



# Ohio Legislative Service Commission

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## Fiscal Note & Local Impact Statement

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**Bill:** [Sub. H.B. 2 of the 129th G.A.](#)      **Date:** February 1, 2011  
**Status:** In House State Government & Elections      **Sponsor:** Reps. Snitchler and Stautberg

**Local Impact Statement Procedure Required:** No

**Contents:** Institutes performance auditing requirements for certain state agencies

### State Fiscal Highlights

- The bill requires the Auditor of State to conduct performance audits of state agencies or state programs starting within 90 days of the effective date of the bill. Under the current process, the Auditor of State charges state agencies for performance audits. These fees are deposited into the Public Audit Expense – Intrastate Fund (Fund 1090).

### Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

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## Detailed Fiscal Analysis

### Overview

The bill requires the Auditor to conduct performance audits of at least four state agencies each biennium. At first, this will include the Department of Education and the Department of Job and Family Services and two other agencies, and must begin within 90 days of the effective date of the bill. Any additional initial audits may begin as soon as is practicable as determined by the Auditor of State. Under the bill, the performance audits may be of an entire agency or a program or particular function carried out by that agency, mirroring the practice under the current performance audit program within the Auditor of State's Office. The bill exempts the offices of statewide elected officials and offices of the legislative and judiciary branches from this requirement.

The bill also requires that an agency that has undergone a performance audit implement the audit recommendations, stipulating that a state agency must take steps to implement the recommendations within three months of receiving the final audit report. Otherwise, the agency must file a response with the governor's office, the Auditor of State, and legislative leadership explaining why the agency has not begun to institute the recommendations, and must also submit a similar explanation to the General Assembly. Finally, if the agency has not implemented the recommendations within one year of receiving the performance audit report, the agency is required to notify the governor's office, the Auditor of State, and legislative leadership explaining why the changes have or will not occur. The potential fiscal effects of these new performance auditing requirements on the Auditor of State's office and state agencies are described in more detail below.

### Current performance auditing procedures

The Performance Auditing Section within the Auditor's Office routinely conducts performance audits for public and quasi-public entities upon request. According to the Auditor, performance audits take approximately 16 to 32 weeks to complete and consist of three distinct stages, including planning, field work, and report preparation. Ultimately, the audits produce recommendations for operational improvements. The Performance Auditing Section consists of about 28 employees, down from 44 in FY 2010 because of funding constraints, and spends approximately \$2.6 million each fiscal year to conduct performance audits of state agencies and local governments. Note that in some cases the Auditor will contract out for these services. The current hourly fee charged to state agencies is a flat rate established by the Statewide Cost Allocation Plan (SWCAP), and is revised every year. The hourly rate per assigned Auditor of State employee for FY 2010 was \$58.79. This increased to \$62.64 in FY 2011. These fees are deposited in the Auditor of State's Public Audit Expense – Intrastate Fund (Fund 1090), or Public Audit Expense – Local Government Fund (Fund 4220). As a result of the audit

requirements specified in the bill, state agencies will incur new expenses for these performance audits, the cost depending on the scope of the audit.

### **Performance Audit Data**

According to recent records, the Auditor conducted 32 performance audits of school districts and local government entities in FY 2010. Cumulatively, those audits produced 785 recommendations for improvements. Since FY 2007, both in-house staff and contract auditors have performed 107 performance audits, resulting in over 3,000 recommendations. During the FY 2008-FY 2009 biennium, funding was approved through the Ohio Department of Education's (ODE) budget for the Auditor to conduct performance audits on school districts in fiscal watch or emergency. Over this span, the Auditor billed ODE for conducting 23 such audits, and ODE spent approximately \$815,000 in each fiscal year from GRF line item 200422, School Management Assistance, to pay for them. A total of 23 performance audits were billed to ODE during the FY 2008-FY 2009 biennium. Due to funding constraints, the Auditor conducted nine such performance audits in the current biennium.

### **Washington State Performance Audits**

The state of Washington has recent experience in undertaking a systematic review of state agency and local government operations through performance audits, the voters having approved such a requirement under Initiative 900 in 1995. Washington employs 42 individuals that conduct between nine and twelve performance audits annually. The costs of the audit program are approximately \$12 million per year and are funded through a percentage of the state sales tax that is used for this purpose. While many of the agencies and local governments may be smaller than those in Ohio, between FY 2008 and FY 2010 Washington's performance audit program conducted 30 audits of approximately 80 government entities. Those audits produced approximately 1,300 recommendations, which the State Auditor purports would result in an estimated \$644 million in savings if implemented.