



Dave Yost • Auditor of State

SENATE FINANCE COMMITTEE BUDGET TESTIMONY: HOUSE BILL 153 May 16, 2011

Chairman Widener, Vice-Chair Jones, Ranking Minority Member Skindell, and members of the Senate Finance Committee, I am pleased to come before you to review the proposed budget for the Auditor of State's office for Fiscal Years 12 and 13.

The appropriations recommended in this budget require governments across the state to live leaner. With a reduction in general fund operating expenses of 6.3%, the Auditor of State's office is no exception.

We recognize that all Ohio government offices must tighten our belts and perform our responsibilities with the utmost efficiency without sacrificing professionalism and commitment. We can all sit around and complain about Ohio's structural budget deficit, or we can roll up our sleeves and do the job Ohioans expect. Given our choices, the Auditor's office decided to roll up its sleeves and take a proactive role in skinning down state government.

For my office, skinning down begins with a performance audit of the job we do. With this audit, the Auditor's office is taking a hard look in the mirror with hopes of streamlining processes and procedures, cutting costs and enhancing efficiencies. We hope to have recommendations by the end of August.

Since I took office in January, we have continually looked for ways to slim down the office and trim the fat. We've instituted a hiring and attrition committee to examine our personnel needs. In that respect, to keep payroll in check, we have also implemented a hiring freeze for any position that requires general fund support unless approval is given by the hiring and attrition committee.

We are re-evaluating our office and building space allocation throughout the state to make sure we are not underutilizing or wasting space. Along with reviewing office space, we are also re-examining our leases to make sure we are getting the best possible deal. Administrative support and operations are being reviewed so any excess or duplication is eliminated.

It's the pennies that add up, so we're also reviewing all of our expenditures to see where costs may be cut. For instance, attending the state fair costs us more than \$15,000. We are not planning to attend this year because we think these resources are better directed towards our core mission.

All of this is being done with a recognition that the Auditor of State's office must continue to provide quality audits without sacrificing customer service.

RESPONSIBILITIES & PRIORITIES

The Auditor of State's office is responsible for ensuring that taxpayers' money is spent legally and appropriately. We are:

- An Independent Guardian of Public Funds. We conduct nearly 4,000 audits per year. In this biennium, we issued \$8.4 million in findings for recovery for misspent or stolen public money.
- A Fraud Detection Team. Through our special audits and a special investigations unit, in the past two years, the office has performed 65 special audits with \$10.2 million in findings for recovery.
- A Watchdog over Medicaid Funds. To safeguard the program's integrity, we've identified \$5.9 million in findings for recovery with interest this biennium.
- A Leader for Skinny and Effective Governments. Performance audits will continue to perform an important role in combating inefficiencies in government from the statehouse to the schoolhouse. Thank you again for supporting Senate Bill 4.

In this budget, we've asked for the Leverage for Efficiency, Accountability and Performance Fund (L.E.A.P. Fund) to be re-appropriated for FY 12 and FY 13. We are in the process of accepting applications and hope to make initial funding awards in July.

Staff in our Local Government Services Section provide financial and consulting services to local governments. They also oversee and provide assistance to eight local governments and school districts in fiscal watch, and 32 in fiscal emergency. With Ohio still digging itself out financially, these services are more important than ever.

LOCAL GOVERNMENT STABILIZATION TOOLKIT

This is a time for finding new ways of doing public business.

Ohio needs to offer tools to local governments that will help with the hard choices ahead. That's why I've been working on an initiative, called the "Local Government Stabilization Toolkit." The Toolkit is designed to break down barriers for local government leaders looking for ways to achieve more sustainable futures.

The first part of this initiative gives local governments more tools to voluntarily join together. The current process for merging local governments is complex and cumbersome. Communities that would like to merge are hindered from doing so by the amount of time required to establish the required mini-constitutional convention and create a new government out of whole cloth. Also, certain mergers are not even permitted under current law.

My proposal addresses these issues three ways. First, it allows two or more neighboring townships to voluntarily join force as a single, lower-cost government. Subject to the people's right of referendum, boards of township trustees could kick-start this process by a 2/3 vote. Trustees could also place the question on the ballot, or a joinder could be initiated by the people.

Second, two or more neighboring counties would be able to merge under this proposal. County joiners would begin by initiative petitions and, as required by the Constitution, would be done by a vote of the people in the counties proposing to merge.

Finally, I propose to streamline the process for mergers between townships and municipalities, including the ability of villages to merge into a neighboring township.

All of these processes are voluntary and initiated at the local level. Most importantly, local governments would be able to pick their own partners, and leaders would have flexibility to decide what works best for their community. To ease the process, a backup set of statutory default provisions would govern any major issue the two governments do not agree upon. Initially, I proposed allowing 60 days for local government leaders to negotiate a merger agreement, but in response to suggestions from key stakeholders have changed this to 120 days. This window helps prevent the process from being hijacked by overzealous politicians.

You may ask - how likely is it that local governments will take advantage of these opportunities? As I've traveled this great state, I've talked with local government leaders who would like to have these options. Also, recently my office conducted an informal survey of nine townships and 15 villages. Of the people surveyed in these townships, 58% were open to the idea of merging with another local government; 55% in the villages. If the merger results in cost savings or tax reductions, this number goes up to 75% for townships, 74% for villages.

The reality is there are local governments that are struggling to make ends meet.

- One county is only open four days a week due to budgetary constraints. Plus, some people requesting copies of public records have been told to bring their own paper.
- There's a village in Northwest Ohio currently in fiscal emergency, with deficit fund balances increasing each year. Other than a clean-up and leaf pick-up day, the village's general fund doesn't pay for any public services.
- Another local government – a township – has been in fiscal emergency for over 8.5 years with no fiscal improvement. Our understanding is they don't want to merge with the neighboring village because they want to remain a township.

Ohio also needs to strengthen its early warning system and repair process for local governments in fiscal distress. These laws have been on the books since the 1970s, with very few updates. Unfortunately, it appears they were not designed to address the multitude and vast differences of Ohio's governments.

We did a much better job when putting together laws to provide earlier intervention for school districts in fiscal distress. Therefore, I encourage adding similar proposals to the laws governing local governments in these conditions.

Financial problems are harder to fix the longer they go undetected and unaddressed. Like we have for schools, we should have a "fiscal caution" designation for local governments struggling to make ends meet. My office would develop guidelines for indentifying "fiscal practices and budgetary conditions" that, if not corrected, could lead to fiscal watch or emergency. These entities could then receive assistance from the Auditor's office.

Today an entity can languish in fiscal watch forever. There is no law requiring the local government to do anything to get back to fiscal health. To address this issue, we propose requiring these entities to adopt a financial recovery plan. If they fail to do so, the entity could be declared in fiscal emergency unless granted an extension for good cause shown.

Currently, our system also allows a fiscal emergency to continue with few consequences when a local government refuses to take action. Part of this is due to a convoluted oversight process, so the Auditor of State would serve as the sole financial supervisor for small villages and townships with populations fewer than 1,000. In reality, this is what we do now since commissions often only meet once every two or three months.

This proposal would impound state funding, except benefit assistance, if a fiscal emergency entity fails to adopt and substantially adhere to an approved financial recovery plan. As a last resort, a court could also order dissolution of small entities (population of less than 5,000) when the entity has been in fiscal emergency for three years and its financial recovery plan and fiscal forecast do not demonstrate an ability to remedy its condition within five years.

Finally, the last part of my proposal is to cut through red tape and give local governments more flexibility to share services. I support the proposal in House Bill 153 to give universal authorization for sharing services to all local governments. In addition, Ohio law should specifically allow small villages and townships to contract with the county auditor to act as the village or township's fiscal officer. Also, working with the Ohio Township Association, I support simplifying record-keeping for township trustees and fiscal officers by allowing these officials to provide pay documentation for audit purposes via certification rather than a time log.

Mr. Chairman and members of the committee my staff has been working with stakeholders to develop these proposals, including members of the County Commissioners' Association of Ohio, the County Auditors' Association, the Ohio Township Association and the Ohio Municipal League. We have support for these proposals from the National Federation of Independent Businesses (NFIB), the Ohio Society of CPAs, the Ohio Manufacturers' Association and the Ohio Chamber of Commerce. Also, the Ohio Farm Bureau Federation supports our efforts to reduce cost and streamline processes at the local level.

The House has already included many of these proposals in the budget before you. I would like to continue working with the Senate to finish this work. Therefore, I ask that you include an amendment to allow county-to-county mergers and my proposals to cut through red tape.

CONCLUSION

As you can see we are not simply sitting idle during these lean times and carrying on with the status quo. The Auditor's office wants to be at the forefront of leaner and more effective government. By constantly re-evaluating ourselves, we plan to lead by example.

Chairman Widener, members of the Committee, it has been my pleasure to review for you the priorities and operations of my office. I 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 at skinning down government. I am happy to answer any questions members of the Committee may have.