

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1396H.02C
 Bill No.: HCS for HB 583
 Subject: Administration, Office of; General Assembly; Judges; Governor and Lt. Governor;
 Auditor, State; Secretary of State; Treasurer, State
 Type: Original
 Date: February 26, 2021

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 2022	FY 2023	FY 2024
General Revenue Fund*	(Could greatly exceed \$578,000)	(Could greatly exceed \$578,000)	(Could greatly exceed \$578,000)
Total Estimated Net Effect on General Revenue*	(Could greatly exceed \$578,000)	(Could greatly exceed \$578,000)	(Could greatly exceed \$578,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Other State Funds*	(Could greatly exceed \$561,000)	(Could greatly exceed \$561,000)	(Could greatly exceed \$561,000)
Total Estimated Net Effect on <u>Other</u> State Funds*	(Could greatly exceed \$561,000)	(Could greatly exceed \$561,000)	(Could greatly exceed \$561,000)

*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 (to perform the audits internally). The estimated cost of \$1.7 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.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Federal Funds	(Could greatly exceed \$561,000)	(Could greatly exceed \$561,000)	(Could greatly exceed \$561,000)
Total Estimated Net Effect on <u>All</u> Federal Funds	(Could greatly exceed \$561,000)	(Could greatly exceed \$561,000)	(Could greatly exceed \$561,000)

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 34.700 – State Department Audit

In response to a previous version, officials from the **Office of the State Auditor (SAO)** stated that to the extent that this language is interpreted as requiring the SAO to conduct the performance audits mentioned, their costs would increase.

This bill would likely require the SAO to expand current IT services, and there is a significant IT equipment cost associated with the implementation of this bill.

To the extent that this language is interpreted as requiring each state agency to pay for their own independently conducted audit contracted by OA, the fiscal impact of this legislation could be absorbed by current appropriations.

The State Auditor's Office would need to hire 10 to 22 new staff auditors at an average entry level salary of \$37,966, between 5 and 11 senior auditors at an average base salary of \$37,966, between 5 and 11 audit managers at an average base salary of \$69,182 and one new audit director at an average salary of \$92,152. See spreadsheet for details.

The number of teams the SAO will ultimately need will be based on whether the audit of the judiciary will need to include an audit of each judicial circuit.

Oversight assumes the Office of Administration will solicit bids for independent auditors to perform this work. The SAO had anticipated potential expenses (if their office conducted the audits) of approximately \$1,700,000 per year. 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.).

In 2020, **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 also 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.)

In response to a previous version, officials from the **Office of Administration (OA) – Division of Personnel** stated section 295.195 1. 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, they 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 (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 **Office of Administration (OA) - Division of Accounting** stated 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.

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.

(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 response to a previous version, officials from the **Office of Administration – Information Technology (ITSD)** stated this legislation would require possible help from OA-ITSD for answering questions and/or attending meetings for the audit. Previous audits have required up to 40 hours (\$3,420) of help.

In summary, OA assumes a cost of \$97,573 (\$52,000 (Personnel) + \$11,913 (Accounting) + \$30,240 (FMDC) + \$3,420 (ITSD)) to the General Revenue Fund every four years to provide for the implementation of the changes in this proposal.

Officials from the **Department of Commerce and Insurance** state that 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.

In response to a previous version, officials from the **Department of Economic Development** stated that the costs of this bill are unknown to the Department at this time. If the cost cannot be absorbed with existing funds, DED will request additional funds through the normal budget process.

Officials from the **Department of Mental Health (DMH)** assume this bill would require an independent 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 by an independent auditor.

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 response to a previous version, officials from the **Department of Natural Resources (DNR)** stated that Section 34.700 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 \$40,640 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. The Department would need to coordinate timing of the audit with the SAO and then potentially request additional appropriation authority in the applicable year of the SAO performance audit if they 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 they cannot determine which fee funds would be impacted during a performance audit, they have placed our estimated impact in the General Revenue Fund but realize Department fee funds will likely be impacted.

Officials from the **Department of Corrections** assume their agency may incur unknown costs if the State Auditor’s Office charges departments for these audits.

Officials from the **Department of Elementary and Secondary Education** believes there will be a fiscal impact; however, that impact is unknown at this time until the solicited bids are finalized.

Officials from the **Department of Public Safety - State Emergency Management Agency** state that 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 provided for each grant are intended to pay for the salaries of personnel (FTE, 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 **Office of the Governor** state that this section establishes the requirement that all state departments and agencies, including the Governor's Office, are to have a performance audit for economy and efficiency conducted every four years by an independent private auditor. Nothing in Chapter 26, RSMo (Governor's Office), states requirements for the frequency of any kind of audit or requirements for performance audits. Section 29.200 grants discretion of audits to the State Auditor or at the request of the Governor, but has no frequency requirements for these audits to be conducted.

If these audits result in a greater frequency of audits to be performed for the Governor's Office, there may be added cost to the Governor's Office as a result of this measure. The amount of this cost is unclear without the bidding process being conducted as established under subsection 2 of this section.

Officials from the **Department of Higher Education and Workforce Development (DHEWD)** state this legislation in section 34.700 requires performance audits of each state department every four years. DHEWD assumes this would require a performance review of each program area.

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 \$38,000 for a single financial program audit. A performance audit every four years covering an entire department's programs would be significantly higher per program. 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 sub-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 \$2.2 million (11 program areas costing between \$50,000 and \$200,000 each). This cost would be incurred every four years as it is OA's regular business model to charge back agencies for services provided. They have assumed it would begin in FY 2023.

For additional reference, the State Auditor currently is charging almost \$200,000 for the three-year financial audit they just completed at DHEWD. Program complexity will vary significantly from program areas reviewed

Officials from the **Attorney General's Office**, the **Department of Health and Senior Services**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety (Office of the Director, Capitol Police, Alcohol & Tobacco Control, Fire Safety, Missouri Highway Patrol, Missouri National Guard and Veterans Commission)**, the **Joint Committee on Administrative Rules**, the **Joint Committee on Public Employee Retirement**, the **Missouri Lottery Commission**, the **Missouri House of Representatives**, the **Department of Transportation**, the **Office of Prosecution Services**, the **Office of Administration (Administrative Hearing Commission and Budget and Planning)**, the **Office of the State Courts Administrator**, the **Oversight Division**, the **Legislative Research Division**, the **Missouri Senate**, the **Office of the Secretary of State**, the **Office of the State Public Defender**, the **Office of the State Treasurer** and the **State Tax 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 Public Safety (Gaming Commission)**, the **Department of Social Services**, the **Department of Agriculture**, the **Missouri Department of Conservation** and the **Missouri Ethics Commission** each assumed the proposal will 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 organizations. 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 **Attorney General’s Office (AGO)** assumes that the 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.

Officials from the **Department of Higher Education and Workforce Development** defer to the Office of Administration - Budget and Planning for the potential fiscal impact of this proposal.

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 \$1,700,000 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.

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.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Cost - OA (based upon SAO estimate) - Potential cost to conduct performance audits OR Independent Auditor Contract Cost</u>	<u>(Could greatly exceed \$578,000)</u>	<u>(Could greatly exceed \$578,000)</u>	<u>(Could greatly exceed \$578,000)</u>
ESTIMATED NET EFFECT TO THE	<u>(Could greatly exceed \$578,000)</u>	<u>(Could greatly exceed \$578,000)</u>	<u>(Could greatly exceed \$578,000)</u>

GENERAL REVENUE FUND			
<u>FISCAL IMPACT – State Government (continued)</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
FEDERAL FUNDS			
Cost - Performance Audit Contract Cost	<u>(Could greatly exceed \$561,000)</u>	<u>(Could greatly exceed \$561,000)</u>	<u>(Could greatly exceed \$561,000)</u>
ESTIMATED NET EFFECT TO FEDERAL FUNDS	<u>(Could greatly exceed \$561,000)</u>	<u>(Could greatly exceed \$561,000)</u>	<u>(Could greatly exceed \$561,000)</u>
OTHER STATE FUNDS			
Cost - Performance Audit Contract Cost	<u>(Could greatly exceed \$561,000)</u>	<u>(Could greatly exceed \$561,000)</u>	<u>(Could greatly exceed \$561,000)</u>
ESTIMATED NET EFFECT TO OTHER STATE FUNDS	<u>(Could greatly exceed \$561,000)</u>	<u>(Could greatly exceed \$561,000)</u>	<u>(Could greatly exceed \$561,000)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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, to be conducted every four years, on each of the state departments, the Legislature, the Judiciary, and departments and offices under the Executive branch, including but not limited to, the Office of Administration, the Governor, Lieutenant Governor, Attorney General, Secretary of State, State Auditor, and State Treasurer. The Office of Administration must solicit bids and select an independent auditor.

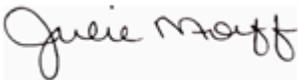
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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 and Workforce Development
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
Department of Social Services
Office of the Governor
Joint Committee on Public Employee Retirement
Joint Committee on Administrative Rules
Missouri Lottery Commission
Legislative Research
Oversight Division
Local Government Employees Retirement System
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
Missouri Department of Transportation
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Missouri Office of Prosecution Services
Office of Administration

L.R. No. 1396H.02C
Bill No. HCS for HB 583
Page **12** of **12**
February 26, 2021

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



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February 26, 2021



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February 26, 2021