

Department of Planning and Budget 2005 Fiscal Impact Statement

1. Bill Number SB1125

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron Obenshain

3. Committee Finance

4. Title Higher education; annual audits.

5. Summary/Purpose:

Removes responsibility for annual audits of institutions of higher education from the Auditor of Public Accounts and directs the respective governing boards to retain licensed independent certified public accountants for these audits.

6. Fiscal Impact Estimates are: Preliminary. See Item 8.

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2004-05			
2005-06	\$4,100,000		Combination
2006-07	\$4,100,000		Combination
2007-08	\$4,100,000		Combination
2008-09	\$4,100,000		Combination
2009-10	\$4,100,000		Combination
2010-11	\$4,100,000		Combination

7. Budget amendment necessary: Yes. Items in 17 institutions of higher education, and the Auditor of Public Accounts (Item 1-2).

8. Fiscal implications: This bill would significantly increase costs to higher education institutions, while reducing costs to the Auditor of Public Accounts (APA) by a lesser amount. Currently, the APA performs annual audits for institutions of higher education. If the institutions were to contract with private CPAs, they would have to pay market rates for audit services. University of Virginia finance personnel estimate that this would cost them between \$200,000 to \$500,000 on an annual basis. Additionally, there would be a steep learning curve to educate private CPA firms about the critical state rules and regulations as well as the environment of higher education. The estimated fiscal impact, based on an estimated average cost of \$250,000 for each four-year institution and \$100,000 for each two-year institution, is \$6,150,000. Costs would likely be borne by a combination of general fund dollars, tuition and fees and other nongeneral funds. The APA does not have estimates of the resulting savings to the agency. For purposes of a preliminary approximation, these savings are estimated at one-third of the private costs (\$2,050,000). This is due to lower salary and

other costs (including the absence of a profit requirement) in the APA compared to private firms, and the APA's ability to complete the audits more efficiently because of the auditors' familiarity with state government and public higher education. The difference between estimated new costs and estimated savings results in a net cost of \$4.1 million annually.

9. Specific agency or political subdivisions affected: Seventeen institutions of public education, Auditor of Public Accounts.

10. Technical amendment necessary: Yes. The Auditor of Public Accounts reports that the dates included in the proposed legislation do not allow sufficient time for completion and reporting of annual audits.

11. Other comments: None.

Date: 01/26/05 / jeh

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cc: Secretary of Education