

Fiscal Note & Local Impact Statement

127th General Assembly of Ohio

Revised

Ohio Legislative Service Commission
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BILL: **S.B. 146** DATE: **May 21, 2007**
STATUS: **As Introduced** SPONSOR: **Sen. Spada**
LOCAL IMPACT STATEMENT REQUIRED: **No ³/₄ No local cost**
CONTENTS: **Creates the Office of Internal Auditing within the Office of Budget and Management**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
Office of Budget and Management – Unspecified Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase or decrease in annual operating and personnel costs, depending on implementation	Potential increase or decrease in annual operating and personnel costs, depending on implementation	Potential increase or decrease in annual operating and personnel costs, depending on implementation
Legislative Service Commission – General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential one-time minimal increase for study, likely absorbed within appropriations	- 0 -	- 0 -
Other State Agencies			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Possible decrease due to transfer of internal auditor positions; potentially offset slightly by OBM chargebacks for internal auditing services	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- The net impact of consolidating the internal audit function within the Office of Budget and Management (OBM) depends on the way the program is implemented. There will be start-up costs and some potential ongoing expenses, although the Legislative Service Commission (LSC) is not able to quantify these amounts at the moment.



- The bill does not specify how the Office of Internal Auditing will be funded, but LSC assumes OBM will use one of the non-GRF funds that receives charges and fees from other state agencies for accounting and budgeting services, called chargebacks.
- OBM estimates that around 100 employees will be classified as internal auditors. At this time, it is unclear where the employees will be located, but LSC assumes payroll for the internal audit staff employed statewide will remain the same, whether they remain *in situ* or are transferred to OBM. If it becomes necessary to move the internal auditors to a centralized location, there will be a one-time start-up cost for office space and equipment. Additionally, moving the internal auditors to one location could create the need for clerical and supervisory staff.
- The bill requires LSC to prepare a report on existing internal audit structures in each of the state agencies, and the total amounts budgeted for internal auditing purposes. As LSC prepares such reports as a part of its regular duties, the report would most likely be absorbed within operating appropriations.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

The bill creates the Office of Internal Auditing (OIA) within the Office of Budget and Management (OBM), creates the position of Chief Internal Auditor, and establishes the State Audit Committee, and prescribes their duties and functions. The bill requires the Office of Internal Auditing to conduct internal audits of state agencies to improve their operations in the areas of risk management, internal controls, and governance.

Office of Internal Auditing

The bill requires the Director of the Office of Budget and Management, with approval of the Governor and the Senate, to appoint a Chief Internal Auditor to administer the Office of Internal Auditing. As the state of Ohio currently has no existing centralized internal controls program, there will potentially be start-up costs to develop the guidelines and rules of OIA. At this time, LSC is uncertain what these costs may be. Based on information provided by Illinois, a state that has implemented a comparable program, internal auditing costs there decreased following consolidation. The fiscal impact on the state of Ohio would depend on several factors not addressed in the present version of the bill.

OBM has issued a Request For Information (RFI) for a consulting firm to evaluate the cost of the entire program. When a consultant is selected and their recommendations are made, LSC will incorporate these in the fiscal note.

State Audit Committee

The State Audit Committee would consist of the Director of OBM as chairperson, two public members appointed by the House Speaker, and two public members appointed by the Senate President. The State Audit Committee is required to ensure that the internal audits conducted by OIA conform to international standards, review the process OBM uses to prepare its annual budgetary financial report, and review unaudited financial statements submitted by the Auditor of State. Additionally, the Chief Internal Auditor is required to submit a report for Committee approval on the internal audits of state agencies before the beginning of each fiscal year. The Committee members are to be reimbursed for actual and necessary expenses incurred in the discharge of their duties. Presumably, these expenses would be paid from the same fund that will be used to cover operating expenses of the new division, most likely a non-GRF source.

Legislative Service Commission report

One of the difficulties in determining the number of state employees involved with the internal audit function and associated payroll costs is that merely identifying job titles including the term "internal auditor" does not capture all state employees involved in such tasks. As seen in Table 1 (attached), there are currently seven such state job classification titles, but there are doubtless more state jobs that entail internal auditing tasks.

The bill requires LSC, not later than six months after its effective date, to prepare a report on the existing internal audit structures of each state agency that identifies all state employees who are classified as internal auditors or perform the duties of an internal auditor. Upon its completion, LSC must submit the report to the Governor, the House Speaker, the Senate President, and the House and Senate minority leaders. All state employees who are determined by LSC to fit the classification of internal auditor, or whose job duties are effectively similar, must be transferred to OIA. LSC's cost to prepare such a report would most likely be absorbed within available appropriations.

Start-up and ongoing costs

In its discussions with LSC, OBM estimated that it would need about 100 internal auditors to carry out the functions described in the bill. At this time, it is unclear where the employees will be located, or what number of employees would be either transferred or hired. If it becomes necessary to move the internal auditors to a centralized location, there will be a one-time start-up cost for office space and equipment. Additionally, moving the internal auditors to one location could create the need for clerical and supervisory staff, adding new payroll costs. Without knowing how the internal audit program would be implemented, payroll costs are difficult to estimate. If positions were merely transferred, payroll costs are unlikely to increase greatly. If there is a need to hire new staff or reclassify existing staff into higher paying job classifications, then there may be some new payroll costs.

Additional effects to consider

By consolidating internal audit staff within OBM, there may be some payroll savings for affected agencies. However, if OBM chooses to pay for internal audit services by assessing chargebacks to those same agencies, then there will be some offset in these payroll savings. This would not be the case if OIA were funded through the GRF.

Other related fiscal effects

The bill does not specify what the source of funding for OIA or the State Audit Committee will be. Currently, OBM provides budgeting and accounting services to state agencies via GSF Fund 105, Accounting and Budgeting. The revenue for this fund is a fee charged on state agencies' payroll, referred to as chargebacks.

The bill also requires periodic audits of all state agencies and directs the agencies to provide OIA with records and documents necessary for the performance of an internal audit. Many state agencies have existing internal auditors on staff, so this should not create new work for state agencies, but there is the potential for a slight increase in the scope of the audits, thereby requiring additional work on the part of agencies.

Table 1. Internal Auditor Position Titles And Descriptions, State Classification System	
Position Class Title and Class #	Job Description
Internal Auditor 1 66411	The full performance level class works under direction and requires considerable knowledge of accounting and auditing in order to learn to conduct and/or conduct routine audits of simply structured and/or complex programs; including financial, operational and compliance audits, and prepare report of findings and recommendations.
Internal Auditor 2 66412	The advanced level class works under direction and requires thorough knowledge of accounting and auditing in order to learn to conduct and/or conduct non-routine audits of simply structured programs; including financial, operational and compliance audits, prepare report of findings and recommendations and learn to conduct non-routine audits of complex programs.
Internal Auditor 3 66413	The advanced level class works under direction and requires thorough knowledge of accounting and auditing in order to prepare audit programs/guidelines and/or coordinate work of internal audit personnel, conduct non-routine audits of complex programs and/or act as lead worker, conduct financial, operational and compliance audits of entities regardless of program complexity and resolve and/or assist lower-level internal auditors in resolving most complex audit problems.
Internal Audit Supervisor 1 66415	The first supervisory level class works under general direction and requires thorough knowledge of accounting and auditing in order to supervise internal auditors assigned to one unit or act as chief internal auditor for large board (i.e., library board), small agency or non-decentralized commission (i.e., level to be used where chief fiscal officer is classified as Fiscal Officer 2) and supervise lower-level internal auditors.
Internal Audit Supervisor 2 66416	The second supervisory level class works under general direction and requires extensive knowledge of accounting in order to supervise lower-level internal audit supervisors for assigned section or in district office or act as chief internal auditor for elected/appointed official or agency that is not multi-funded and/or multi-faceted nor considered largest, decentralized agency/commission (i.e., level to be used where chief fiscal officer is classified as Fiscal Officer 3 or Business Administrator 4) and supervise lower-level internal audit supervisors and/or internal auditors.
Internal Accounting/Audit Program Manager 66417	The first managerial level class works under administrative direction and requires extensive knowledge of accounting, auditing and state government accounting methods and procedures in order to plan, implement and direct internal audit program for largest, decentralized state agency/commission (i.e., includes district, institutional, regional and/or community services operations under same appointing authority) and supervise lower-level internal audit supervisors and/or internal auditors (i.e., level to be used where chief fiscal officer is classified as Fiscal Officer 4 or Business Administrator 5), or plan, implement and direct all activities of internal audit program of large, decentralized agency (i.e., as defined previously) and includes external audits of operations which have been privatized (e.g., state liquor stores), but still fall under regulatory control of given state agency and supervise assigned staff, or in Office of Budget and Management, direct operations of state's Central Accounting System or maintain and ensure all fiscal year appropriations for all state agencies are accurate and current and ensure all general accepted accounting procedures are followed by all state agencies and in addition to either option, supervise assigned staff.
State Internal Accounting & Audit Administrator 66418	The second managerial level class works under administrative direction and requires extensive knowledge of accounting, auditing and state government accounting methods, procedures and fiscal controls in order to plan, implement and direct statewide Central Accounting System, establish controls and review process to ensure compliance with statutes and supervise lower-level internal accounting/audit program managers and support staff.

Source: Department of Administrative Services, Human Resources Division. Pay Range Booklet, 1/29/2006

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