

**Opening Statement of
Auditor General Eugene A. DePasquale
Tuesday, February 23, 2016**

**Before the House Appropriations Committee
The Honorable Bill Adolph, Chairman
The Honorable Joe Markosek, Democratic Chairman**

Regarding 2016/17 Fiscal Year Budget for the Department of the Auditor General

Chairman Adolph, Chairman Markosek, and members of the House Appropriations Committee: Good morning and thank you for the opportunity to discuss the Department of the Auditor General's fiscal year 2016-17 budget request.

2016-17 BUDGET REQUEST

The Department is requesting \$43.59 million for the 2016-17 fiscal year. We have worked very hard to keep our request as low as possible. For example, this year, even though we are faced with a more than \$2.8 million increase in costs for contractually mandated salary adjustments, health care and retirement benefits, we are only requesting a modest \$876,000, or 2.05 percent, increase in our general government operations allocation for the 2016-17 fiscal year. We were able to keep our request moderate because the cost savings we have achieved since I took office have been reallocated to help offset rising mandatory costs, and still keep our yearly budget requests responsible and realistic.

Since we are clearly facing another very tough budget, I realize that across state government we must continue to improve efficiencies so that we can do more with less. At the Department of the Auditor General, we are doing that. Given the value that our audits bring to the commonwealth, we tried to address mandated cost increases in a manner that does not threaten our ability to ensure the long-term viability of our auditing mission.

Cost Savings

One of the first tasks I undertook after assuming office was to change the way the Department budgets. Instead of doing a year-to-year plan, we instead created a four-year budget plan to ensure we would be able to sustain our operations in spite of potential budgetary challenges. This helped us identify a number of areas where we could reduce our own costs and reallocate those savings to other areas of our operation.

We have made great progress internally, generating savings of \$2.87 million. This is a remarkable accomplishment because, as many of you know, the nature of our work is extremely labor intensive — 94 percent of our general government operations budget is for personnel costs.

These savings were accomplished by increasing the efficiency of our operation, including:

- Cutting the fleet of state-owned vehicles by 92 percent, going from 241 cars in 2013 to just 21 today, and reducing other travel and transportation costs;
- Migrating the Department's human resources, purchasing and financial operations to the Commonwealth's SAP system;
- Eliminating much of the Department's leased office space and parking leases; and
- Shifting the Department's printing operations to other existing commonwealth printing resources.

AUDITS

In addition to generating internal cost savings, our streamlined processes and procedures enable us to produce audits that are more timely, and with fewer staff. In fact, we are producing audits at a faster rate than any other three-year time period in the agency's recent history. This is a direct result of modernizing our technology infrastructure through the use of additional IT funding granted to the Department by the General Assembly, as well as by restructuring our operations to best utilize resources and our current workforce.

Our audits are making a difference. We released several major program performance audits that identified shortcomings in:

- The Pennsylvania Department of Education's assistance to poorly performing schools and the oversight of education programs by the State Board of Education.
- The Department of Community and Economic Development's management of programs for counties' homelessness prevention and rehousing;
- The State System of Higher Education's policies and programs on campus safety and sexual violence awareness;
- The Department of Labor and Industry's implementation and oversight of Act 102 that prohibits excessive mandatory overtime for healthcare workers; and
- The Pennsylvania Gaming Control Board's oversight of funding for local law enforcement and its control of excessive food reimbursements for board members.

What's more, since January 2013, we identified in excess of \$111 million in potential state savings through our audits of school entities, municipal pension plans, liquid fuels, corporate tax returns, volunteer firefighter relief associations, and other programs.

IT FUNDING REQUEST

Three years ago, the Department's information technology infrastructure was significantly outdated and limited our ability to work efficiently in the modern world and to interact and exchange information with other agencies and auditees.

Over the past three years, the Department used \$5.25 million in technology modernization funds to help strengthen and modernize our IT infrastructure. We were able to replace outdated hardware and software, and establish a 'refresh' cycle for the Department's computers. Additionally, we enhanced connectivity and security, provided field staff with wifi "hot spots" to obtain secure network connectivity from any location, and installed a Voice Over Internet Protocol phone system with unified communications to further enhance communication with field staff.

It is important to note that due to the uncertainty of the last budget we were uncomfortable with performing any large scale IT projects in the current fiscal year. Instead, we focused on streamlining our processes – moving both the municipal pension and volunteer firefighters' relief aid applications to an electronic system – as well as continuing our software and hardware refresh cycle.

For 2016-17, we requested \$3 million to continue our IT modernization plan. With those funds, we plan to implement an electronic document management system to manage all electronic documentation throughout the Department. Such an improvement will help us build on our existing successes, continue to move to a more streamlined auditing process, and will leave the Department in a much better position to further increase our audit productivity.

Chairman Adolph, Chairman Markosek, and members of the committee, be assured, we will continue to lead by example. We 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. I thank you for the opportunity to appear before you today.

I am pleased to answer any questions.

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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

The Honorable Bill Adolph, Chairman
House Appropriations Committee
Pennsylvania House of Representatives
245 Main Capitol Building
Harrisburg, PA 17120

Honorable Pat Browne, Chairman
Senate Appropriations Committee
Room 281, Main Capitol
Harrisburg, PA 17120

Dear Chairman Adolph and Chairman Browne:

I am pleased to provide you with a supplemental description to our budget submission that addresses Senator Browne's request to include efficiency and cost saving mechanisms that have been implemented in the Department of the Auditor General. The cost savings we have applied have enabled us to offset rising mandatory costs and still keep our yearly budget requests responsible and realistic. For example, this year, even though we are faced with over \$2.8 million increase in costs for health care and retirement benefits, we are only requesting a modest \$876,000 or 2.05 percent increase in our general operations allocation for the 2016-17 fiscal year.

When I entered office in 2013, my Department was in the midst of financial crisis, as we were tasked with filling a nearly \$3 million hole in our budget. While addressing this immediate crisis, we began to look forward and developed a four-year budget plan that included anticipating future cost increases outside of our control. This four-year budget plan included extensive internal review to identify savings and efficiencies to help us streamline departmental processes and reduce expenses that would help offset rising costs. This was not a simple endeavor as nearly 95 percent of the Department of Auditor General's budget goes toward personnel expenses.

After a comprehensive review of expenditures, the Department was able to identify and realize in excess of \$2.87 million in savings (see attachment). These savings have been reinvested within the Department to keep our annual mandatory costs as low as possible. We are

constantly looking to identify other areas where we could generate additional savings over the next few years.

In addition to generating internal cost savings, our streamlined processes and procedures enable us to produce audits that are more timely — with fewer staff — and at a faster rate than any other three-year time period in the agency's recent history. This is a direct result of modernizing our technology infrastructure through the use of additional IT funding granted to the Department, as well as by restructuring our operations to best utilize resources and our current workforce.

These efficiencies and cost saving measures allow me to confidentially state that our budget request of \$43.59 million represents a realistic and responsible request.

I would be remiss if I focused only on our internal operating cost savings because this does not convey another valuable aspect of our work. Since I became Auditor General, our audits have identified in excess of \$103.25 million in funds that could potentially be recaptured or reallocated. This is an average of \$35 million per year in potential revenue that is identified in audits conducted by the Department.

Thank you for your consideration. If you have any questions or if I can provide additional information, please do not hesitate to contact me.

Sincerely,

Eugene A. DePasquale
Auditor General

cc: The Honorable Joe Markosek, House Democratic Appropriations Chair
The Honorable Vince Hughes, Senate Democratic Appropriations Chair

DEPARTMENT OF THE AUDITOR GENERAL

INTERNAL COST SAVINGS

Reduced travel & transportation costs **\$877,000**

- Reduction of vehicle fleet by 91% (from 241 to 23 vehicles)
- Work-from-home cut down on transportation costs; auditors no longer have to travel long distances to reach auditees
- IT funding provided ability to expand wireless connectivity and security to enable auditors to work remotely
- New scanners enabled better coordination to reduce additional travel needs by auditors

Modernization of HR functions **\$791,000**

- IT funding enable transition from PeopleSoft to SAP for human resource and procurement functions
- Reduced costs and waste by transitioning from paper leave to online leave requests
- Reallocated staff who previously handled paper leave

Reorganization & consolidation of department bureaus **\$605,000**

- Reduced administrative layers
- Increased flexibility including sharing staff/work assignments
- Established budgeted hours for each audit

Reduction of leased office & parking space **\$400,000**

- Consolidated offices to reduce the cost for lease office space and parking
- Reduced parking for all regional offices

Printing & postage efficiencies **\$194,000**

- Replaced internal print shop, utilizing agreement with DGS for print services
- Moved toward electronic distribution of audit reports to reduce printing and mailing costs

TOTAL COST SAVINGS **\$2,867,000**

COMMONWEALTH FUNDS IDENTIFIED
BY AUDITOR GENERAL IN AUDITS:
\$103.25 MILLION SINCE 2013

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|--|-------------------------|
| School Districts <ul style="list-style-type: none">• Inappropriate superintendent buyouts• Improper charter school reimbursements• Overpayment for transportation service contracts | \$25.62 million |
| Corporate Tax Return Underpayments | \$45.70 million |
| Liquid Fuels | \$16.89 million |
| VFRAs VOLUNTEER FIREFIGHTER RELIEF ASSOCIATIONS | \$2.47 million |
| Municipal Pensions | \$2.63 million |
| Children & Youth Services | \$4.95 million |
| Tobacco Settlement Fund | \$4.99 million |
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| TOTAL COST SAVINGS | \$103.25 million |