



**Department
of the
Auditor General
&
Board of Claims**

**Budget
2016 - 2017**

Eugene A. DePasquale - Auditor General

Commonwealth of Pennsylvania

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**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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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

Dear Chairman Adolph:

This letter and the accompanying documents represent the Department of the Auditor General's budget request for \$43.59 million for the 2016-17 fiscal year. This represents an \$876,000, 2.05 percent, increase in our General Government Operations (GGO) appropriation from the current fiscal year. The additional costs in fiscal year 2016-17 are due to an increase in mandated retirement contributions.

During my first year in office, we created a four-year budget plan based upon flat funding. To ensure the efficiency and effectiveness of our Department, we identified and implemented internal cost cutting measures to offset rising costs outside of our control. Please note that an in-depth breakdown of these savings is provided in the addendum to this budget submission.

The Department of the Auditor General must remain a strong and independent watchdog of taxpayer dollars. This can only happen if the Department is provided adequate resources to fight waste, fraud, and abuse of government funding. Since 2013, the Department 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.

Finally, in addition to the GGO funding increase of \$876,000, we are requesting a \$3 million investment in the final installment of our Information Technology Modernization line item. Over the past few years, the IT funding has enabled the Department to upgrade a crumbling technology infrastructure, extend connectivity and streamline many of its human resource and procurement functions. This year's funds are intended to help transition municipal pension and volunteer firefighter relief aid programs to an electronic system as well as move towards a full electronic document management system.

Please be assured, we will continue to lead by example. We submit this request in order to maintain the quality and quantity of our audit work.

Sincerely,

A handwritten signature in black ink, reading "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

cc: The Honorable Joe Markosek, Democratic Chair, House Appropriations Committee

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Department of the Auditor General
2016-17 Budget Hearing Report
Table of Contents

Summary Information

General Fund, Complement and Personnel Expenditures Charts	1
------------------------------------------------------------	---

Department of the Auditor General

General Government Operations	5
-------------------------------	---

Information Technology Modernization	7
--------------------------------------	---

Program Narrative	9
-------------------	---

Board of Claims

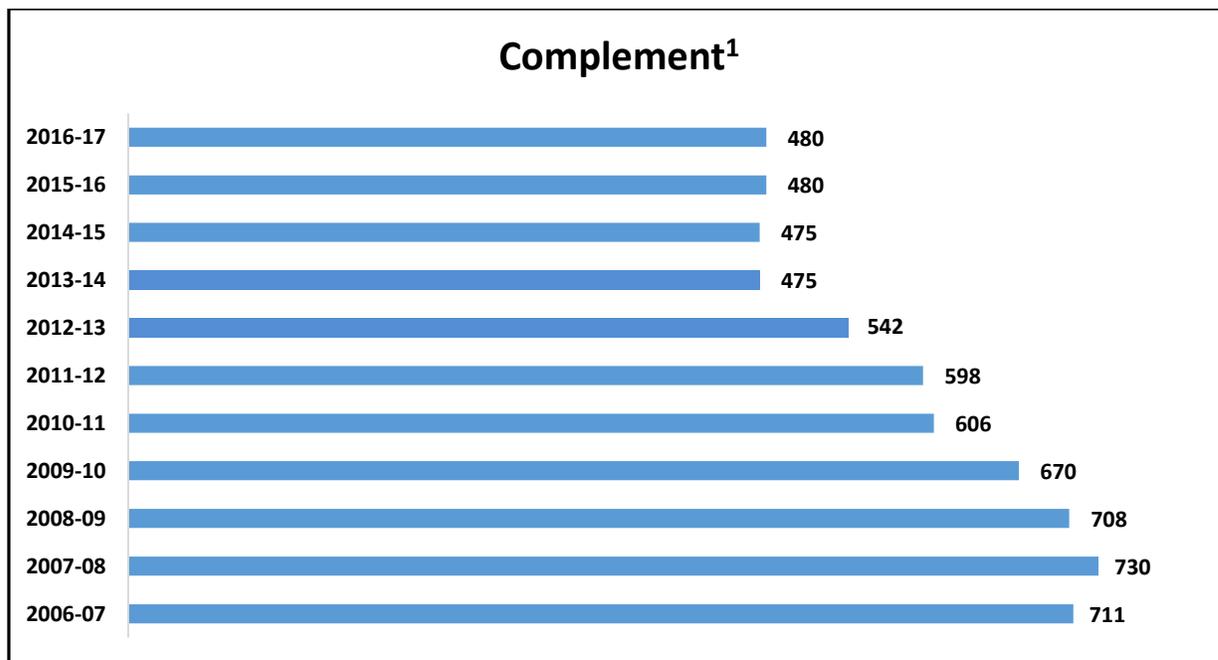
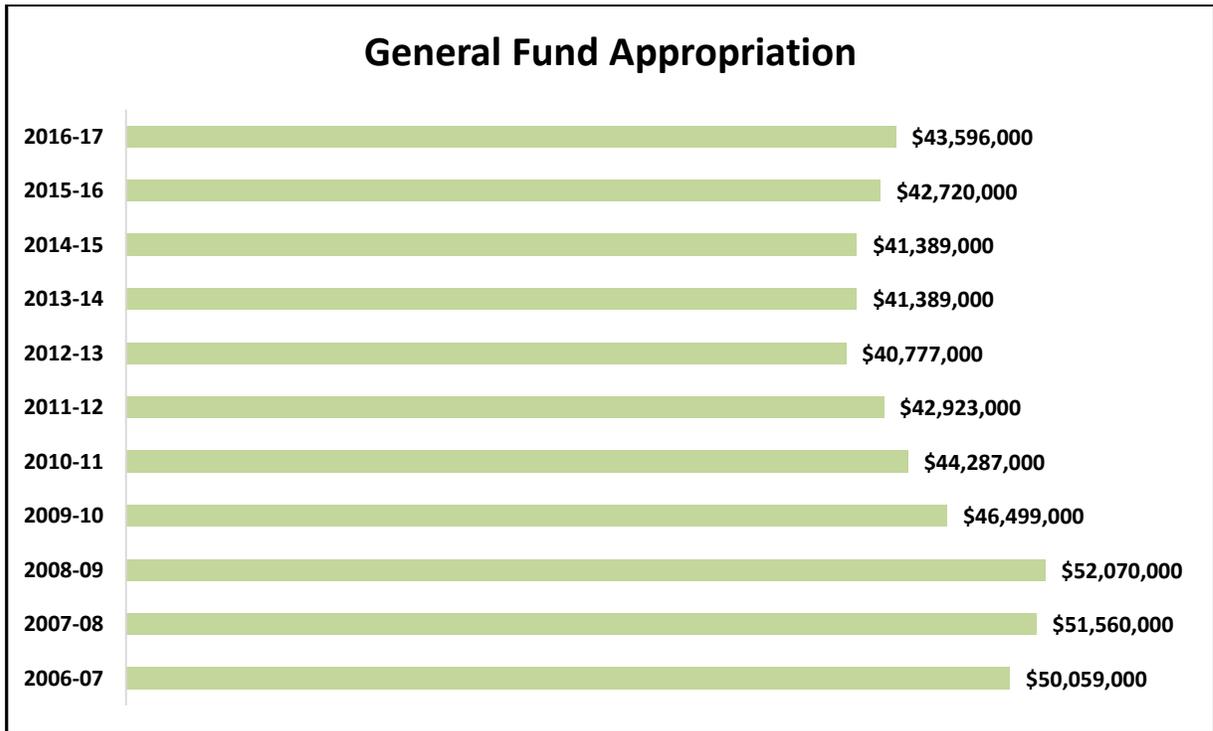
General Government Operations	13
-------------------------------	----

Program Narrative	15
-------------------	----

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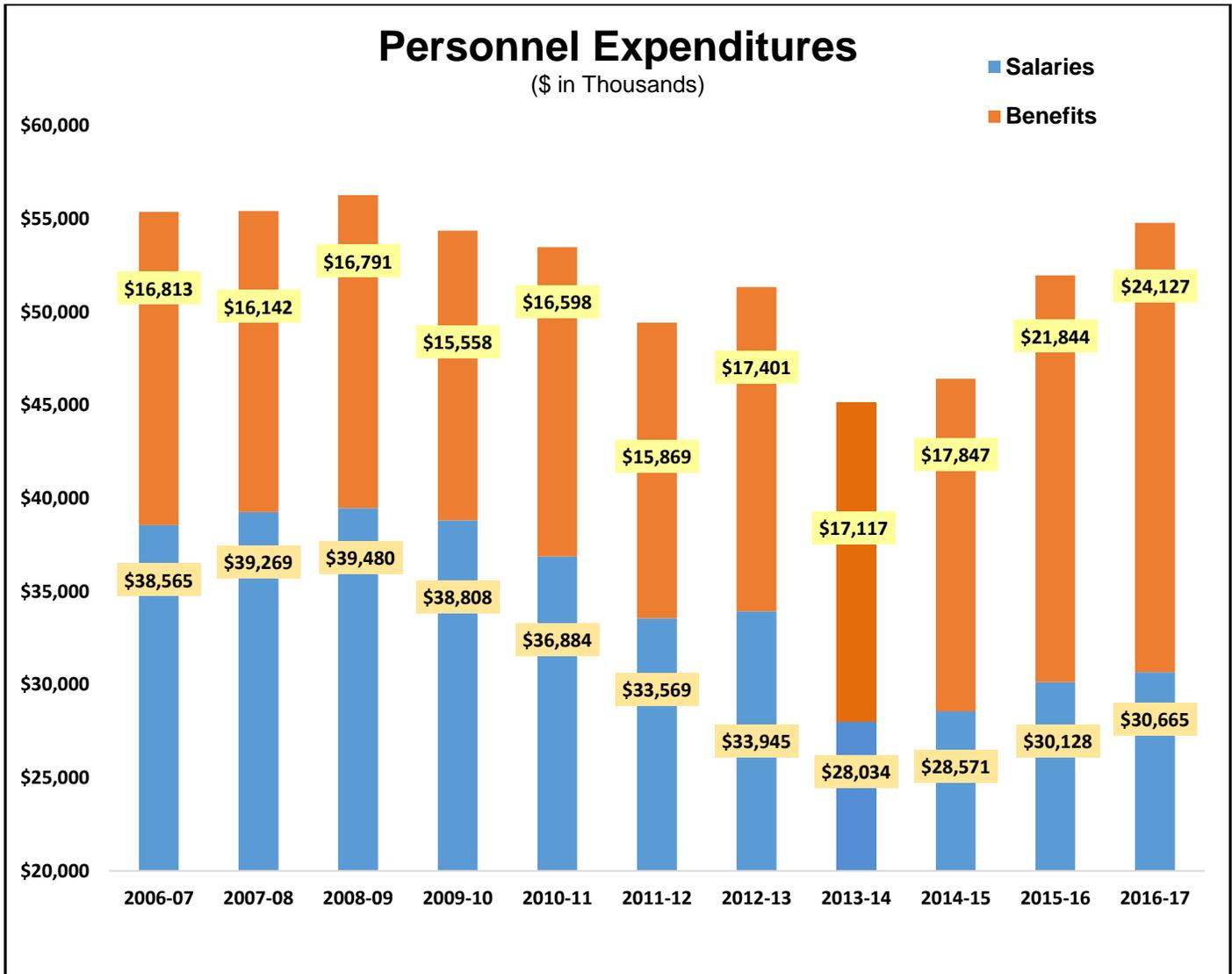
DEPARTMENT OF THE AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



¹ Authorized Department of the Auditor General complement for the fiscal year. Actual number of full time employees will vary.

DEPARTMENT OF THE AUDITOR GENERAL



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DEPARTMENT OF THE AUDITOR GENERAL
Budget Request FY 2016-17

**DEPARTMENT OF THE AUDITOR GENERAL
2016-17 BUDGET PRESENTATION**

APPROPRIATION NAME

General Government:
Auditor General's Office

I. SUMMARY FINANCIAL DATA (\$ Amounts in Thousands)	2014-15 Actual	2015-16 Available	2016-17 Budgeted
State Funds	\$41,389	\$42,720	\$43,596
Augmentation Funds	\$13,344	\$11,026	\$11,521
Total:	\$54,733	\$53,746	\$55,117

II. DETAIL BY MAJOR OBJECT (\$ Amounts in Thousands)	2014-15 Actual	2015-16 Available	2016-17 Budgeted	Change Budgeted vs. Available	Percent Change
PERSONNEL					
State Funds	\$38,147	\$40,841	\$41,784	\$943	2.31%
Augmentation Funds	\$12,992	\$10,707	\$11,203	\$496	4.63%
Total Personnel:	\$51,139	\$51,548	\$52,987	\$1,439	2.79%
OPERATING					
State Funds	\$3,061	\$1,825	\$1,758	-\$67	-3.67%
Augmentation Funds	\$352	\$319	\$318	-\$1	-0.31%
Total Operating:	\$3,413	\$2,144	\$2,076	-\$68	-3.17%
FIXED ASSETS					
State Funds	\$181	\$54	\$54	\$0	0%
Augmentation Funds	\$0	\$0	\$0	\$0	0%
Total Fixed Assets:	\$181	\$54	\$54	\$0	0%
TOTAL FUNDS					
State Funds	\$41,389	\$42,720	\$43,596	\$876	2.05%
Augmentation Funds	\$13,344	\$11,026	\$11,521	\$495	4.49%
Total Funds:	\$54,733	\$53,746	\$55,117	\$1,371	2.55%

III. HISTORY OF LAPSES (\$ Amounts in Thousands)	2013-14	2014-15	2015-16 Estimated
State Funds	\$0	\$0	\$0

IV. COMPLEMENT INFORMATION	2014-15 Actual	2015-16 As of 1/29/16	2016-17 Budgeted
State Funds			
- Authorized	358	381	373
- Filled	353	364	359
Augmentation Funds			
- Authorized	117	99	107
- Filled	114	96	103
Total			
- Authorized	475	480	480
- Filled	467	460	462

V. DERIVATION OF REQUEST/LEGISLATIVE CITATIONS/Disbursement Criteria

(A) Derivation of Request

The Fiscal Year 2016-17 Governor's Executive Budget authorizes 480 positions for The Department of the Auditor General.

(B) Legislative Citations:

The Auditor General's authority is found throughout state law, but the general audit authority is located in Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania and Sections 401 through 404 of The Fiscal Code (72 P.S. §§ 401-404).

(C) Disbursement Criteria:

This appropriation funds the administrative structure for all the bureaus in The Department of the Auditor General. Disbursements are made based on approved positions and established benefits and through invoices for operating expenses and fixed assets.

VI. ADDITIONAL INFORMATION

(A) 2015-16 Obligations to be rolled forward to 2016-17:

The Department does not anticipate having any obligations roll forward to FY2016-17.

(B) 2015-16 Supplemental appropriation needs:

The Department is not requesting a supplemental appropriation for FY2015-16.

**DEPARTMENT OF THE AUDITOR GENERAL
2016-17 BUDGET PRESENTATION**

APPROPRIATION NAME
General Government: Information Technology Modernization

I. SUMMARY FINANCIAL DATA (\$ Amounts in Thousands)	2014-15 Actual	2015-16 Available	2016-17 Budgeted
State Funds	\$1,750	\$1,750	\$3,000
Augmentation Funds	\$0	\$0	\$0
Total:	\$1,750	\$1,750	\$3,000

II. DETAIL BY MAJOR OBJECT (\$ Amounts in Thousands)	2014-15 Actual	2015-16 Available	2016-17 Budgeted	Change Budgeted vs. Available	Percent Change
PERSONNEL					
State Funds	\$0	\$0	\$0	\$0	0%
Augmentation Funds	\$0	\$0	\$0	\$0	0%
Total Personnel:	\$0	\$0	\$0	\$0	0%
OPERATING					
State Funds	\$1,540	\$1,420	\$2,545	\$1,125	79.23%
Augmentation Funds	\$0	\$0	\$0	\$0	0%
Total Operating:	\$1,540	\$1,420	\$2,545	\$1,125	79.23%
FIXED ASSETS					
State Funds	\$210	\$330	\$455	\$125	37.88%
Augmentation Funds	\$0	\$0	\$0	\$0	0%
Total Fixed Assets:	\$0	\$0	\$0	\$0	37.88%
TOTAL FUNDS					
State Funds	\$1,750	\$1,750	\$3,000	\$1,250	71.43%
Augmentation Funds	\$0	\$0	\$0	\$0	0%
Total Funds:	\$1,750	\$1,750	\$3,000	\$1,250	71.43%

III. HISTORY OF LAPSES (\$ Amounts in Thousands)	2013-14	2014-15	2015-16 Estimated
State Funds	\$0	\$0	\$0

IV. COMPLEMENT INFORMATION	2014-15 Actual	2015-16 As of 1/31/16	2016-17 Budgeted
State Funds			
- Authorized	0	0	0
- Filled	0	0	0
Augmentation Funds			
- Authorized	0	0	0
- Filled	0	0	0
Total			
- Authorized	0	0	0
- Filled	0	0	0

V. DERIVATION OF REQUEST/LEGISLATIVE CITATIONS/Disbursement Criteria

(A) Derivation of Request:

N/A

(B) Legislative Citations:

The Auditor General's authority is found throughout state law, but the general audit authority is located in Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania and Sections 401 through 404 of The Fiscal Code (72 P.S. §§ 401-404).

(C) Disbursement Criteria:

This appropriation funds the information technology needs of the Department. Disbursements are made through invoices submitted for operating expenses and fixed assets incurred in the operation of the program.

VI. ADDITIONAL INFORMATION

(A) 2015-16 Obligations to be rolled forward to 2016-17:

The Department does not anticipate having any obligations roll forward to FY2016-17.

(B) 2015-16 Supplemental appropriation needs:

The Department is not requesting a supplemental appropriation for FY2015-16.

The Department of the Auditor General

The Auditor General is an independently elected statewide official who ensures that all money, to which the Commonwealth is entitled, is deposited with the State Treasury; that public funds are spent legally and appropriately; and that publicly funded programs are operating efficiently and effectively.

The Auditor General is responsible for three (3) types of audits:

- 1) Financial Audits: Help ensure the reliability of financial information on which much of government operates.
- 2) Performance Audits: Gauge whether or not government programs and activities are meeting stated goals and objectives, and if tax dollars are being spent efficiently and effectively.
- 3) Attestations: Provide users of financial or nonfinancial information with assurance of the reliability of the related subject matter or assertion, which includes examinations, reviews, or agreed-upon procedures (compliance) audits.

The Auditor General's authority is found throughout state law, but his general audit authority is located in Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania and Sections 401 and 404 of The Fiscal Code (72 P.S. §§ 401-404). Over 70 percent of the audits the Department conducts are mandated by law.

Specific audit responsibilities include:

- 55 Agencies, Departments, Board and Commission for the Comprehensive Annual Financial Report (CAFR)
- 394 Federally Funded Programs in 30 state agencies audited as part of the annual Single Audit
- 560 Magisterial District Courts
- 475 County Row Offices
- Special State Funds – Tobacco Settlement Fund, SWIF, and Lottery, etc.
- 67 Counties and 2,562 Municipalities receiving \$325 million in Liquid Fuels Funds
- 634 Liquor Stores
- 2,600 Municipal Pension Plans with total value of \$9.5 billion
- 1,951 Volunteer Firefighter's Relief Associations receiving \$65 million state aid
- 26 State Correctional Facilities
- 500 School Districts
- 29 Intermediate Units
- 85 Vocational-Technical Schools
- 157 Charter Schools
- 16 Cyber Charter Schools
- 14 State System of Higher Education Universities
- Penn State, Temple, Lincoln, and the University of Pittsburgh
- 370,000 Corporate Tax returns are sampled
- 6 Veterans Homes
- Treasury Investments

In accordance with Section 402 of The Fiscal Code, special audits, including performance audits, may be made at any time when, in the Auditor General's judgment, they appear to be necessary. Special audits must also be conducted by the Auditor General at the Governor's request. Special performance audits are based on objective criteria that provide independent assessments of the

performance, administration, and management of government programs. The findings and recommendations are intended to improve program operations and contribute to public accountability.

Examples of performance audits and special reports initiated and/or released by the Auditor General during the past year include:

- A performance report on the complaint process for nurses reporting excessive mandatory overtime.
- A performance audit of job creation programs.
- A performance audit of the state's higher education system.
- A performance audit of the state department of education.
- A special report on the municipal pensions.

To carry out these various responsibilities, the Auditor General is empowered to conduct forensic audits, hold hearings, and subpoena documents and witnesses. With limited exceptions, the Auditor General has no statutory authority to enforce audit findings or recommendations. The findings and recommendations can either be accepted or rejected by the auditees or, in some cases, enforced by other regulatory agencies.

The Auditor General performs jointly with an independent accounting firm an annual audit of the Commonwealth's basic financial statements prepared in accordance with Generally Accepted Accounting Principles, referred to as the GAAP Audit. Those financial statements are used by bond rating agencies, investors in debt instruments of the state, and others in their assessment of the Commonwealth's financial condition. In addition to the GAAP audit, the Auditor General performs jointly with an independent public accounting firm the Single Audit, an annual comprehensive audit of federal funds allocated to programs in Pennsylvania.

As required by state law, the Auditor General distributes to Volunteer Firefighters' Relief Associations and Municipal Pension plans the money received by the Commonwealth from the two percent tax paid on premiums collected by out-of-state fire insurance companies. The Auditor General also distributes to Municipal Pension plans the money from the two percent tax on premiums paid by out-of-state casualty insurance companies.

The Auditor General has a variety of other responsibilities imposed by law. For example, the Auditor General is a signatory, along with the Governor and State Treasurer, for approval of short-term and long-term borrowing by state government. The Department of the Auditor General also provides administrative services for the Board of Claims, an independent administrative agency discussed later in this document. The Auditor General is also a statutory member of the Pennsylvania Higher Educational Facilities Authority, the State Public School Building Authority, the Delaware River Port Authority, the Local Government Records Committee, and the Joint Interstate Bridge Commission.

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BOARD OF CLAIMS¹

¹ The Board of Claims operates as an independent judicial and administrative body with jurisdiction to hear and determine contract claims against the Commonwealth.

**DEPARTMENT OF THE AUDITOR GENERAL
2016-17 BUDGET PRESENTATION**

APPROPRIATION NAME
General Government Operations: Board of Claims

I. SUMMARY FINANCIAL DATA (\$ Amounts in Thousands)	2014-15 Actual	2015-16 Available	2016-17 Budgeted
State Funds	\$1,640	\$1,846	\$1,846
Augmentation Funds	\$0	\$0	\$0
Total:	\$1,640	\$1,846	\$1,846

II. DETAIL BY MAJOR OBJECT (\$ Amounts in Thousands)	2014-15 Actual	2015-16 Available	2016-17 Budgeted	Change Budgeted vs. Available	Percent Change
PERSONNEL					
State Funds	\$1,402	\$1,563	\$1,563	\$0	0%
Augmentation Funds	\$0	\$0	\$0	\$0	0%
Total Personnel:	\$1,402	\$1,563	\$1,563	\$0	0%
OPERATING					
State Funds	\$238	\$283	\$283	\$0	0%
Augmentation Funds	\$0	\$0	\$0	\$0	0%
Total Operating:	\$238	\$283	\$5,817	\$0	0%
FIXED ASSETS					
State Funds	\$0	\$0	\$0	\$0	0%
Augmentation Funds	\$0	\$0	\$0	\$0	0%
Total Fixed Assets:	\$0	\$0	\$0	\$0	0%
TOTAL FUNDS					
State Funds	\$1,640	\$1,846	\$1,846	\$0	0%
Augmentation Funds	\$0	\$0	\$0	\$0	0%
Total Funds:	\$1,640	\$1,846	\$1,846	\$0	0%

III. HISTORY OF LAPSES (\$ Amounts in Thousands)	2013-14	2014-15	2015-16 Estimated
State Funds	\$0	\$0	\$0

IV. COMPLEMENT INFORMATION	2014-15 Actual	2015-16 As of 1/31/16	2016-17 Budgeted
State Funds			
- Authorized	11	11	11
- Filled	11	11	11
Augmentation Funds			
- Authorized	0	0	0
- Filled	0	0	0
Total			
- Authorized	11	11	11
- Filled	11	11	11

V. DERIVATION OF REQUEST/LEGISLATIVE CITATIONS/Disbursement Criteria

(A) Derivation of Request

The Fiscal Year 2016-17 Governor's Executive Budget authorizes 11 positions for the Board of Claims.

(B) Legislative Citations:

The Board of Claims was created by the Legislature in 1937 to decide claims arising from contracts with the Commonwealth. The Board's jurisdiction was originally set forth in the Board of Claims' Act [72 P.S. Sections 4651-1 to 10], but since June 2003 has been relocated to the Procurement code at 62 Pa. C.S. Sections 1721-1726. All matters before the Board are governed by the Pennsylvania Rules of Civil Procedure and by the Rules of Procedure adopted by the Board [61 Pa. Code Sections 899 - 101 to 801. The Board of Claims has jurisdiction to hear and determine contract claims against the Commonwealth.

(C) Disbursement Criteria:

This appropriation funds the administrative structure for the Board of Claims. Disbursements are made based on approved positions and established benefits and through invoices for operating expenses and fixed assets.

VI. ADDITIONAL INFORMATION

(A) 2015-16 Obligations to be rolled forward to 2016-17:

The Board does not anticipate having any obligations roll forward to FY2016-17.

(B) 2015-16 Supplemental appropriation needs:

The Board is not requesting a supplemental appropriation for FY2015-16.

The Board of Claims

The Board of Claims was created in 1937. It is both an administrative tribunal and an independent administrative agency. It arbitrates claims against the Commonwealth arising from contracts entered into by the Commonwealth, and adjusts and settles certain other claims by or against the Commonwealth. The Board follows the Pennsylvania Rules of Civil Procedure. These rules allow all parties in contract disputes reasonable time to prepare their claims and answers, conduct discovery, and prepare for trial.

Goal

The goal of the Board, as the original finder of fact and determiner of damages, if any, is to provide, through due process, a forum for litigants to present their cases in an expeditious manner.

Objective

The objective of the Board is to run as full a hearing calendar as possible, disposing of cases through:

- a) Settlement
- b) Pre-trial conferences
- c) Litigation before Panels or the Board

Key External Factor

The key external factor affecting the Board is efficiency of legal counsel representing the Commonwealth and other parties.

Online Services

The Board is fully utilizing its Local Area Network (LAN) with four central servers. The Board has also established a home page at www.boc.state.pa.us accessible directly or through the Governor's website. Attorneys have electronic access to the Board's 4,000 plus docketed claims, trial calendars, rules, recent opinions and news. The Board is also electronically scanning and managing its court records for proper retention.

Performance Measures

	ACTUAL 2014-2015	ESTIMATED 2015-2016	PROJECTED 2016-2017
New Claims Filed	22	25	25
Total Amount of New Claims Filed	*\$59,028,896.97	*\$12,500,000	*\$12,500,000
Claims disposed of	23	25	25
Claims Pending as of June 30	107	107	107
Amount of Claims Pending as of June 30	*\$170,228,832.30	*\$170,000,000	*\$170,000,000

* The dollar values shown do not reflect the number of claims pending against the Commonwealth where the estimated exposure is currently unstated.

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