



**Department
of the
Auditor General
&
Board of Claims
Budget
2020 - 2021**

**Eugene A. DePasquale
Auditor General**

Commonwealth of Pennsylvania



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

February 10, 2020

The Honorable Patrick Browne, Chairman
Senate Appropriations Committee
Senate of Pennsylvania
286 Main Capitol Building
Harrisburg, PA

Dear Chairman Browne:

I thank you and members of the Senate Appropriations Committee for the opportunity to present the Department of the Auditor General's 2020-21 fiscal year budget request. We are doing more with less, and that can be seen in the more than \$1 billion in misspent or recoverable state funds my department has identified since 2013.

Over the past 7 years, I have instituted major cost-saving measures within the Department, but after multiple reductions to our budget and a significant downsizing of our staff, salaries and benefits comprise 97 percent of our budget. Therefore, I am requesting that the department's budget to be funded at \$37.61 million for the next fiscal year, a modest \$1.15 million increase over our current budget. For historical perspective, we are currently operating on a budget at its lowest level in over 20 years.

Even as staff numbers and work volume decline, our audits continue to demonstrate how valuable our work is in making sure tax dollars are effectively spent.

My audit of the Pennsylvania Game Commission took a careful look at how the agency manages its finances. My team found there was an excess of \$6 million in escrow accounts that, until our audit, were unknown to some key commission staff. In addition to recommending the strengthening of its financial oversight, my audit also showed that the commission must do a better job at tracking the millions of dollars it earns from leasing land to gas and oil producers. I believe my recommendations would vastly increase both transparency and accountability within the finances of the commission.

In addition, my audit of the state's workforce development system offered key recommendations that today are cornerstones of Gov. Wolf's Workforce Development Command Center: improve job seekers' work-readiness skills, rebrand jobs in skilled trades and increase communication between state agencies that house workforce development programs and information.

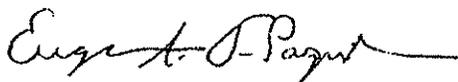
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I have also released two special reports calling for increased oversight of pharmacy benefit managers in Pennsylvania, which offered a multitude of recommendations to stop the siphoning of billions of taxpayer dollars going toward these middlemen between drug manufacturers and pharmacists. My work with key stakeholders on bringing transparency and accountability to drug pricing continues.

I am very proud of the accomplishments of this department. However, we need to have ample resources available to us to continue to identify wasteful spending and inefficient practices while completing the more than 5,200 audits we are required to perform annually.

Thank you for the time to discuss the department's budget. I look forward to working with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

Eugene A. DePasquale
Auditor General

cc: The Honorable Vincent Hughes, Democratic Chair, Senate Appropriations Committee

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**Department of the Auditor General
2020-21 Budget Hearing Report
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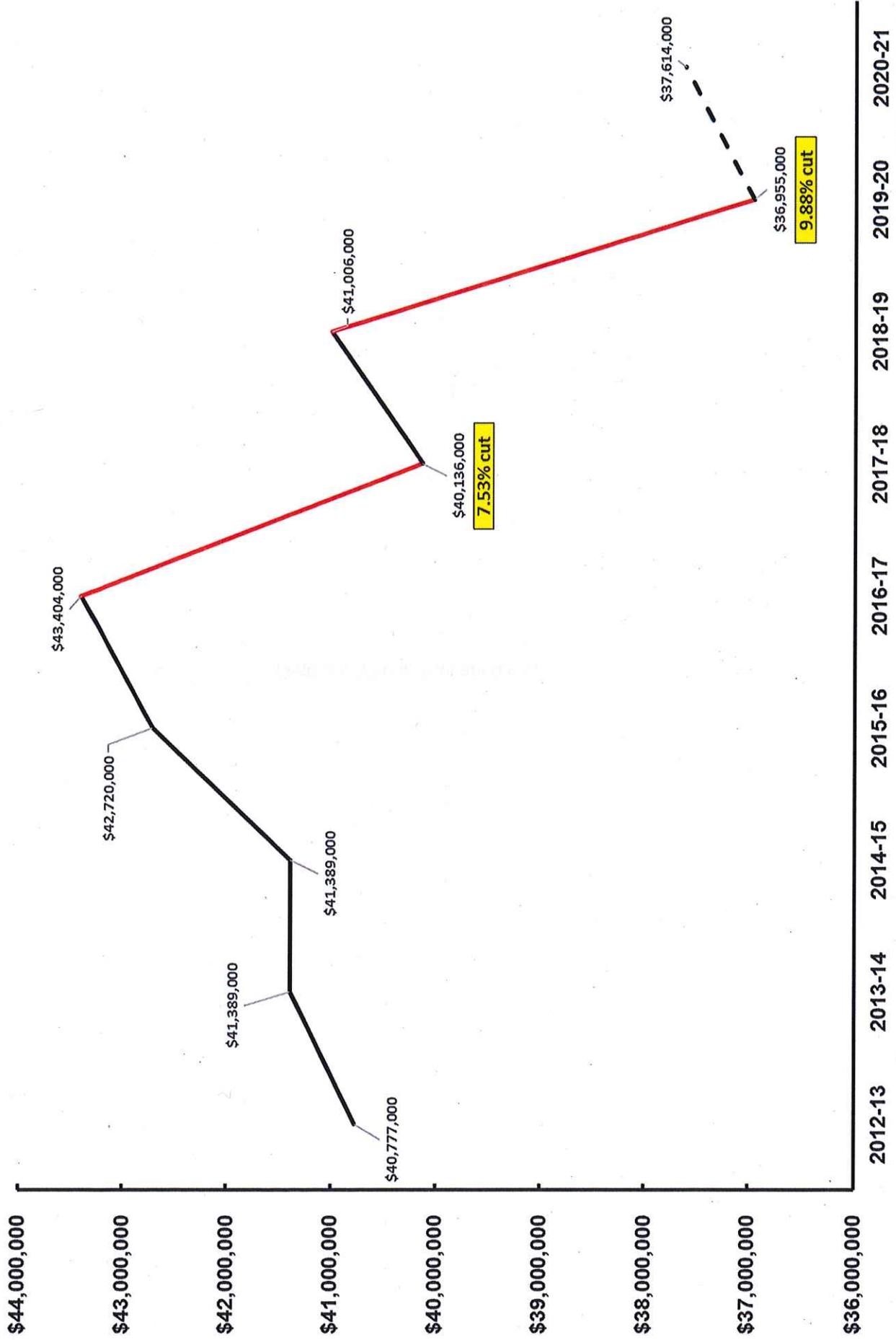
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DEPARTMENT OF THE AUDITOR GENERAL

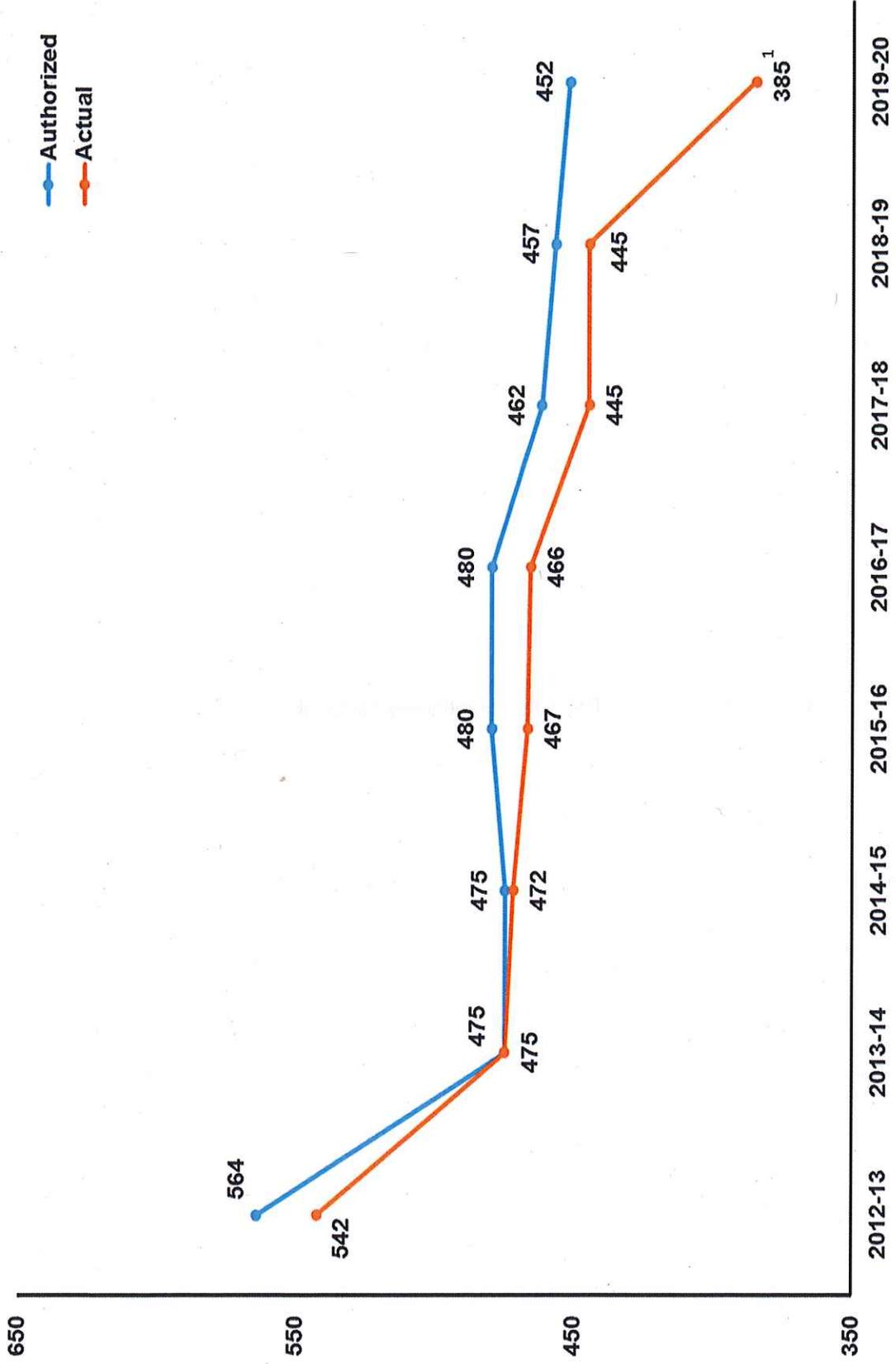
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General Fund Appropriation



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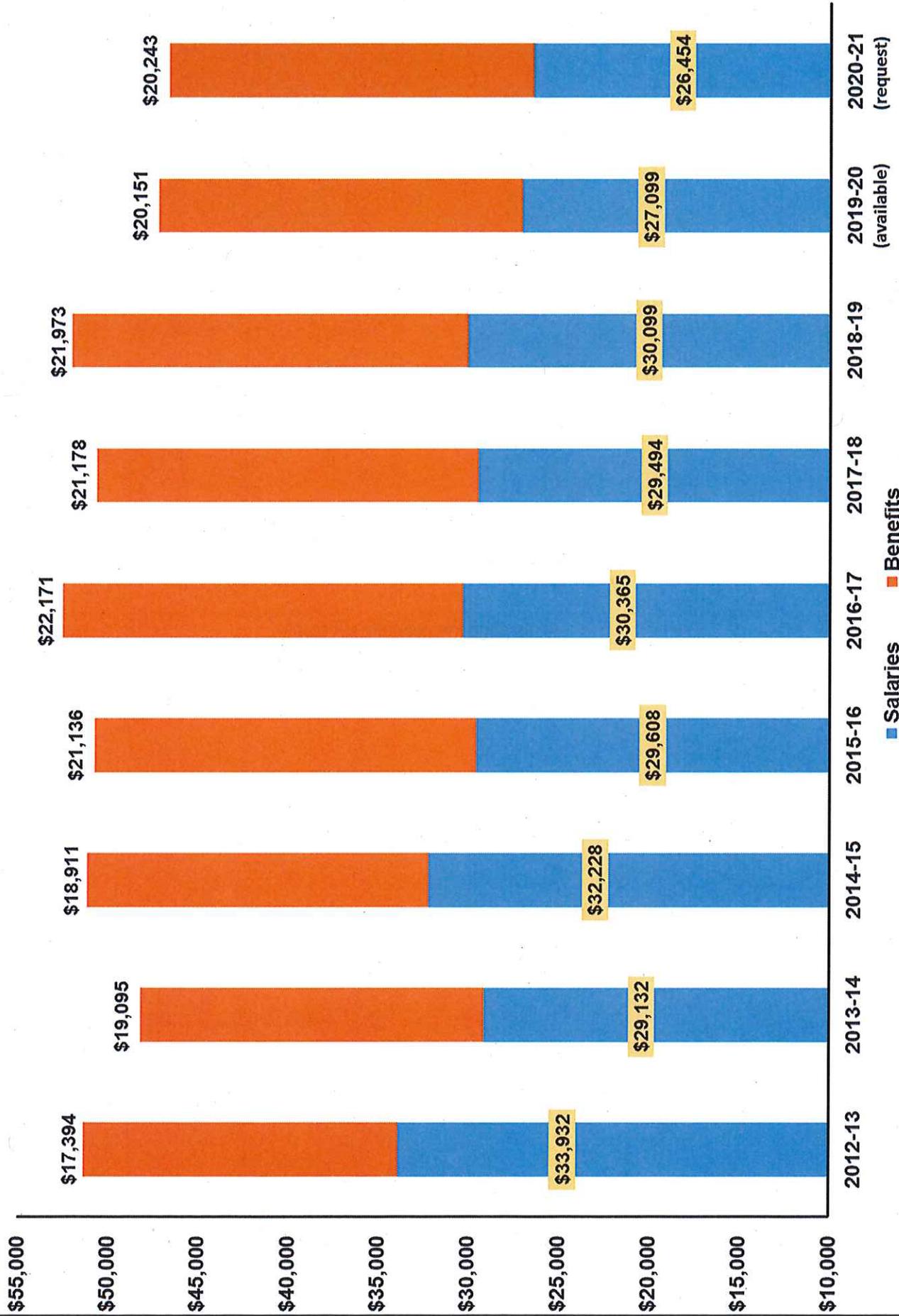
Complement



¹ Actual complement as of February 10, 2020

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Personnel Costs



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DEPARTMENT OF THE AUDITOR GENERAL

Budget Request FY 2020-21

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**DEPARTMENT OF THE AUDITOR GENERAL
2020-21 BUDGET PRESENTATION**

APPROPRIATION NAME General Government Operations: Auditor General's Office

I. SUMMARY FINANCIAL DATA	2018-19	2019-20	2020-21	2020-21
(\$ Amounts in Thousands)	Actual	Available	Budget Proposal	Agency Request
State Funds	\$41,006 *	\$36,955 *	\$37,365	\$37,614
Augmentation Funds	\$12,175	\$11,795	\$10,845	\$10,845
Total:	\$53,181	\$48,750	\$48,210	\$48,459

II. DETAIL BY MAJOR OBJECT	2018-19	2019-20	2020-21	2020-21	\$ Change	
(\$ Amounts in Thousands)	Actual	Available	Budget Proposal	Agency Request	vs. Available	Percent Change
PERSONNEL						
State Funds	\$39,412	\$35,820	\$36,091	\$36,091	\$271	0.76%
Augmentation Funds	\$12,126	\$11,430	\$10,606	\$10,606	-\$824	-7.21%
Total Personnel:	\$51,538	\$47,250	\$46,697	\$46,697	-\$553	-1.17%
OPERATING						
State Funds	\$1,594	\$1,135	\$1,274	\$1,523	\$139	12.25%
Augmentation Funds	\$49	\$365	\$239	\$239	-\$126	-34.52%
Total Operating:	\$1,643	\$1,500	\$1,513	\$1,762	\$13	0.87%
FIXED ASSETS						
State Funds	\$0	\$0	\$0	\$0	\$0	0%
Augmentation Funds	\$0	\$0	\$0	\$0	\$0	0%
Total Fixed Assets:	\$0	\$0	\$0	\$0	\$0	0%
TOTAL FUNDS						
State Funds	\$41,006	\$36,955	\$37,365	\$37,614	\$410	1.11%
Augmentation Funds	\$12,175	\$11,795	\$10,845	\$10,845	-\$950	-8.05%
Total Funds:	\$53,181	\$48,750	\$48,210	\$48,459	-\$540	-1.11%

III. HISTORY OF LAPSES	2017-18	2018-19	2019-20
(\$ Amounts in Thousands)			Estimated
State Funds	\$0	\$0	\$0

IV. COMPLEMENT INFORMATION	2018-19	2019-20	2020-21	2020-21
	Actual	As of 2/10/2020	Budget Proposal	Agency Request
State Funds				
- Authorized	356	354	295	295
- Filled	346	291	295	295
Augmentation Funds				
- Authorized	101	98	95	95
- Filled	99	94	95	95
Total				
- Authorized	457	452	390	390
- Filled	445	385	390	390

V. DERIVATION OF REQUEST/LEGISLATIVE CITATIONS/Disbursement Criteria

(A) Derivation of Request

The Fiscal Year 2020-21 Governor's Executive Budget authorizes 390 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) 2019-20 Obligations to be rolled forward to 2020-21:

The Department does not anticipate having any obligations roll forward to FY 2020-21.

(B) 2019-20 Supplemental appropriation needs:

The Department is not requesting a supplemental appropriation for FY 2019-20.

* Includes \$500,000 in appropriations for Special Financial Audits.

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:

- Financial Audits: Provide an independent assessment of whether an entity's reported financial information are presented fairly and in accordance with recognized criteria.
- Performance Audits: Audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using information to improve program performance and operations, reduce costs and facilitate decision making by parties with responsibility to oversee or initiate corrective actions and contribute to public accountability.
- Attestations: Provide users of financial or nonfinancial information with assurance of the reliability of the related information 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 to 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, Boards and Commissions for the Comprehensive Annual Financial Report (CAFR).
- 317 Federally Funded Programs in 29 state agencies audited as part of the annual Single Audit.
- Corporate tax returns- over 124,000
- 517 Magisterial District Courts
- 435 County Row Offices
- 67 Counties and 2,562 Municipalities receiving \$325 million in Liquid Fuels Funds
- Additional money received by counties from our Liquid Fuel audits:
 - 62 counties receiving \$5 million in Act 44 Funds
 - 62 counties receiving \$10 million in Act 89 Funds
 - 22 counties receiving \$29 million in County Fee for Local Use Funds
- Special State Funds – State Store Fund (PLCB), SWIF, etc.
- 605 Liquor Stores (number changes throughout the year)
- 2,710 Municipal Pension Plans with total value of \$15.7 billion
- 1,877 Volunteer Firefighter's Relief Associations receiving \$59.9 million state aid
- 67 Children & Youth Agencies
- 26 State Correctional Facilities
- 500 School Districts
- 29 Intermediate Units
- 65 Vocational-Technical Schools
- 180 Charter and Cyber Charter Schools (165 charters and 15 cyber-charters)
- 14 State System of Higher Education Universities
- Penn State, Temple, Lincoln, and the University of Pittsburgh
- 6 Veterans Homes
- Treasury INVEST

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 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 2018-19 fiscal year include:

*** Performance audit of PennDOT**

- Our performance audit of the Pennsylvania Department of Transportation (PennDOT) shows the agency could be further along in repairing rough highways and fixing 2,829 structurally deficient bridges if \$4.25 billion had not been transferred from the Motor License Fund to State Police since the 2012-13 fiscal year.

*** Performance audit of the Turnpike Commission**

- Our latest audit of the Pennsylvania Turnpike Commission (PTC) shows the agency is facing a road to ruin if it continues to rely on unfair and unsustainable toll increases to pay off \$11.8 billion in debt. Auditors found that toll rates are expected to triple in under 30 years, which may lead more drivers to avoid the highway and use winding and steep alternate routes instead. Stagnant traffic growth and a reduction in projected traffic on the Turnpike indicate that this is already occurring.

*** Performance audit of the Game Commission**

- Our performance audit of the Pennsylvania Game Commission shows the agency should strengthen its financial oversight and hold gas and oil companies accountable for lease royalty payments.
- The audit questioned the Game Commission's assertion that it cannot factor the Game Fund's balance – more than \$72.8 million as of 2018 – as part of developing its budget or making other financial decisions. Auditors also found an additional \$6.5 million in various escrow accounts, some of which key Commission staff didn't know existed.

*** Two Special Reports on Pharmacy Benefit Managers (PBMs)**

- Two separate special reports shed much-needed light on the practices of Pharmacy Benefit Managers (PBMs) that have a significant impact on the cost of prescription medications.
- The initial report, in December 2018, called for action to reduce Medicaid prescription costs by increasing the transparency of how pharmacy benefit managers do business. The report found that in 2017, Pennsylvania taxpayers paid \$2.86 billion to PBMs for Medicaid enrollees, according to the state Department of Human Services. That marked an increase of 100 percent in just four years, up from \$1.41 billion in 2013. Three major observations were included in the report:
 - Lack of transparency: PBMs operate with little to no transparency and have expanded beyond their original role as third-party claims administrators.
 - Lack of oversight: No federal or state oversight of the contracts that PBMs require community pharmacists to sign means that some PBMs have been presenting take-it-or-leave-it contracts with unduly restrictive clauses.
 - Reimbursement disparity: Independent pharmacists believe that PBMs are not paying fair prices to reimburse pharmacies for all the medications they dispense.
- The second report, in February 2019, focused on how pharmaceutical manufacturers' rebates artificially inflate the prices people pay for prescription drugs. The report notes that rebates can actually drive up the cost of prescription drugs by as much as 30 percent, meaning brand-name medications are likely almost a third more expensive than they need to be. Consumers may not notice because rebates are passed behind-the-scenes between drug manufacturers, pharmacy benefit managers (PBMs) and insurance providers – never reaching consumers' hands, or their wallets. The report includes three recommendations:
 - The Pennsylvania General Assembly should mandate that pharmacy benefit managers receive a flat fee for service for providing administration of each prescription drug claim,

regardless of the drug price, rather than being paid a percentage of the drug price as a rebate.

- Congress should mandate that 100 percent of all rebates should go back to the third-party payer, whether that is a government program such as Medicaid or a private health insurer, and mandate that health insurers pass along the savings to patients.
- Congress should consider revising the Social Security Act after determining whether the rebate percentages required for all medications should be altered or increased because the last mandated increase went into effect 10 years ago, in 2009.

*** Performance Audit on Workforce Development System**

- Our year-long audit of the five agencies that make up the state's Workforce Development System helped to identify current and future needs of employers, educational institutions and employment service programs.
- The report highlights three key areas for improvement to help meet the needs of employers and workers:
 - Enhancing work readiness skills,
 - Rebranding of skilled trades, and
 - Retraining older workers.

*** Special Report on Costs of the Keystone Exams**

- Our special report found that Pennsylvania taxpayers are still spending tens of millions of dollars every year on the Keystone Exams, which have not been federally required for four years.
- Based on the potential annual cost savings of \$1.2 million to \$5 million, the report recommends that Pennsylvania aggressively explore using a nationally recognized test, such as the SAT or ACT, in place of the Keystones.

*** Update on Untested Rape Kit Special Report**

- Following up on our 2016 special report on Pennsylvania's backlog of untested rape kits, Auditor General DePasquale reported in April that significant progress was made in reducing the number of sexual assault evidence kits awaiting forensic testing.
- Pennsylvania has reduced the number of backlogged kits from 3,217 to 339 in three years — a nearly 90 percent reduction.

2020-21 Department Request

For fiscal year 2020-2021, I request \$37.61 million, a 3.18% increase in our General Government Operations (GGO) appropriations to cover personnel and operational costs. Our Department has consistently maintained a strategic multi-year budgeting plan that not only identified over \$3.06 million in internal savings, but allowed us to produce more than 5,000 audit reports each year with valuable findings and recommendations to promote transparency and accountability. That work will continue despite losing nearly 50 employees due to a \$4 million budget cut that reduced the agency's funding to 1996 levels.

This budget requests funds to allow the Department to maintain a complement of 390. Over the past decade (FY08-FY17 actual), the Department has experienced a 37.15 percent reduction in workforce, while the total Commonwealth employees have been reduced by 8.54 percent over the same time period. Following the 10 percent reduction in our 2019-20 budget, the Department made adjustments to our daily operations to continue the high-quality work that residents demand. We continue to reduce our recurring costs through greater efficiency and ensure that these costs can be sustained in our multi-year budget plan.

At the beginning of my administration, we faced a \$3.5 million deficit which led to a major overhaul and reorganization of the Department. We took a hard look at our costs and made strategic decisions in order to balance our budget. We looked ahead to the 2020-2021 fiscal year and made changes that would allow us to sustain operations. As a result of our multi-year budgeting approach, every spending decision is made with the Department's multi-year sustainability in mind.

These cost reductions were approached in a strategic way such that the quality of our work and our high expectations have not been compromised. Since 2013 the Department identified \$1.05 billion in potential state savings through our school, liquid fuels, corporate tax, volunteer firefighter relief association, and special performance audits.

As the chief fiscal watchdog of the Commonwealth, the Department of the Auditor General's mission is to serve the people of Pennsylvania by improving government accountability, transparency, and the effective use of taxpayer dollars. In order to fulfill our mission, we require adequate resources to continue our essential work ensuring that all state money is spent legally and properly.

Be assured, we will continue to lead by example.

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.

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**DEPARTMENT OF THE AUDITOR GENERAL
2020-21 BUDGET PRESENTATION**

APPROPRIATION NAME
General Government Operations:
Board of Claims

I. SUMMARY FINANCIAL DATA (\$ Amounts in Thousands)	2018-19 Actual	2019-20 Available	2020-21 Budget Proposal	2020-21 Agency Request
State Funds	\$1,899	\$1,910	\$1,910	\$1,910
Augmentation Funds	\$0	\$0	\$0	\$0
Total:	\$1,899	\$1,910	\$1,910	\$1,910

II. DETAIL BY MAJOR OBJECT (\$ Amounts in Thousands)	2018-19 Actual	2019-20 Available	2020-21 Budget Proposal	2020-21 Agency Request	\$ Change Budget vs. Available	Percent Change
PERSONNEL						
State Funds	\$1,522	\$1,440	\$1,535	\$1,535	\$95	6.60%
Augmentation Funds	\$0	\$0	\$0	\$0	\$0	0.00%
Total Personnel:	\$1,522	\$1,440	\$1,535	\$1,535	\$95	6.60%
OPERATING						
State Funds	\$377	\$470	\$375	\$375	-\$95	-20.21%
Augmentation Funds	\$0	\$0	\$0	\$0	\$0	0.00%
Total Operating:	\$377	\$470	\$375	\$375	-\$95	-20.21%
FIXED ASSETS						
State Funds	\$0	\$0	\$0	\$0	\$0	0.00%
Augmentation Funds	\$0	\$0	\$0	\$0	\$0	0.00%
Total Fixed Assets:	\$0	\$0	\$0	\$0	\$0	0.00%
TOTAL FUNDS						
State Funds	\$1,899	\$1,910	\$1,910	\$1,910	\$0	0.00%
Augmentation Funds	\$0	\$0	\$0	\$0	\$0	0.00%
Total Funds:	\$1,899	\$1,910	\$1,910	\$1,910	\$0	0.00%

III. HISTORY OF LAPSES (\$ Amounts in Thousands)	2017-18	2017-18	2019-2020 Estimated
State Funds	\$0	\$0	\$0

IV. COMPLEMENT INFORMATION	2018-19 Actual	2019-20 As of 2/10/2020	2020-21 Budget Proposal	2020-21 Agency Request
State Funds				
- Authorized	11	10	10	10
- Filled	10	10	10	10
Augmentation Funds				
- Authorized	0	0	0	0
- Filled	0	0	0	0
Total				
- Authorized	11	10	10	10
- Filled	10	10	10	10

V. DERIVATION OF REQUEST/LEGISLATIVE CITATIONS/Disbursement Criteria

(A) Derivation of Request

The Fiscal Year 2020-21 Governor's Executive Budget authorizes 10 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) 2019-20 Obligations to be rolled forward to 2020-21:

The Board does not anticipate having any obligations roll forward to FY 2020-21.

(B) 2019-20 Supplemental appropriation needs:

The Board is not requesting a supplemental appropriation for FY 2019-20.

The Board of Claims

Program Statement

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 2018-2019	ESTIMATED 2019-2020	PROJECTED 2020-2021
New Claims Filed	11	20	20
Total Amount of New Claims Filed	*\$4,625,599	*\$10,000,000	*\$10,000,000
Claims disposed of	36	25	25
Claims Pending as of June 30	72	67	62
Amount of Claims Pending as of June 30	\$40,415,448	*\$150,000,000	*\$150,000,000

* 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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