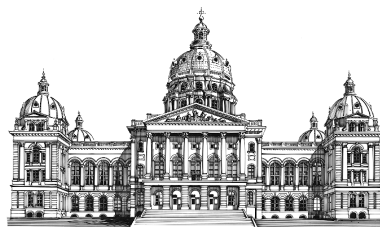

Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451



State Capitol
Des Moines, IA 50319
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Auditor Reimbursements

ISSUE

To examine a temporary General Fund cash flow problem that exists when State departments and agencies do not pay quarterly billings to the State Auditor in a timely manner.

AFFECTED AGENCIES

Auditor of State

All State departments that are billed by the Auditor of State per Section 1 1.58, Code of Iowa

CODE AUTHORITY

Chapter 11, Code of Iowa

BACKGROUND

The Auditor of State is required by the Code of Iowa to audit all State departments annually. The Auditor receives operating funds through a combination of billing revenues received from various entities, and a General Fund appropriation. Section 1 1.5B, Code of Iowa, sets out a specific list of State departments the Auditor may bill. This list of departments was developed to maximize the amount of federal and other funds utilized to pay audit costs. The Auditor also receives billing revenues from local entities such as cities, counties, and school districts. State agencies are billed on a quarterly basis, while local entities are billed when the annual audit is complete. State agencies funded entirely from General Fund money are not billed by the Auditor and the cost for completion of those annual audits is covered by the General Fund appropriation to the Auditor.

Each year the Auditor prepares an estimate of the audit billings, and each department to be billed is notified by letter. The letter indicates the total billing, how much of the total should be paid with federal funds, and indicates the billing will be sent in quarterly installments. Occasionally, special audit work is required. When that happens the agency is usually notified by the Auditor in a revised letter and the additional cost for audit services is added to the quarterly billing in which it occurs.

In an *Issue Review* distributed in October 1992, an LFB analysis indicated, except for a few individual cases, the Auditor is reasonably accurate in estimating overall total billings to State

departments. A factor not considered is the percent of each department's budget allocated to audit costs. Some departments may more readily absorb fluctuations in audit costs than others. As noted above, special audits are occasionally requested (such as fraud or embezzlement, etc.) and these cannot be planned or budgeted for.

When agencies do not pay the quarterly billings submitted to them by the Auditor of State in a timely manner, the Auditor's Office is advanced General Fund money for operations to cover the lack of revenue. When the billings are paid, the General Fund is reimbursed. This practice contributes to General Fund cash flow problems.

CURRENT SITUATION

During the 1992 Legislative Session, the Governor recommended that the Auditor of State be funded entirely with a General Fund appropriation for all audits. The Governor's recommendation included elimination of Section 1 1.5B. Code of Iowa. Effectively eliminating the billing of State agencies. The Auditor would continue to bill local governments, but the billing revenues would be deposited in the General Fund. The General Assembly chose not to accept the Governor's recommendation. However, in the process of reversing the Governor's recommendation, many State departments and agencies were not fully funded to pay audit costs. It was anticipated that some agencies would have difficulty paying audit costs during FY 1993.

The Legislative Fiscal Bureau (LFB) examined a list of payment dates compared to billing dates submitted by the Auditor. A late payment was defined as having been paid more than 30 days after the billing was received. The examination indicated that the majority of agencies paid their billings within 30 days of receipt. **Attachment A** lists all late payments by agency.

More of a concern are those agencies that had payments outstanding after August 15, and potentially not able to make the payments before the close of the books for FY 1993 on August 31. As of August 18, 1993, the Auditor had a list of receivables totaling \$341,295. Departments with large outstanding balances at that time included:

- Agriculture-\$107,845
- Economic Development - \$68,057
- Human Services (Glenwood) - \$19,156
- Iowa State University - \$19,845
- University of Northern Iowa - \$13,499
- University of Iowa - \$86,251

However total receivables were reduced to \$22,132 by September 1, 1993, most of which was attributable to Iowa State University (\$19,845).

ALTERNATIVES

1. The Auditor could request assistance from the Department of Management in requiring departments to place a priority on payment of audit billings.

2. The Auditor may want to change the quarterly billing schedule so that notices go out a month prior to the end of each quarter. The fiscal year end billing is the most crucial and should be accelerated.
3. Appropriation subcommittees and LFB analysts should continue to monitor amounts budgeted for audit costs to be sure they are adequate to cover the estimates sent out by the Auditor.

BUDGET IMPACT

The Auditor is dependent on audit billing revenues in addition to the General Fund appropriation to meet payroll and pay other operating expenditures. When agencies delay payment of their audit billings, the General Fund must subsidize the Auditor's Office until billings are received. The Auditor is making an effort to estimate billings and notify departments of anticipated costs for budget purposes. However, estimates are not always accurate and the need for special audit costs (such as fraud, embezzlement, etc.) will occur and cannot be planned.

STAFF CONTACT: MaryShipman (Ext. 14617)

STATE AGENCIES THAT PAID AUDIT BILLINGS 30 DAYS LATE

<u>AGENCY/DEPARTMENT</u>	<u>DATE BILLED</u>	<u>AMOUNT</u>	<u>DATE PAID</u>
Agriculture	10/26/92	\$17,681	8/25/93
	1/27/93	32,394	8/25/93
	4/12/93	40,928	8/25/93
	7/21/93	22,411	8/25/93
Commerce	10/26/92	23,467	2/5/93
	1/27/93	18,353	2/5/93
	4/19/93	26,039	7/30/93
	7/21/93	19,337	7/30/93
Corrections	10/26/92	702	7/22/93
Cultural Affairs	10/26/92	150	2/5/93
Economic Development	10/26/92	30,461	12/30/92
	1/27/93	51,771	8/31/93
	4/12/93	7,327	8/30/93
	7/19/93	4,508	8/30/93
Education - Voc Rehab	10/26/92	7,381	12/11/92
	1/27/93	5,866	3/25/93
	4/12/93	5,169	5/26/93
	7/19/93	13,321	8/31/93
Employment Services	10/27/92	21,505	12/8/92
General Services	1/27/93	382	3/1/93
Human Rights	10/26/92	207	1/5/93
Natural Resources	1/27/93	38,719	4/14/93
Public Defense	1/27/93	2,869	4/8/93
	4/12/93	648	5/21/93
Public Health	4/12/93	8,545	6/1/93
Governor's Substance Abuse Coordinator	10/27/92	357	2/26/93
University of Iowa	7/19/93	86,251	9/3/93
Iowa State University	1/27/93	95,967	3/1/93
Iowa School for the Deaf	10/29/92	14,772	12/7/92
	1/26/93	18,810	7/26/93
	4/12/93	3,592	7/26/93
	7/16/93	5,886	7/26/93
Woodward State Hospital (Distribution Facility)	1/27/93	4,165	3/10/93