



Senate Finance Committee

Auditor of State Keith Faber

Budget Testimony

April 15, 2021

Chairman Dolan, Vice Chair Gavarone, Ranking Member Sykes, and members of the committee, 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 and answer any questions you might have about the good work we are doing in the Auditor's Office.

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 of Ohio's public offices 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. This office ensures that public funds are managed appropriately and expended in accordance with applicable accounting standards and that government works in a lawful, efficient, and effective way. Our dedicated staff of nearly 800 professionals come to work every day intent on making sure no one is wasting or stealing taxpayer money. I inherited a great staff and they are recognized as one of the best in the country.

Our mission is to serve the interests of Ohio's taxpayers by ensuring that their hard earned tax dollars are used 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 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 is used by many small governments – they do great work and their clients are appreciative of the help. Our **Local Government Services staff** helps struggling entities get their financial house in order – we like to say “If your books are a mess, call LGS!” LGS is particularly helpful for those governments who are experiencing fiscal distress. We also have a **Special Investigations Unit**, which investigates allegations of fraud and abuse. This group includes former FBI and law enforcement officers, forensic auditors, and a couple of lawyers who prosecute those we find defrauding the people. They have uncovered more than \$120 million of government fraud, waste, and abuse and exposed more than 50 corrupt office holders.

Expanding the use of performance audits done by our **Ohio Performance Team** is a major priority of my administration because they are a key driver in creating a more efficient, effective, and transparent government. We have successfully completed several performance audits requested by the General Assembly, and I invite legislators to provide additional suggestions on areas that you would like my office to examine. We want to provide data that aids your decision making as policy makers and your input is vital to directing our resources to where they can have the most impact.

Budget Background

I believe a more efficient government begins with our office and that is why I've taken steps to cut my agency's expenditures. We have reduced our footprint in the Key Bank building by 20% and my regional and satellite offices have found efficiencies by eliminating unnecessary office space and moving staff to more affordable locations. We made these changes to 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 much audits cost. We are aware and are working to keep our rates at their current levels and to lower them through a variety of means.

That said, 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 for the Local Government Audit Support Fund (LGASF) and it 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 who 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.

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.

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 and rework our line items to make it transparent to the public and our clients about how we charge and recover full direct and indirect costs.

Budget As Introduced

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 current operations and allow us 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. Please note that this budget **does not** increase the number of staff. Importantly, through increases in the Local Government Audit Support Fund, the bill helps avoid raising the rate charged to local governments and schools for required financial audits, and in some instances begins to reduce financial and performance audit costs by offsetting audit costs that would otherwise be covered by payments from those entities.

The COVID-19 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. During the pandemic our staff has been able to cut these costs as we audited from a distance and went to an

entity only if something could not be done 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 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, ensuring 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 making cost-cutting performance audits more readily available for local officials. By promoting and conducting performance audits, we are able to ensure that local tax dollars are efficiently and effectively utilized. These audits not only provide savings for the local governments and school districts that use them, they also provide some of the non-GRF dollars my office needs to operate. By granting this funding, the Auditor of State can pursue avenues aimed at increasing our 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 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 and I've made it my priority to give them the guidance and assistance necessary to perform their work. 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.

AOS Funds and Line Items

The AOS has six Dedicated Purpose Funds (non-GRF), each with one appropriation line item.

Fund 1090 – ALI 070601 Public Audit Expense/State Agencies and Universities. This fund allows the AOS to charge state agencies and universities for audits. In FY21 the rate is \$79 an hour.

Fund 4220 – ALI 070602 Public Audit Expense/Local Governments. This fund is used to recover a portion of the costs of auditing and accounting services to local governments. The current local government audit rate is \$41.00 an hour, a rate unchanged since 2011.

Fund 5840 – ALI 070603 Auditor of State Training. This fund is used to collect fees for training offered by the AOS to enhance local government knowledge of accounting procedures and best practices. Training events include the Local Government Official's Conference, Fraud Conference, village officers training, community school training, and Independent Public Accountant (IPA) training.

Fund 6750 – ALI 070605 Uniform Accounting Network (UAN). UAN creates and maintains a uniform and compatible computerized financial management and accounting system for local governments, particularly smaller jurisdictions. Revenue is collected via user fees and hardware surcharges.

Fund 5JZ0 – ALI 070606 Leverage, Efficiency, Accountability and Performance Fund (LEAP). This fund was created to loan local governments money for the upfront costs of performance audits and feasibility studies.

Fund 5VP0 – ALI 070611 Local Government Audit Support Fund. The fund was created to support the cost of local government audits performed by the Auditor of State by offsetting costs of audits that would otherwise be charged to local public offices in the absence of the fund.

The AOS has five GRF appropriation line items.

GRF-070401 – Audit Management and Services – To help cover the costs of the office for the basic operating costs, including administration, information technology, finance, human services, legal, and other facilities and operational costs. This line item also covers costs of the Local Government Services group that are not recovered from charges to clients.

GRF-070402 – Performance Audits – To 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.

GRF-070403 – Fiscal Watch/Emergency – To provide funding for our Local Government Services group to offer valuable technical assistance to entities in fiscal watch or fiscal emergency status. The line item is also used to cover costs of performance audits for those same entities.

GRF-070404 – Fraud/Corruption Audits and Investigations – To support costs of investigation and special audits done by the Special Investigations Unit related to allegations of fraud, theft, and misappropriation of public funds, often in conjunction with other law enforcement agencies.

GRF-070412 – Local Government Audit Support – To help cover the costs of local government audits that would otherwise be charged to local governments in the absence of these funds.