

CHAIRMAN BROWN AND MEMBERS OF THE COMMITTEE,

Thank you for the opportunity to present testimony on the proposed budget for the State Board of Accounts. I am State Examiner Paul Joyce. Accompanying me are Deputy State Examiners Tammy White and Mike Bozymski.

As the State Examiner, I am committed to ensuring that taxpayer dollars are spent properly and effectively. I believe in transparency through accountability. I also believe that a public office is a public trust and that officials and employees should serve the people with responsibility, integrity, loyalty and efficiency.

In the budget request before you I am requesting:

- An increase in the fee charged to taxing units the State Board of Accounts audits from \$45 per day (\$6 per hour) to \$175 per day (\$23.33 per hour).
- Change the current law which limits charging state colleges and Universities \$45 per day (\$6 per hour) to the direct and indirect cost of an examination (now \$83 per hour).
- Permit a state college or university to have its examination performed by an independent certified public accounting firm, but requiring the State Board of Accounts to perform compliance reviews on Such Colleges and Universities that choose to use an outside Audit.
- Change the current law which requires all fees generated by the Board of Accounts to be deposited into the State General fund to allow the fees collected for examinations to be deposited in the State Board of Accounts Trust and Agency Fund. And make the fund a dedicated fund that can be used to cover expenses of doing audits.

These four changes will allow me to generate approximately \$7 million additional dollars and allow me to hire at least 100 more field examiners. In the current budget you will notice that our budget request actually shows a reduced general fund biennial appropriation amount of \$15,303,979 and \$14,724,120. The proposed budget also shows a dedicated fund biennial appropriation of \$10,000,000 and \$10,000,000.

The \$10,000,000 in dedicated funds will be generated from the \$175 per day fee that we charge to taxing units of local government. It will also include amounts that we collect from non-taxing units of government. As previously mentioned approximately \$3 million of the \$10 million is currently being collected and is being deposited into the State of Indiana's general fund.

The \$3 million that is currently being deposited into the State's general fund is considered revenue for the state. You will notice that our biennial appropriations have been reduced by this \$3 million dollars. This amount will now be deposited directly into the new State Board of Accounts dedicated fund.

I take no pleasure in asking local units of government to increase their fee for the services that we provide. I realize that local governments are also limited as to funding. However it is a service that they need. My decision to ask for an increase in the fee is based on the fact that 84% of my current budget (\$15,557,126) is used to perform services to local units of government. Under current practice local governments fund less than 20% of the services that the State Board of Accounts provides to them. Under the current proposal local governments would fund approximately 30% of the services that they receive, which is still substantially less than the 84% that goes directly to their benefit.

Much of the work we perform is performed based on standards established by national bodies. Following the standards is not an option if the local units of government want to continue receiving their federal funding and or debt from lenders. The State of Indiana is not the direct benefactor of these additional services. The local units of government are.

I asked various states auditing agencies how their State charges for audit and examination services. They range from \$88.50 per hour to \$35 per hour. Indiana is currently charging \$6 per hour to taxing units of government.

I need \$175 per day from our local government taxing units on top of the State's general fund proposed appropriation. Delaying examinations may create a lack of accountability and increases the potential for fraud. Federal funding may be impaired at the local government level. OMB Circular A-133 requires submission of audits and examinations to the federal government within 9 months after the entity's fiscal year ends. Consulting services may be curtailed. Our staff is no longer able to take as much time to assist officials with their records or to answer the many questions that arise before, during, and after the examination. I currently have 1.2 field examiners per county to perform all of the examinations. This increased funding will allow me to double the field examiners that I have on the ground and examining at the local units.

In recent years, the Board of Accounts has been given many additional statutory auditing responsibilities in the areas of federal fund audits, audits of nongovernmental entities, election recounts and special studies created by the General Assembly.

Statutorily we are required to annually or biennially examine all of the unit types listed on the right side of the slide.

Last year we issued more than 1,600 audits and examinations and reviewed many more filed through contract audits. I currently have a staff of 208. Of this staff over 90% have their Bachelor's degree and 104 are Certified Public Accountants.

I am not currently meeting the statutorily required audit cycle defined by IC 5-11-1-25. I currently have a significant number of local units of government that we have not examined in 5 years. These are represented by the gray sections of the chart.

Based on current funding and staffing levels I am prioritizing those units that spend in excess of \$500,000 in federal funding. We have focused our resources on these units of government because the federal granting authorities require these entities to receive an annual audit. We have also focused our resources on very high risk units, basically units that have a high probability of loss due to misfeasance, malfeasance or nonfeasance.

I would also like to take a minute to make reference to HB 1104. This bill will allow me the flexibility of creating our annual audit plan based on need and risk rather than a statutorily determined audit cycle. HB 1104 will allow me to focus my available resources on those units of government that need an audit to an outside entity such as the federal government. It will also allow me the flexibility to allow those units of government that have good records the ability to not have an onsite review every year. It will also allow me to focus attention on those few units of government that are not following the guidelines you have established. They may get a visit every year, until they decide to play by the rules established.

The nature of our work is extremely labor intensive and is driven by standards established by the federal government and generally accepted auditing standards. Ninety eight percent (98%) of our general government operations budget expenditures are for personnel.

When created in 1909 the primary responsibilities of the Board of Accounts was to examine all accounts and all financial affairs of every public office and officer, state office, state institution, and entity; to prescribe and approve forms and to create a uniform system of accounting and financial reporting for all units of government within Indiana.

One of the purposes of the State Board of Accounts is to discover wrongdoing by any public officer to whom public funds are entrusted and to recover that portion of the funds for which the officer is liable by reason of his failure faithfully to discharge the duties of his trust prescribed by law.

This year alone the State Board of Accounts has the oversight responsibility of \$76 Billion dollars. This breaks down to \$39.5 Billion for local units of government, \$29 Billion for the State of Indiana, and \$7.5 Billion for our State Colleges and Universities.

According to a 2014 report by the Association of Certified Fraud Examiners, a typical organization loses 5% of their annual revenues to fraud. With the State Board of Accounts oversight responsibility of \$76 Billion dollars, the projected impact on Indiana taxpayers is \$3.8 Billion dollars of potential fraud annually. The presence and examinations of the State Board of Accounts help in mitigate this fraud. This in turn keeps tax dollars in the coffers of our units of government and not in the hands of fraudsters.

I won't pretend to say that we catch or stop all fraud from occurring but I do believe the system we have here in Indiana is the right approach. I also believe the services we provide are worth local governments' investment.

Chairman and members of the committee, be assured, the State Board of Accounts will continue to lead by example. I submit this request in order to maintain the quality and quantity of our audit production to make government better for the taxpayers we all serve.

As I start my second year as State Examiner and my 24th year as a public servant, I will continue to fight for increasing government transparency through accountability.

I thank you for the opportunity to appear before you today.

Paul

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State Examiner
Indiana State Board of Accounts

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