fifty percent of audit costs for an entity.

It's important to note that our 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) previously did not contemplate the full recovery of audit costs from local governments. With your help in the last budget, we were able to clear up this statute to make it transparent to the public and our clients about how we charge and recover full direct and indirect costs. Additionally, we were able to rework our line items, with legislature approval, which allowed us to accurately portray what we do and what monies are used for our office's functions to directly assist local governments.

Even though we came into office with a structural imbalance in our funds, the AOS is able to continue charging our local governments the same rate as the last ten years of \$41 an hour, because of the creation of the Local Government Audit Support Fund. The state agency rate, which must be consistent with federal statewide indirect cost allocation guidelines, is currently \$79 an hour.

Budget As Introduced

Our budget request this year allows the Auditor of State's Office to continue down the path we started on 2 years ago when I stood before this subcommittee. My goal is to provide efficient, effective, and transparent government. I'm grateful that Governor DeWine included some of our priorities in his budget recommendations and that House Bill 110 includes our requests.

House Bill 110 contains all funds appropriations of \$92.6 million in FY 22 and \$94.5 million in FY 23 for the Auditor of State's Office, an increase of less than one percent and two percent, respectively. This will support the current operations of the office and allow me to continue our affordable audit services without putting the burden on local governments. Approximately 90 percent of the office budget pays salary and benefits to our 800 employees. This budget does not increase the number of employees. Importantly, through increases in the Local Government Audit Support Fund, the bill 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, by offsetting audit costs that would otherwise be covered by payments from those entities.

The COVID pandemic has created some unique circumstances. For example, our auditors usually go to work at the entity we are auditing. That means our office has a rather high mileage expense for our auditors. During COVID our auditors have been able to cut these costs as we tried to audit from a distance and only go to an entity if records needed procured or something else needed done that couldn't happen remotely. While we are currently spending about one-quarter of the mileage budgeted for this fiscal year, for FY 22 we have budgeted for about two-thirds of our historical mileage in anticipation of a mileage rebound as the state gets back to normal operations. We are not sure how much it will go up, but we believe this is a good estimate of savings that we will see through decreased mileage.

What Our Budget Means for Ohioans

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 Local Government Audit Support Fund helps to achieve this goal by avoiding the need for a large increase in the \$41 hourly audit rate. This is especially important during this pandemic that has presented unique fiscal challenges for local governments.

These funds are also key to helping make cost cutting performance audits more readily available for local 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 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.

I spend considerable time as Auditor travelling the state and talking with our clients – we call them clients, because even though they have no choice but to use our services, we think they deserve a good experience and quality customer service. I have found that the vast majority of local government officials are working hard every day, I've tried to make it my priority to give them the guidance and assistance they need to do that. Your approval of this budget request will make that job easier.

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. With that, I'd like to open it up for any questions you might have. Thank you.