

HF295 - 0 - "State Auditor Ligitation Expense Regulated"

Chief Author: **Jim Nash**
 Committee: **State Government Finance**
 Date Completed: **02/15/2017**
 Agency: **Office Of The State Auditor**

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium	
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020
Audit Practice Enterprise Fund	70	54	-	-	-
Total	70	54	-	-	-
Biennial Total			54		-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
Audit Practice Enterprise Fund	-	-	-	-	-
Total	-	-	-	-	-

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2017	FY2018	FY2019	FY2020	FY2021
Audit Practice Enterprise Fund		70	54	-	-	-
Total		70	54	-	-	-
Biennial Total				54		
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Audit Practice Enterprise Fund		-	-	-	-	-
Total		-	-	-	-	-
Biennial Total				-		
2 - Revenues, Transfers In*						
Audit Practice Enterprise Fund		(70)	(54)	-	-	-
Total		(70)	(54)	-	-	-
Biennial Total				(54)		

Bill Description

HF295-0 requires the Office of the State Auditor (OSA) to adopt the calendar year 2016 schedule of charges for examinations conducted in calendar year 2017.

Assumptions

State law requires the OSA to recover the costs of conducting an examination. It also requires that we estimate the costs for performing the examinations for the coming calendar year and adjust the schedule of charges. The schedule of charges must be approved by Minnesota Management and Budget (MMB). Audit clients were informed in late November of the schedule of charges for 2017, which went into effect late in December of 2016.

The schedule of charges approved by MMB for calendar year 2017 were 1.7 % higher than those approved for calendar year 2016. The OSA started using the 2017 schedule of charges for services provided on and after December 28, 2016. This bill does not contain an effective date, so in the preparation of this fiscal note, the OSA assumed that a refund would have to be paid to audit clients for the difference in the schedule of charges for services between December 28, 2016, and the date HF295-0 becomes effective.

The estimated and actual hours used in calculating this fiscal note are based on the same data used to calculate the 2017 schedule of charges approved by MMB.

Expenditure and/or Revenue Formula

Calculation of Decrease in Revenue

Position	Rates		Change	Estimated Billable Hours	Decrease in Revenue
	CY 2017	CY 2016			
Intern	42.00	42.00	-	1,350	-
Local Government Auditor	65.00	64.00	1.00	16,000	16,000
LGA Intermediate	74.00	73.00	1.00	29,700	29,700
LGA Senior	83.00	81.00	2.00	18,600	37,200

LGA Specialist	90.00	88.00	2.00	6,600	13,200
LGA Specialist Senior	94.00	92.00	2.00	1,000	2,000
LGA Audit Director	100.00	98.00	2.00	10,500	21,000
LGA Audit Manager	112.00	110.00	2.00	450	900
Reviewer	112.00	110.00	2.00	1,800	3,600
Senior Reviewer	112.00	110.00	2.00	15	30
				86,015	123,630

Allocation of Decrease in Revenue Between Fiscal Years 2017 and 2018

Fiscal Year	Actual Hours Billed	Ratio	Decrease in Revenue	Allocation of Decrease in Revenue
FY 17 (January - June)	50,189.50	0.563699	123,630	69,690.10
FY 18 (July - December)	38,846.50	0.436301		53,939.90
	89,036.00	1.000000		123,630.00

Long-Term Fiscal Considerations

The requirement to use the calendar year 2016 schedule of charges for calendar year 2017 may result in larger audit rate increases in future years for audit clients. Minn. Stat § 6.581 requires the OSA to recover all costs for auditing local governments. If the OSA incurs a net loss in the State Auditor Enterprise Fund for fiscal years 2017 and/or 2018, it will be necessary to increase audit rates by a large percentage to compensate for the loss(es) in subsequent years. In addition, since counties may be able to choose who performs their annual audit (currently in litigation), the number of billable hours may start to decrease and local governments who continue to have the OSA perform their audit would have to pay an even larger percentage of any increase in audit fees because overhead costs will be spread across fewer audit clients.

Audit clients may see more volatile audit rates in future years. It requires at least 5 years of operation of the Enterprise Fund and calculating audit rates to establish stable audit rates. Stable audit rates assist local governments with budgeting and planning. Since the inception of the State Auditor Enterprise Fund, all revenue has been dedicated to that fund and any over or under recovery is considered in the calculation of future audit rates. When calculating the schedule of charges, the OSA's objective is to set the rates so that the cost of auditing local governments equals the revenue collected. For the first three years of the State Auditor Enterprise Fund, excluding the effects of Government Accounting Standards Board Statement No. 68 (Reporting for Pensions), the fund had a net income (loss) and an ending net position as follows:

Fiscal Year	Net Income (Loss)	Net Position
2014	(200,000)	498,000
2015	(261,000)	237,000
2016	129,000	366,000

The bill may result in a negative cash balance in the State Auditor Enterprise Fund. The State Auditor Enterprise Fund is required to maintain a positive cash balance at the end of each fiscal year. Continual net losses will cause cash and net position to be negative.

Local Fiscal Impact

Stable audit rates assist local governments with budgeting and planning. With this bill, audit clients may see more volatile audit rates in subsequent years.

References/Sources

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