



# Ohio Legislative Service Commission

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## Fiscal Note & Local Impact Statement

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**Bill:** H.B. 459 of the 131st G.A. **Date:** June 17, 2016  
**Status:** As Reported by House Education **Sponsor:** Rep. Schuring

**Local Impact Statement Procedure Required:** No

**Contents:** Requires the Auditor of State to conduct performance audits of Educational Service Centers

### State and Local Fiscal Highlights

- The bill requires the Auditor of State to conduct performance audits on all Educational Service Centers (ESCs) within three years of the effective date of the act. ESCs would be responsible for paying the costs of these performance audits.
- Under the current process, the Auditor of State charges agencies for performance audits. These fees are deposited into the Public Audit Expense – Local Government Fund (Fund 4220).
- The bill permits the State Board of Education to use the Auditor's comprehensive performance audit report to determine what constitutes a "high performing" ESC for purposes under current law.
- The main operating budget act for the FY 2016-FY 2017 biennium, specifies that the Department of Education is required to pay \$35 for each student in a "high performing" ESC's student count, instead of \$33 as provided in that act. It is possible that this bill could add to or reduce the number of ESCs that qualify as "high performing."

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### Detailed Fiscal Analysis

#### Overview

The bill generally provides express authority for the Auditor of State to conduct performance audits of Educational Service Centers (ESCs) on the Auditor's own initiative. The bill also requires the Auditor of State to conduct comprehensive performance audits on all ESCs in the state within three years of the bill's enactment. These performance audits are required to be paid for by the ESCs in proportion to the student count of each ESC. Typically, the Auditor of State pays the initial costs of the performance audit, and then bills the entity for those costs.

Finally, the bill permits the State Board of Education to use the results of these comprehensive performance audits to determine the definition of a "high performing ESC" for funding purposes under current law. The bill does not change the amount appropriated to ESCs by the state, but may alter how those appropriations are allocated at the state level.

### **Performance audits of ESCs**

There are currently 52 ESCs in the state. They are all funded through a combination of state and local moneys. Because ESCs do not have taxing or bonding authority, they must rely on revenues from member districts, local contracting services to districts, and state funding as prescribed by law. For example, based on FY 2015 data, the 52 ESCs in the state will receive approximately \$259.0 million in funding in FY 2017, \$212.4 million of which comes from local government sources. The remaining \$46.6 million comes from state sources (Additional state funds for gifted students and special needs transport are not included in this total). Furthermore, this funding total does not account for funding that ESC's receive through contracts that are directly billed by them.

### **Payment of performance audit costs**

Continuing law requires agencies receiving a performance audit to pay the costs associated with those audits. Under the current process, the Auditor of State charges agencies for performance audits. These fees are deposited into the Public Audit Expense – Local Government Fund (Fund 4220) in the case of political subdivision audits. ESCs would likewise be responsible for these costs. The audit expenses could be paid upon receipt of the billing, or as an alternative, an ESC could make arrangements for a short-term loan to pay these expenses under a loan program that the Auditor of State operates. Specifically, this program is referred to as the Leverage for Efficiency, Accountability, and Performance (LEAP) Fund (Fund 5JZ0), a revolving loan fund used by the Auditor of State to issue loans to state agencies and political subdivisions to pay for the costs of performance audits. Repayment of the loans, including interest, is due one year from the completion date of the audit. If any agency or political subdivision does not fully repay the loan and interest amount by that date, the Auditor of State certifies the amount owed to the Director of Budget and Management. The Director of Budget and Management must then withhold funds under the Director's control in the amount owed and submit that amount to the Auditor of State as payment.

### **Current performance auditing procedures**

Under current law, 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

38 employees, and spends approximately \$3.3 million each fiscal year to conduct performance audits of state agencies and local governments. 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 2015 was \$65.92. As applicable, the 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, the costs that ESCs will incur for these performance audits will depend on the scope of the audit that is undertaken.

### **ESC funding determinations**

The bill permits the State Board of Education to use the Auditor's comprehensive performance audit report to determine what constitutes a "high performing" ESC for purposes under current law. H.B. 64 of the 131st General Assembly, the main operating budget act for the FY 2016-FY 2017 biennium, specifies that for FY 2017 the Department of Education is required to pay \$35 for each student included in a "high performing" ESC's student count, instead of \$33 as otherwise determined by law. Under the H.B. 64 provision, a "high performing" ESC is one that "reduces client school district expenditures in FY 2016 through efficiencies attained through coordinating and consolidating services." For FY 2017, the State Board of Education was required to develop guidelines governing the determination of "high performing" ESCs. It is possible, then, as a result of the performance audit process that there could be either an increase or decrease in the number of ESCs that would qualify as "high performing" for purposes of funding under current law.