

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4426-02
Bill No.: HCS for HB 2126
Subject: Office of Administration; General Assembly; Judges; Governor and Lieutenant Governor; Auditor, State; Secretary of State; Treasurer, State
Type: Original
Date: March 10, 2020

Bill Summary: This proposal requires an audit of all state departments every four years.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue Fund*	(Could greatly exceed \$612,000)	(Could greatly exceed \$612,000)	(Could greatly exceed \$612,000)
Total Estimated Net Effect on General Revenue*	(Could greatly exceed \$612,000)	(Could greatly exceed \$612,000)	(Could greatly exceed \$612,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Other State Funds*	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)
Total Estimated Net Effect on Other State Funds*	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)

*Depending upon the breadth and scope of the audits, Oversight assumes the fiscal impact could possibly greatly exceed the estimate provided by the Office of the State Auditor. The estimated cost of \$1.8 million per year is shown split between GR, Federal, and Other State Funds. This fiscal note does not reflect any potential savings the state may realize from implementing recommendations from the audits.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Federal Funds	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)
Total Estimated Net Effect on <u>All</u> Federal Funds	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 35.700 - All State Departments Performance Audits

Officials from the **Office of the State Auditor (SAO)** state this proposal will increase costs to the SAO. Based on the cost of similar audits conducted on our office in recent years, SAO estimates the audits required by this bill would cost \$60,000 in each year such an audit is required.

In response to the previous version of this proposal SAO provided cost estimates if SAO were to conduct the audits of \$0 (SAO does not conduct the audit) to could exceed \$1,549,401 in FY 2021, could exceed \$1,729,961 in FY 2022 and could exceed \$1,744,786 in FY 2023.

Oversight assumes the Office of Administration will solicit bids for independent auditors to perform this work. In response to a previous version, the SAO had anticipated potential expenses (if their office conducted the audits) of approximately \$1,800,000. Oversight will utilize SAO's prior anticipated expenses as a basis for the cost of hiring an independent auditor.

Oversight notes the number and scope of the audits to be performed as a result of this bill are not clearly delineated. Oversight notes there are currently sixteen state agencies, six statewide elected officials, the legislative branch, the judicial branch and numerous other boards and commissions within the state departments (i.e. Missouri Development Finance Board, Missouri Housing Development Commission, State Tax Commission, etc.) as well as others that are relatively independent (Missouri State Employee Retirement System, Missouri Consolidated Health Care Plan, etc.).

Oversight contacted the Ohio Performance Team (Ohio) which conducts state agency performance audits. Ohio stated they have eight people focused on state performance audits, of which they generally conduct four every two year period (biennially). Ohio stated for a limited scope performance audit of a smaller agency, the cost to contract out the work would be roughly \$250,000, for a more normal sized state agency or scope, the contracted work would cost approximately \$500,000 per performance audit.

Oversight notes using the minimum amount of contracted work (\$250,000) x 24 audits (only the 16 state departments + 6 elected officials + legislature + judiciary) would cost \$6 million, spread over 4 years would equate to \$1,500,000. Oversight notes the costs could greatly exceed these amounts depending upon the scope of the work (audit each judicial circuit, each higher education institution, Mo HealthNet program within Department of Social Services, etc.)

ASSUMPTION (continued)

Officials from the **Office of Administration (OA) - Division of Purchasing** stated this legislation would require OA/Purchasing to solicit bids for an independent auditor. This would be for around 24 audits that have to be conducted at least every 4 years, averaging out to around 6 bids per year. OA/Purchasing believes that the impact for 6 bids each year could be absorbed. However, until the FY21 budget is finalized, specific funding sources cannot be identified.

Officials **Office of Administration (OA) - Division of Accounting** state this legislation requires the state auditor to ensure a performance audit is conducted "for economy and efficiency" on several state offices, including the Office of Administration, at least once every four years. The exact nature of these audits is not detailed in the legislation; therefore, anticipated costs are estimated.

A performance audit for economy and efficiency would be conducted for OA at least every four years. Using the yearly OA audit as a basis, approximately 50 hours of staff time would be consumed during each unit's audit. OA Division of Accounting has 6 units - Financial Reporting, Staff Services, SAM II Financial, Central Payroll, ITSD, and FMDC. This would amount to an average of 300 hours per audit. Generally auditors speak to and ask questions of supervisors and managers during audits rather than staff. Average annual salary and average hourly rate of the Division of Accounting's management as of January 1, 2020, were \$61,999.53 and \$29.81, respectively. The fringe benefit cost as calculated would be \$2,970.

Therefore, total average cost to our division would be \$11,913 per audit, which must be completed at least every four years but could be more often.

Some supply costs (paper, printer toner, etc.) may also result from producing copies of requested documents.

Officials from the **Office of Administration (OA) - General Services** assume an audit conducted by the auditor's office under this legislation would take approximately 173 hours of OA/General Services staff time for each General Services program. This estimate is based on an audit that was conducted in 2017. The average hourly rate for General Services' employees likely to devote time to a performance audit is \$26.03 per hour based on an average of \$54,152 annually. General Services has 11 programs; therefore, this would result in a cost of \$4,503.19 per program or \$49,535.09 every four years as required by this legislation. The costs would be increased if these audits are conducted more frequently.

ASSUMPTION (continued)

Officials from the **Office of Administration (OA) - Division of Personnel (DOP)** state this legislation compels the state auditor to "conduct performance audits for economy and efficiency." It does not provide additional detail as to the nature of these audits or how they are to be conducted. Without a deeper understanding of the nature of these audits, it is difficult to definitively calculate anticipated costs.

It has been estimated that the "usual" human resources/payroll audit conducted by the auditor's office concerning the Office of Administration (OA) takes about fifty (50) hours of OA human resources staff time. Assuming that performance audits of the Division of Personnel would include audits of each of the major work areas of the Division (management training, technical training, transaction auditing, position reviews, job class specification revisions, state operator services, HR consultations, labor negotiations/labor relations, standard HR reporting, ad hoc HR reporting, recruiting, pay plan development and implementation, etc.) there would be at least twelve (12) pieces to the audit. In addition, we would assume that there may be an average of about three (3) significant ad hoc projects worked on each year that may also need to be audited.

The average annual salary of Division of Personnel staff, for FY 2022 is projected to be about \$52,000. This equates to an hourly rate of about \$25.00. Fifteen (15) "pieces" to a performance audit of the Division of Personnel times fifty (50) hours per "piece" would result in 750 hours of staff time. This is about .36 FTE. The average cost per audit would be \$18,860.00 (750 hours X \$25.00). This amount could be expended as few as one time every four years as stipulated in section 29.195 2. of the bill. If the auditor chose to conduct these audits more frequently, the costs could be increased.

Some E&E (paper, printer toner, etc.) costs may also result from producing copies of requested documents.

In response to a previous version, officials from the **Office of Administration (OA) - Facilities Management Design and Construction (FMDC)** stated this legislation would require the State Auditor's office to conduct a performance audit of every Department/Division for the state of Missouri every four years.

FMDC completed such an audit in 2015 with the findings report posted in 2016. FMDC estimates a cost of \$30,240 to provide for the implementation of the changes in this proposal based on the audit conducted in 2015.

ASSUMPTION (continued)

(The estimate for this proposal is based on the high end of the approximate number of hours it took to compile the data requested for that audit from various areas within the Division over the months of July, August, September, October and November 2015.)

In summary, OA assumes a cost of \$110,548 (\$11,913 (Accounting) + \$49,535 (General Services) + \$30,240 (FMDC)) + \$18,860 (Personnel)) to the General Revenue Fund every four years to provide for the implementation of the changes in this proposal.

Officials from the **Department of Mental Health (DMH)** state this bill would require the state auditor to audit the economy and efficiency of each state department among other sections of Missouri state government. The bill would require that these audits be conducted at least once every four years.

As a state department, the Department of Mental Health would be affected by this legislation. Currently, the state auditor conducts an extensive review of the Department every year. In the absence of more descriptive information of "performance audits for economy and efficiency" called for in this bill, it is assumed that the scope of the review will be similar.

The Department currently expends \$50,000 to \$65,000 for the annual audit. It is, therefore projected that the performance audit will cost a similar amount. If DMH is required to pay for the additional audit required by this legislation, the projected fiscal impact of this legislation is estimated at \$65,000 and would occur every 4 years.

In summary, DMH assumes a cost of \$65,000 to the General Revenue Fund every four years to provide for the implementation of the changes in this proposal.

Officials from the **Department of Natural Resources (DNR)** state this proposal requires a performance audit to be performed on the Department of Natural Resources every four years. The Department presumes that the scope would be limited since the variety of responsibilities is too broad for one single audit scope.

Based on a review of charges paid by the Department to the State Auditor's Office (SAO) in BOBC 400-Professional Services since fiscal year 2000, the average cost for a SAO audit is roughly \$42,070 annually but can go as high as \$83,623. Depending on the scope of the performance audit, the price of the audit would fluctuate drastically. The Department would need to determine which funds would pay for the audit based upon the audit scope.

ASSUMPTION (continued)

The Department would need to coordinate timing of the audit with the SAO and then request additional appropriation authority in the applicable year of the SAO performance audit since many funds do not have sufficient appropriation authority to cover the proportionate share.

This cycle would need to be repeated every four years if a predictive schedule is established by the SAO.

Because we cannot determine which fee funds would be impacted during a performance audit, we have placed our estimated impact in the General Revenue Fund but realize Department fee funds would likely be impacted.

In summary, DNR assumes a cost of \$42,070 - \$83,623 to the General Revenue Fund every four years to provide for the implementation of the changes in this proposal.

Officials from the **Department of Corrections** state their department may incur unknown costs if the State Auditor's Office charges departments for these audits.

Officials from the **Office of the Governor** state that there could be an unknown cost to the Office of Governor if the State Auditor chooses to charge the Office of the Governor for the audit and at what rate.

Officials from the **Department of Higher Education & Workforce Development (DHEWD)** state currently, DHEWD has a state contract that was competitively bid for specific financial statement audit services for its federal student loan program. The annual current fixed price contract is \$43,000 for a single program. A performance audit every four years covering an entire department's programs would be significantly higher per program.

ASSUMPTION (continued)

If it is the sponsor's intent to have each department determine their own scope of a performance audit and then bid it through the Office of Administration, the cost would vary significantly by department. Given the DHEWD has the following program areas, it is estimated the cost per program area would be at least \$50,000. The DHEWD budget currently has the following 11 program areas:

- Department Administration;
- MoExcels (Just under 20 projects annually);
- Financial Assistance - (Includes multiple grant programs like A+ Schools, Access Missouri, Fast Track and Bright Flight);
- Student Loan Program;
- Workforce Development Programs (Includes a variety of state and federally funded programs);
- Higher Education Initiatives (Several programs funded here);
- Community Colleges (Each Community College could be reviewed separately);
- State Technical College;
- Four-year public Universities (Each four-year university could be reviewed separately) ;
- University of Missouri related programs (Includes a variety of programs from State Historical Society to Missouri Telehealth, etc);
- Capital Improvement Programs

Each of these 11 areas of the Higher Education budget could be further broken down into specific program areas. For example, the University of Missouri Programs include funding for areas such as the State Historical Society and Missouri Telehealth.

Given a performance audit would require a program level review in order to "compare what an agency is currently doing against what's required by law and recommended by leading practices to look for improved outcomes that could include money saving methods or better processes for service delivery," it would be fair to estimate these audits would require a more significant level of work and understanding than a regular fiscal audit.

At this time, DHEWD estimates a department-wide performance audit every four years would cost \$550,000 to \$1.1 million (11 program areas costing between \$50,000 and \$100,000 each). This cost would be incurred every four years as it is OA's regular business model to charge back agencies for services provided.

ASSUMPTION (continued)

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** state it is unclear if MCHCP will be considered a state agency under this proposed legislation; however, if MCHCP were to be required to do a performance audit every four years, the cost would be \$100,000 to \$200,000 every four years.

In summary, MCHCP assumes a cost of \$0 (MCHCP is not required to do a performance audit) to \$100,000 - \$200,000 split between General Revenue (\$61,800 - \$123,600), Federal Funds (\$23,470 - \$46,940) and Other Funds (\$17,730 - \$35,460) every four years to provide for the implementation of the changes in this proposal.

Officials from the **Department of Public Safety - State Emergency Management Agency** state based on previous financial audits conducted by the state auditor's office, the average is over \$100,000 per audit. If audits of the entire agency were to occur in this manner, the cost would be multiplied 4 to 5 times. There are no state appropriated funds provided to cover this cost. The cost would have to come from the management and administrative funding provided with each grant. These management and administrative funds provide for each grant are intended to pay for salaries of personnel (FTE's, part-time, contractual) who manage each grant, equipment and supplies necessary to manage and process each grant, any travel requirements associated with each grant and any communication needs associated with each grant.

Officials from the **Department of Transportation (MoDOT)** state that their agency will need to comply with the increased audit frequency, so a negative unknown fiscal impact would result. Presumably the audits would be paid for from the State Road Fund, but this is not specified.

Officials from the **Department of Commerce and Insurance** state the costs of this bill are unknown to department funds contingent on the number of audits performed and which division, board, etc. is audited. Should the cost be more than anticipated, the department would request an increase to our FTE and/or appropriations as appropriate through the budget process.

Officials from the **Department of Labor and Industrial Relations (DOLIR)** estimate a potential cost of \$35,012 based on employee hours spent during routine financial audits already performed by the State Auditor's Office. DOLIR estimates that Financial Management staff would spend approximately 381 hours generating information and preparing cost reports for the auditors at the cost of \$17,506. Department programs are diverse and have different requirements and levels of federal involvement. In particular, the Divisions of Workers' Compensation and the Employment Security administer programs with complex eligibility requirements and governing regulations. As a result, DOLIR has estimated an audit length of four months.

ASSUMPTION (continued)

DOLIR also estimates that division staff would incur a similar level of work related to the audit, researching test items, and providing information regarding their procedures and requirements.

Since the performance audit interval is once every four years, DOLIR anticipates being able to absorb the implementation costs with existing funds. However, until the FY 2021 budget is final, the Department cannot identify specific funding sources.

Oversight notes that the above mentioned agencies (DCI and DOLIR) have stated the cost of the proposal can be absorbed with existing resources. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could require additional resources.

Officials from the **Budget and Planning (B&P)** state this proposal has no direct impact on B&P, has no direct impact on general or total state revenues, and will not impact the calculation pursuant to Art. X, Sec. 18(e).

ASSUMPTION (continued)

Officials from the **Department of Agriculture**, the **Department of Revenue**, the **Office of the State Courts Administrator**, the **Department of Public Safety (Alcohol and Tobacco Control, Missouri Highway Patrol, Missouri Gaming Commission, and Fire Safety)**, the **Missouri Department of Conservation**, the **Missouri House of Representatives**, the **Missouri Ethics Commission**, the **Office of the State Treasurer**, the **Department of Health and Senior Services**, the **Department of Social Services**, the **Legislative Research**, the **Office of Prosecution Services**, the **Office of Administration - Administrative Hearing Commission**, the **Department of Elementary and Secondary Education**, the **Missouri Senate**, the **State Tax Commission** and the **Missouri Lottery Commission** each assume the proposal will have no fiscal impact on their respective organizations.

In response to a previous version, officials from the **Department of Economic Development**, the **Department of Public Safety (Office of the Director, Missouri Veterans Commission, Capitol Police, Missouri National Guard)**, the **Missouri State Employees' Retirement System** and the **Office of the State Public Defender** assumed the proposal would have no fiscal impact on their respective organizations.

Oversight notes that the above mentioned agencies have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

The **Attorney General's Office (AGO)** assumes that the Office of Administration (OA) will bill the AGO for the cost of the audit conducted every four years. The AGO will defer to the OA regarding the cost of such audit.

Oversight assumes this legislation requires the Office of Administration to solicit bids and select an independent auditor to conduct (at least once every four years) a performance audit for economy and efficiency on each state department, the legislature and the judiciary. Oversight assumes the Office of Administration would consult with and have prior written approval of the Office of the State Auditor per Section 29.235.3.

Oversight assumes the Office of Administration will have cost to contract with an independent auditor as estimated by the SAO (roughly \$1,800,000 per year). However, depending upon the scope of the audit (i.e. potentially auditing each of the circuit courts and/or the numerous programs within each of the departments), Oversight assumes the number and cost of the audits could greatly exceed the estimate provided by the SAO.

ASSUMPTION (continued)

Oversight assumes all state departments, the legislature, the judiciary and departments and offices under the executive branch will be billed by either the Office of Administration - Division of Purchasing for the independent auditor contract.

For fiscal note purposes, Oversight will assume (based on the operating budget) 34% of the cost of the audits will come from the General Revenue Fund, 33% will come from Federal Funds and 33% will come from Other State Funds.

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
Cost - OA (based upon SAO estimate) - Potential cost to conduct performance audits OR Independent Auditor Contract Cost	(Could greatly exceed \$612,000)	(Could greatly exceed \$612,000)	(Could greatly exceed \$612,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(Could greatly exceed \$612,000)	(Could greatly exceed \$612,000)	(Could greatly exceed \$612,000)
FEDERAL FUNDS			
Cost - Performance Audit Contract Cost	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)
ESTIMATED NET EFFECT TO FEDERAL FUNDS	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)

FISCAL IMPACT - State Government (continued)	FY 2021 (10 Mo.)	FY 2022	FY 2023
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OTHER STATE FUNDS

Cost - Performance Audit Contract Cost	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)
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ESTIMATED NET EFFECT TO OTHER STATE FUNDS	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)	(Could greatly exceed \$594,000)
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FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small business auditors could be impacted by this proposal if they are awarded some of the work auditing the numerous state programs.

FISCAL DESCRIPTION

This bill requires performance audits, every four years, for economy and efficiency on each of the state departments, the Legislature, the Judiciary, and departments and offices under the Executive branch, including the Governor, Lieutenant Governor, Attorney General, the State Auditor, Secretary of State, and State Treasurer. The Office of Administration must solicit bids and select an independent auditor.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Attorney General's Office
Department of Commerce and Insurance
Department of Economic Development
Department of Elementary and Secondary Education
Department of Higher Education
Department of Health and Senior Services
Department of Mental Health
Department of Natural Resources
Department of Corrections
Department of Labor and Industrial Relations
Department of Revenue
Department of Public Safety
 Office of the Director
 Division of Alcohol and Tobacco Control
 Capitol Police
 Fire Safety
 Missouri Gaming Commission
 Missouri Highway Patrol
 Missouri National Guard
 State Emergency Management Agency
 Veterans Commission
Department of Social Services
Office of the Governor
Joint Committee on Administrative Rules
Missouri Lottery Commission
Legislative Research
Missouri Consolidated Health Care Plan
Missouri Department of Agriculture
Missouri Department of Conservation
Missouri Ethics Commission
Missouri House of Representatives
Office of the Lieutenant Governor
Department of Transportation
Missouri State Employee's Retirement System
Office of Prosecution Services
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Office of Administration

SOURCES OF INFORMATION (continued)

Administrative Hearing Commission
Budget and Planning
Office of the State Courts Administrator
Office of the State Auditor
Missouri Senate
Office of the Secretary of State
Office of the State Public Defender
Office of the State Treasurer
State Tax Commission



Julie Morff
Director
March 10, 2020



Ross Strobe
Assistant Director
March 10, 2020