



Dave Yost • Auditor of State

House State Government & Elections Committee

Dave Yost, Auditor of State Proponent Testimony – House Bill 2 January 19, 2011

Chairman Mecklenborg, Ranking Member Gerberry, and members of the House State Government and Elections Committee, it is a privilege to testify today in support of House Bill 2.

First, I'd like to thank Representative Snitchler, Representative Stautberg for your leadership in proposing this very important legislation, and Chairman Mecklenborg for scheduling early hearings on it. Your timing could not be better as Ohio's economy continues to struggle and we all look for ways to fix the state's budget deficit.

I've heard our predicament referred to as a "budget gap" and a "hole" – we have a hole in the sense that the Grand Canyon is a hole. We are on the edge of an abyss, and I appreciate your quick action in bringing this legislation forward. It will be one piece of the solution.

I'd also like to note that this bill has bipartisan sponsorship: with more than 25 sponsors, including three distinguished members of the minority. There's a lot of talk about finding "common ground," and I would suggest to you that, in this instance, we don't have to *find* common ground – its right here in front of us.

The sponsor testimony has outlined the structure and benefits of the bill very well. Repetition is wearying to the soul, so I will focus on developing the themes already established.

This bill is about skinning down government, from the schoolhouse to the statehouse. Lacking the motive of profit, government tends to an unexamined life of inertia – that, as things have been, so shall they ever be... plus a little something for inflation.

As the great Supreme Court Justice Oliver Wendell Holmes, Jr. once said "It is revolting to have no better reason for a rule of law than that so it was laid down in the time of Henry IV." Many of our government structures and processes, it seems, have been around nearly as long, and have similarly no better reason for being.

Performance audits provide a tool from outside the bureaucracy to do what the profit motive does for the private sector: to drive better, leaner performance based on objective measurements.

To ensure objectivity, auditors follow the U.S. Government Accounting Office's Auditing Standards – sometimes called the Yellow Book -- to measure a program's actual performance against its goals, and to measure the costs of attaining those goals.

The benefits are clear.

Performance audits lead to skinny and effective governments. Recommendations identify how to maximize program or service results and highlight best practices that should be adopted.

Performance audits help governments avoid waste. Performance audits can identify outdated or duplicative services. In addition, performance auditors review management and administrative practices to ensure they are cost-efficient and streamlined.

As a result, scarce resources are preserved for priority programs as government operations become more efficient.

Cost savings identified by performance audits lead to sustainable, balanced budgets. These cost savings are savings in the structural costs of government – that is, they are costs that can be saved year after year.

Performance audits alone will not fill the budget abyss before us. But they can help, and help in a big way.

For example, since the beginning of 2007 the Auditor of State's office under the leadership my predecessor, Mary Taylor, conducted 107 performance audits of mostly local governments. Results include recommendations of up to approximately \$169 million in annual cost savings measures.

That's a potential return on investment of \$24 for every dollar spent to conduct a performance audit.

Just a few examples:

- In 2008, AOS auditors conducted a walk-through of a large renovated high school with a newly installed HVAC system. They observed exterior doors and windows propped open though air conditioning was operating, unoccupied rooms with lights left on, and individual offices with small appliances. They recommended changes in energy practices that would save between \$0.06 and \$0.30 per square foot. Using the bottom end of that estimate, the district would gain \$340,000 in annual savings for utility costs.

- An audit in 2009 recommended that a city use one of the area's regional dispatching centers for a potential savings of \$230,000 in 2009 or a cumulative savings of over \$860,000 during the four-year forecast period outlined in the audit.
- In a 2010 audit for another city, auditors identified the potential to save as much as \$340,000 per year by reducing the amount of "lost water" that was treated but went unbilled due to poor infrastructure (leaks in the system) and theft (by-passed meters and unreported water usage).

Other states have also realized big savings by using performance audits. Washington State began using performance audits in 2005 as a result of a citizen's initiative. As a result, the state has projected approximately \$644 million in savings and new revenue based on recommendations made between February 2007 – June 2010.¹

House Bill 2 even goes one step further – it holds state agencies accountable to implement performance audit recommendations. If they do not, they are required to report to and testify before the Ohio General Assembly to explain why they have not done so.

This additional proposal by Rep. Snitchler – the first of its kind in the nation, to the best of my knowledge – increases the political costs of doing nothing. Public shame is a great motivator.

It is for all of these reasons that I support House Bill 2. To emphasize how important I believe performance audits are for improving cost efficiency and accountability, the first performance audit of a state agency initiated during my tenure will be of my own operations at the Auditor of State's office.

There is an issue, though, that I need to bring to your attention. All this good comes at a cost, and that cost of a performance audit is often a barrier. Saving \$24 for every dollar spent doesn't mean much if you don't have the dollar.

Struggling governments or agencies that could benefit the most from a performance audit are often those that can least afford to have one conducted. For this reason, I ask you to establish the Leverage for Efficiency, Accountability and Performance Fund (the L.E.A.P. Fund) --- a \$5 million revolving loan fund which would fund this year's performance audit costs from next year's savings, which would in turn be used to fund a new round of performance audits.

My office would certify the costs of the completed audit to OBM, or the county auditor in the case of a local government, and the money would be repaid directly by authority of the statute without further appropriation or approval.

¹ State Auditor's Office Performance Audit, 2010 Performance Audit Progress Report (January 7, 2011).

Not only would this remove funding as the most serious barrier to using performance audits, it would also provide additional incentive for the agency or government to actually *implement* the findings and recommendations.

In this disastrous fiscal environment, state government will be cut back. Performance audits are a critical tool to intelligent cuts.

It is also no secret that the state may have no choice but to reduce subsidies to local governments. House Bill 2 will provide a tool to our local partners to be able to cope with fewer dollars.

Our task is not simply to confront this very difficult budget... we somehow managed in the last budget cycle to meet the minimum Constitutional requirement of balance. And yet here we are today, in a worse position.

Our task is not merely to change government for the next two or four years, until times get better – for our old ways will surely one day lead us again to this abyss.

Our great task is to change government for a generation. Nothing less will do.

Mr. Chairman and members of the committee, House Bill 2 is an indispensable tool in that project. Thank you again for the opportunity to testify in support of it. I would be happy to answer any of your questions.