

**NEWS RELEASE**

*For Immediate Release*

Contact: Susan Woods, 717-787-1381

**Auditor General DePasquale Discusses Department's 2014-15 Funding Request with House, Senate Appropriations Committees**

*Outlines changes made to cut costs, improve department efficiency*

HARRISBURG (Feb. 11, 2014) – Auditor General Eugene DePasquale today discussed his department's 2014-15 budget request with members of the House and Senate Appropriations Committees during two hearings. Before taking questions from legislators, DePasquale provided an update on what his department accomplished in the past year.

“We have made great progress internally, creating savings of more than \$1 million annually,” DePasquale said referring to his cost-cutting and improved efficiency efforts during his first year in office. “We have reduced the administrative layers in the department, allowing for more flexibility and sharing of staff and work assignments.

“We are focusing our audits on areas that will improve the lives of all Pennsylvanians and prepare our state for a brighter future,” he said. “The numbers speak for themselves. In my first year, in addition to clearing a backlog of 1,500 audits, we completed more than 3,400 audit reports and identified more than \$40 million in corporate tax underpayments, misallocated funds, and potential fraud. That's more than \$40 million that our audits identified that can be recouped by the commonwealth.”

Full text of the opening statement DePasquale submitted to the committees follows.

Audit reports and activities of the department are posted online at: [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us).

###

**Opening Statement (as submitted) of  
Auditor General Eugene A. DePasquale  
Tuesday, February 11, 2014  
Before the House and Senate Appropriations Committees  
Regarding 2014/15 Fiscal Year Budget for the Department of the Auditor General**

As the state's chief elected fiscal watchdog, I am committed to ensuring that taxpayer dollars are spent properly and effectively. When I came into office, I made it clear to my staff that we work for every Pennsylvanian and we will be accountable, transparent and serve as an example of government efficiency. However, I knew that if I was going to be critical of how others spend tax dollars, I had to make certain my house was in order.

Last year, the Department was facing a nearly \$3.5 million budget deficit, was using outdated and failing IT infrastructure and had a backlog of over 1,500 audits. I immediately conducted an

internal assessment of the Department's budget and operations and quickly determined that we would need to make significant changes. We have begun to make many of these changes, and I am pleased to say that the Department is in much better financial shape today than it was a year ago.

## ADMINISTRATIVE CHANGES

First and foremost, we created a long-term plan for the Department's fiscal stability that factors in mandated cost increases for retirement contributions, health care, workers' compensation and salary increases for rank and file employees.

We have made great progress internally, creating savings of more than \$1 million annually by utilizing electronic letterhead instead of having it printed, eliminating print subscriptions, divesting our duplicating services, reducing our printing and mailing costs, cutting our purchase of paper in half, cutting our fleet of state-owned cars by more than half, and reducing our office lease and operating expenses throughout the state.

We have reduced the administrative layers in the Department, allowing for more flexibility and sharing of staff and work assignments. Travel expenses to audit sites have been drastically reduced by allowing auditors to work from home and by assigning work based upon proximity to an auditor's home, saving approximately \$300,000 over the previous year.

While these and other administrative changes helped the Department to save as much as possible, these savings alone were not sufficient to bridge the gap in our budget shortfall. We are grateful for the \$612,000 in additional GGO funding we received in the current year's budget, however, we are still operating at budget levels not seen since the 1990s.

Unfortunately, in order to right the ship and better plan for our department's fiscal security, I had to make the difficult decision to reduce our complement last year. This was our last resort and believe me when I say that the decision was not made lightly, nor easily.

The nature of our work is extremely labor intensive and 94 percent of our general government operations budget expenditures are for personnel. Furlough decisions were made to have the least impact on Department operations and affect the fewest number of employees possible. The decisions that were made also ensured that, if funding remains level over the next three years while factoring in all of the mandated increases, no additional furloughs would be necessary.

Although we have had a significant reduction in our workforce, our personnel are our greatest assets and we have taken steps to invest in them. We have established several training initiatives to more fully develop employees and managers to strengthen their professional skills, beyond their typical training to obtain certified professional education (CPE) credits. Employees at all levels of the Department have received extensive training on our new IT systems and on strengthening management skills. We also made efforts to more fully engage our employees in the mission of the Department to improve government accountability, transparency and the effective use of taxpayer dollars.

## FOCUSING ON AUDITS

Of course, I cannot talk about the Department's changes without addressing our audits. We are focusing our audits on areas that will improve the lives of all Pennsylvanians and prepare our state for a brighter future. The numbers speak for themselves. In my first year, in addition to clearing a backlog of 1,500 audits, we completed more than 3,400 audit reports and identified more than \$40 million in corporate tax underpayments, misallocated funds, and potential fraud. That's more than \$40 million that our audits identified that can be recouped by the Commonwealth.

The Department is implementing procedures and technology to get audits done quicker so that reports can be completed faster and allow more timely recommendations for improvements. We also established budgeted hours for each audit and compare actual hours to budget hours on an ongoing basis to ensure that the work is performed efficiently and within consistent timeframes.

We are also establishing a prioritization process which better aligns resources with audit responsibilities. Cost savings are also being found by distributing audits electronically and developing a method to use electronic working papers to improve efficiency and make auditors more mobile and agile. When I took office, the Department printed 40,000 audits per year and during the past year, we printed 1,760 audits.

Given budget constraints, we carefully reviewed the thousands of audits conducted each year to prioritize those that are mandated by the legislature. We strategically and regularly restructure our staff and workload to ensure that we meet those mandates and are able to continue auditing the most egregious violations of the public trust to improve government accountability, transparency and the effective use of taxpayer dollars.

For example, in my first month on the job I learned that thousands of home care workers who help seniors and people with disabilities stay in their home were not being paid. I called for an immediate audit and found rampant mismanagement of the program at the Department of Public Welfare. What was supposed to be a cost-cutting measure to consolidate payroll providers from 35 to one (1), ended up costing Pennsylvanians about \$7 million more each year.

Our audits are also helping make schools better for students by pointing out when funds are diverted from classroom education. Thanks to the pressure and spotlight from my office, I believe school board members across the state will think twice before they approve spending taxpayer money on anything that doesn't directly benefit the students' education.

Some of our other audits are identifying areas where corporations should pay what they owe to the state, and highlighting the need for prison guards to obtain the training they need to keep themselves and our communities safe.

## 2014-15 BUDGET REQUEST

Although the Department has instituted a number of cost savings and efficiency measures, I am requesting a 2.52 percent increase in the Department's General Government Operation (GGO) appropriation, or \$42.43 million, for the 2014-15 fiscal year.

I realize that across state government we must all continue to improve efficiencies so that we can do more with less. We are doing that. The increase request is necessary to address two significant staffing issues that threaten our ability to ensure the long-term viability of our auditing mission.

Like most state agencies, we have very large pay disparities throughout the Department that have developed over many years. In order to sustain our current staffing levels and avoid further reductions in the future, we concluded that we should target the major salary inequities in the Department at this time. To do so, we are requesting \$178,000 (\$125,000, plus benefits) to correct major salary inequities between mid-level managers and employees they supervise. This funding will be targeted to specific situations, since the amount to fix the entire problem would be approximately \$1.1 million in fiscal year 2014-15 and even more going forward and we understand that this would be an unreasonable request.

In the Department of the Auditor General, much like in other state agencies, years of management salary freezes due to budget constraints have created situations where some employees could be paid as much as 30 percent more than their supervisor. This pay inequity makes it extremely challenging to develop a long-term succession plan because rank and file candidates are unwilling to take management promotions.

Secondly, \$612,000 (including benefits) is needed to add approximately five (5) staff with specialized skills in the State and Federal Audits Bureau to handle the increasing complexities of government operations we audit. Adding Certified Public Accountants in key positions within the Department will also increase our ability to identify areas where the Commonwealth could save money.

## IT FUNDING REQUEST

In addition to a 2.52 percent GGO funding increase, I am requesting \$6.2 million in the IT line item established in the current fiscal year to fund Phase II of the Department's three-year strategic information technology modernization initiative. Our request for \$6.2 million for Phase II will build on the foundation we are laying now to fund the bulk of desperately needed upgrades to our dated technology systems, most of which have far surpassed their normal life cycles.

Prior to 2013, the Department had not made any recent investments in technology to meet the demands of the technology upgrades in comparison with the rest of state government. Since auditing is a very labor intensive process and we have a workforce that is nearly 34 percent smaller than in 2008, we must provide auditors with the technology they need to operate in today's electronic world, in a more efficient and cost-effective way. At the beginning of 2013, the Department's technology was completely inadequate and limited our ability to work efficiently in the modern world and to interact and exchange information with other agencies and auditees.

I want to thank the Legislature for recognizing the Department's need to upgrade our outdated IT systems. You can rest assured that we have put the down payment of \$1.75 million to good use.

With the support of the Office of Administration, we were able to successfully implement the migration of our Human Resources and Finance functions to the more efficient and less expensive SAP system in December 2013. The use of SAP allowed us to eliminate the use of paper leave slips and paper travel expense vouchers—a savings of \$361,000 per year. We also migrated the Department to the SAP training and budget preparation modules. The Department has invested a portion of the initial amount to execute major software upgrades such as the migration from Lotus Notes to Microsoft Exchange. We also performed an IT security assessment and evaluation and implemented critical infrastructure security upgrades based on the thorough assessment.

We have also implemented infrastructure upgrades necessary to sustain Department operations. The Department began the necessary upgrade of critical infrastructure and created a refresh cycle to replace the Department's outdated computers, operating systems, printers, and scanners – ensuring that equipment will be cost-effectively replaced on a routine basis in the future.

By enhancing our basic infrastructure this year, the Department can progress to more advanced technology upgrades in the second and third years of our plan.

Much of the Department's technology infrastructure — servers, routers, switches, back-up power sources, back-up equipment and data back-up methods — are either approaching or have already surpassed their end-of-life dates. Therefore, the components are no longer supported by their manufacturer's warranty or service and replacement parts and patches are difficult and expensive to acquire or simply are unavailable.

The Department needs to implement a completely new audit case management system to provide fully integrated electronic working papers that will enhance efficiency of the audit process and security of sensitive data. We are also planning to implement an electronic document management system to manage all electronic documentation throughout the Department.

Finally, we plan to enhance our data analytics to allow comprehensive complement and budget forecasting, as well as a prioritization process for audit strategy.

Chairman 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.

As I start my second year as the state's chief elected fiscal watchdog, I will continue to fight for increasing government accountability and transparency. I thank you for the opportunity to appear before you today.

###