

**State Fiscal Accountability Authority
Office of the State Auditor**



Fiscal Year 2023-2024

**Budget Briefing
House Ways & Means
Constitutional Subcommittee**

January 17, 2023

Office of the State Auditor

2024 Budget Request

The Office of the State Auditor is asking for the following support for FY2024:

General Funds Increase to Address Market Salary Adjustments and Support for Future Employee Salaries \$415,000

Funding will be used to provide compensation and employer contribution adjustments which will help maintain competitiveness with the current market. OSA received additional funding for FY23 to adjust compensation. This increase has helped us experience some success in recruiting for open positions, however, our pool of qualified applicants remains small. Retention has improved but continues to be an issue as experienced employees are leaving for higher compensation. We believe we are not experiencing better results because the data we used to determine compensation adjustments for 2023 was based on salary studies from 2019 and 2020. Since late 2020 the accounting and auditing profession has experienced pressure to increase salaries. This pressure has been fueled by several factors:

1. The number of accounting graduates choosing auditing as a profession has steadily decreased in recent years as accounting graduates are attracted to related professions which do not require certification or long hours typically associated with public accounting. The five largest international public accounting firms all missed their entry-level recruiting goals in 2021 and they and other private sector employees are steadily increasing entry-level salaries in an attempt to address the issue. Adjustments to entry-level salaries have also pushed salaries upward for more experienced employees to maintain compensation equity.
2. The Great Resignation has created an environment of experienced accountants and auditors being lured away from their current employers by substantial pay increases which are often coupled with promises of fully or partially remote work opportunities and/or better work life balance. Others are retiring earlier than expected and some have even entered a second career.
3. The Consumer Price Index (all items), at 8.3% for August 2022, has pressured employers in the private sector to provide substantial and more frequent raises to keep pace. Economists generally predict the trend of higher costs to continue for some time.

With the requested funding, we will increase compensation by 7.5% for all auditors and 5% for non-auditors. Our goals are to:

- Retain current employees
- Stay competitive when hiring for positions that require experience
- Generate more interest in open positions resulting in a larger pool of applicants for consideration
- Be more competitive in recruiting candidates with a Master of Accountancy degree

During the calendar year 2022, we refined our compensation methodology by establishing agency specific compensation ranges by experience level and have placed individuals' compensation within the range based on experience, certification, responsibilities, and other criteria. By increasing the compensation of all auditors by 7.5% and all non-auditors by 5%, compensation will be re-aligned with the current market while preserving the relative placement of individuals within the range.

Compensation adjustments to recognize changes in experience, certification, or other criteria, as well as adjustments due to promotion, will continue to be funded from OSA's currently existing budget.

If funding is not received, the impact on hiring and maintaining current staff will be great. Then agency will continue to lose experienced staff that are not easily replaced and we would not be able to increase our applicant pool and compete for new, experienced, or Certified candidates in the current market.

There are no new FTEs requested. There are no Proviso requests.

FY 23-24 Budget Priorities Summary

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR

Budget Priorities		Funding						FTEs				
Priority No.	Priority Type (recurring / non-recurring / other funds adjustment / federal funds adjustment)	Priority Title	Priority Description	Recurring	Non - Recurring	Other	Federal	Total	State	Other	Federal	Total
1	Recurring	General Funds Increase to Address Market Salary Adjustments and Support for Future Employee Salaries	<p>The Office of the State Auditor (OSA) is requesting \$415,000 in Recurring Funds through the budget process to continue to strengthen our ability to retain and recruit employees. Funding will be used to provide compensation and employer contribution adjustments which will help maintain competitiveness with the current market. As outlined in the Agency Accountability Report the specific strategy that would be supported by this funding is to develop and maintain a professional, high performing, and engaged workforce. We continue to have two specific strategies that support this funding request: 1) To create an environment that is recognized as a workplace of choice and 2) to manage the agency's workforce effectively despite the hiring environment. Our primary objectives are to:</p> <ol style="list-style-type: none"> 1. Retain experienced staff 2. Position the agency so that we can successfully compete for experienced talent and increase our applicant pool 3. Increase the number of Certified employees 4. To hire candidates that have a Masters of Accountancy degree 	415,000	0	0	0	415,000	0	0	0	415,000

105.6	NA	Audited Financial Statements	The Office of the State Auditor is directed to work with the State Fiscal Accountability Authority to issue a statewide contract for Fiscal Year 2021-22 for the performance of audited financial statements which municipalities could use for audits required by Section 5-7-240 of the 1976 Code. The State Auditor is directed to convene a working group of stakeholders to develop appropriate auditing requirements for municipalities and to make recommendations for the General Assembly's consideration.	DELETE
105.7	105.6	Internal Audit Services Offered by the Office of the State Auditor	The Office of the State Auditor is authorized to offer internal audit services to state agencies under a cost reimbursement, shared services model. Any state agency that does not have an internal audit function may opt to use the services to conduct such audit. The audit plan will provide will be agreed upon between the two parties and cost will be determined by nature, timing, and extent of the audit work.	KEEP

State Fiscal Accountability Authority

**State Auditor
George Kennedy,
CPA**

**Deputy State
Auditor
Vacant**

**Director
State Agency
Sue Moss, CPA**

**Director
Medicaid
Charles Gambrell, CPA**

**Director - Internal
Audit Services
Mark LaBruyere,
CPA, CIA**

**Director
Administration
Cindy Hoogenboom**

**Director
QA & Training
Dwayne Eanes, CPA**

**Audit Managers
Jennifer Curran, CPA
Victoria Funk, CPA
Brian Wilson, CPA**

**Audit Managers
Elizabeth Pacheco, CPA
Rick Ziegler, CPA
Larry Warrington, CPA
Adam Cartee, CPA**

**Audit Managers
Todd Wilkins, CISA
Kiamasha Caughman,
CPA**

**Administration
Staff**

Audit Supervisors

Audit Supervisors

Auditors

Audit Seniors

Audit Seniors

Auditors

Auditors



Accountability Report Summary Purpose, Organization and Major Responsibilities

The Office of the State Auditor (OSA) serves as the independent audit function for the State of South Carolina. The OSA is organized into three service delivery divisions: State Agency, Medicaid and Internal Audit Services, and is supported by an Administration division.

State Agency Division - Composed of approximately 13 permanently assigned audit professionals, this division has 4 core responsibilities:

1. Annual audit of the State's Annual Comprehensive Financial Report (ACFR) as prepared by the Office of the Comptroller General.
2. Annual audit of the Schedule of Expenditures of Federal Awards (Single Audit).
3. Attestation engagements of each state agency not separately audited, which are focused on internal controls.
4. Attestation engagements of county and municipal treasurers, county clerks of court, magistrates, and municipal clerks of court to ensure that the imposition, collection, and remittance of court fines, fees, and assessments are in accordance with applicable state laws.

Medicaid Division - Composed of approximately 13 permanently assigned audit professionals, this division performs attestation engagements of financial and statistical reports filed by providers of Medicaid services, primarily nursing facilities. These engagements, performed under contract with the South Carolina Department of Health and Human Services (DHHS), determine if the reimbursement rate based on costs claimed for reimbursement by the provider are free from material misstatements based on South Carolina's State Plan for Medical Assistance, the applicable contract between DHHS and the Medicaid provider and all applicable state and federal laws and regulations. The contract agreement with DHHS requires that an engagement be performed on each provider facility at least once every 4 consecutive cost reporting periods.

Internal Audit Services Division – Composed of approximately 7 audit professionals, this division focuses on providing services to the South Carolina Department of Transportation (SCDOT) and performs independent and objective assurance and consulting activities designed to add value or improve SCDOT's operations. The division assists in accomplishing strategic objectives and mission by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Administration Division – Composed of approximately 6 administrative professionals who provide accounting, budgeting, human resource, purchasing, technology, word processing and other administrative support for the agency.

In addition to the permanently assigned staff in the State and Medicaid divisions, 18 staff float between divisions to provide teams with flexibility to scale team size to fit the needs of the engagement. Three positions are agency-wide resources not assigned to a division.

Assuring Value for Those We Serve

- Attempt to seek feedback from stakeholders on how we can better add value to the work we perform. Where practical and in line with our mission, we make adjustments to respond.
- Through planning meetings with agency staff, continue to encourage them to use OSA as a resource to help them address agency risk.
- Continue to realize value in Medicaid audit services provided to DHHS. Over the last 5 fiscal years, our Medicaid Division has identified amounts for recovery equal to nearly 3 times the cost of the attest services provided.
- Recognizing that the historic nature of our agreed-upon procedures engagements does not allow agency management to timely react to findings, we are making a shift to focus on performing some procedures on periods other than a completed state fiscal year, to allow the ability to test controls on a more current basis.
- Continue to build a trusted advisor role between our internal audit team and SCDOT leadership.
- Received legislative approval to offer internal audit services to State agencies on a shared service, cost reimbursement basis. We will begin marketing this service in early fiscal year 2023 with a focus on smaller agencies that cannot support a full-time internal audit function.
- Received legislative approval to collect a portion of the cost of the statewide single audit from the agencies involved in the audit. These funds will be used for technology, training, and retention efforts.
- Completed and issued the Special Study of Long Term Debt as directed by Proviso 105.5, working closely with the staff of 26 higher education institutions to obtain and report complete and accurate data.
- As directed by Proviso 105.6, organized a committee to study financial reporting requirements of municipalities and make recommendations to the legislature for changes to requirements.
- At the direction of the State Fiscal Accountability Authority (SFAA), created templates for the collection of information required by Proviso 117.21 to provide both transparency to and consistency in the information collected by agencies on earmark funds. Templates were created and distributed to approximately 23 agencies within 8 days after the request was made to provide agencies ample time to collect the information ahead of the statutory deadline.
- Earned a rating of “pass” (most desirable rating) in the external peer review performed by the National State Auditors Association (NSAA) on our state agency engagements. The rating indicated that the state agency division is adhering to professional standards and maintains a robust system of quality assurance. The review is conducted every 3 years by a team composed of auditors from other state audit organizations.
- Earned a rating of “generally conforms” (most desirable rating) in the external peer review performed by the American Association of Highway and Transportation Officials (AASHTO) on our internal audit engagements for SCDOT. The rating indicates that our internal audit division is adhering to professional standards and maintains a robust system of quality assurance. The review is conducted every 5 years by a team composed of internal auditors from other state transportation agencies.

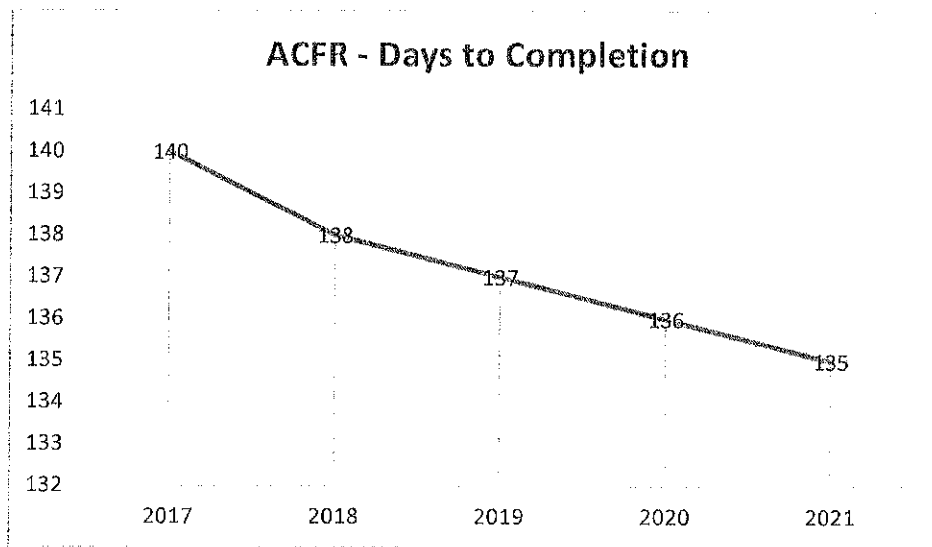
Developing and Managing A Professional Workforce

Performance Comparison to Prior Years

Audit of the State's CAFR

The State's ACFR for the fiscal year 2021 was issued 135 days after fiscal year-end, meeting the goal issue date agreed to with the Office of the Comptroller General and making it one of the earliest state issuances in the nation. As illustrated in Figure 1, planning, efficiencies and closer coordination with the Comptroller General's staff have led to the report being issued at least one day earlier for each of the last 5 years. The goal for the fiscal year 2022 is to complete the ACFR audit within 133 days of fiscal year-end.

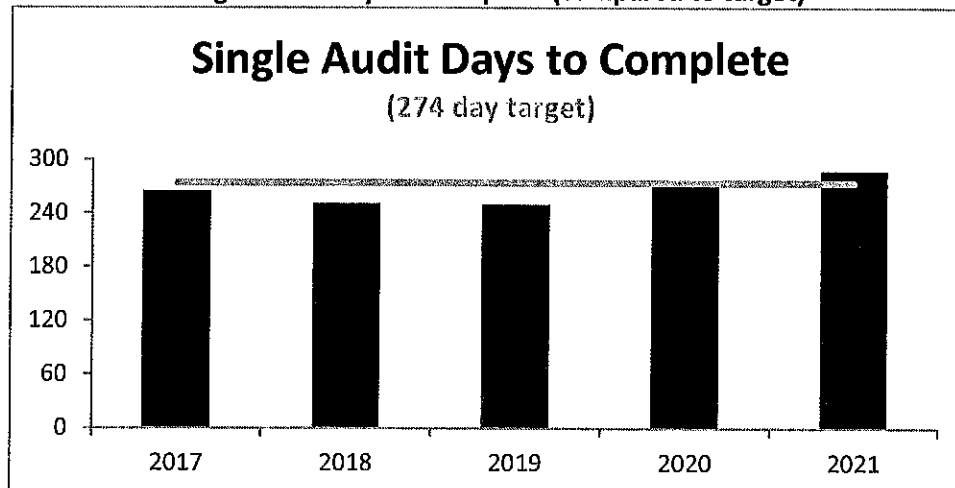
Figure 1
ACFR Days to Complete (compared to target)



Audit of Expenditures of Federal Awards (Single Audit)

The Single Audit for the fiscal year 2021 was completed in 288 days, falling short of the 274-day (March 31) internal goal for issuance. The size of this engagement has grown by nearly 40% due to pandemic-related federal stimulus programs, making it challenging to complete by the target date. OSA pushes to complete this report within 274 days to minimize the impact on work already scheduled for the remainder of the year.

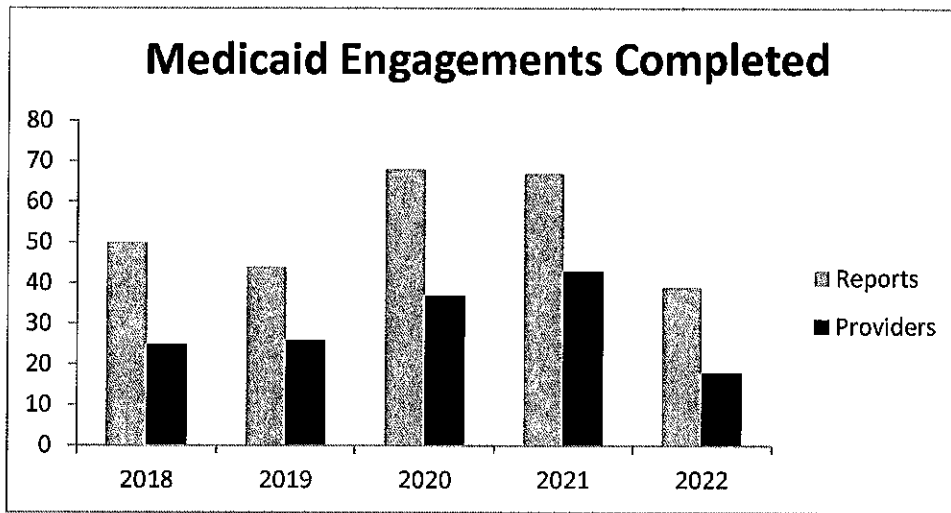
Figure 2
Single Audit Days to Complete (compared to target)



Medicaid Engagements Completed

For the fiscal year 2022, reports for 39 Medicaid engagements were issued, covering 18 healthcare providers. Our contract with the DHHS requires that an engagement be conducted for each nursing home provider at least once every four consecutive reporting periods. Report issuance numbers can vary greatly between fiscal years due in large part to work related to large chain operations and length of engagements.

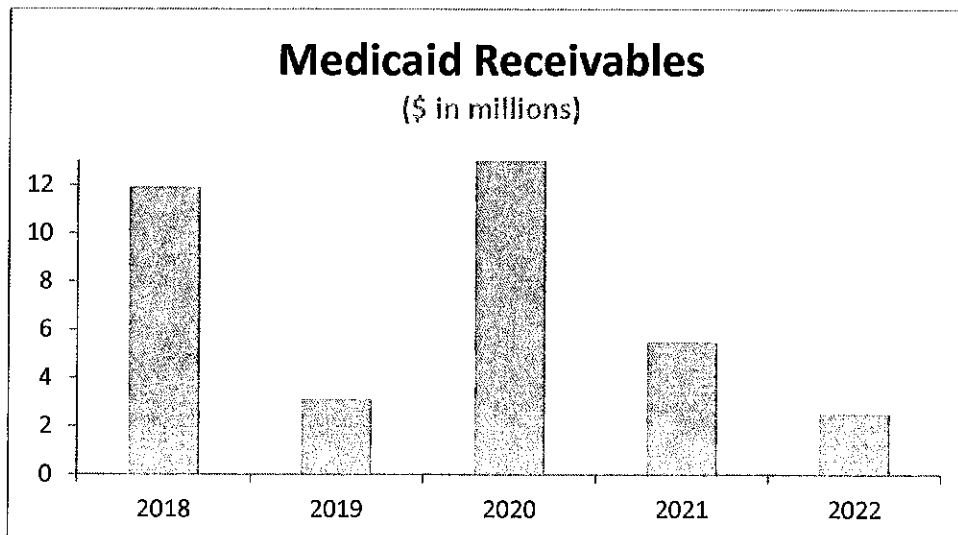
Figure 5
Medicaid Engagements Completed



Medicaid Receivables Established

For the fiscal year 2022, Medicaid receivables of \$2.5 million to date have been established by DHHS, based on findings in reports we issued. As illustrated in Figure 6, Medicaid receivables can vary significantly from one year to the next. These receivables are not predictive and have no direct correlation to the number of reports issued. The degree of provider compliance with program rules and regulations when reporting cost claimed for reimbursement will always be the determining factor in the amounts established.

Figure 6
Medicaid Receivables Established (\$ in 000)



**SFAA - State Auditor
FTE Positions**

	General Fund	Other Fund	Total
Filled	42	13	55
Vacant	4	1	5
	46	14	60

As of 1.10.23

105.1. (SFAA-AUD: Annual Audit of Federal Programs) KEEP

Each state agency receiving federal funds subject to the audit requirements of the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (C.F.R) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) shall remit to the State Auditor an amount representing an equitable portion of conducting the audit of the State's Federal Financial Assistance. Each state agency's equitable portion of the expense will be determined by a schedule developed by the State Auditor. Such remittance will be based upon invoices provided by the State Auditor. The State Auditor shall retain and expend the funds received and shall carry forward any unexpended funds from the prior fiscal year into the current fiscal year for the same purpose.

105.2. (SFAA-AUD: Medical Assistance Audit Carry Forward) KEEP

The State Auditor's Office shall retain and expend the funds received from the Department of Health and Human Services for the Medical Assistance Audit Program pursuant to Proviso 33.3 of this act and shall carry forward any unexpended funds from the prior fiscal year into the current fiscal year for the same purpose.

105.3. (SFAA-AUD: Coordination with Inspector General) KEEP

In the event the State Auditor's Office identifies instances of fraud, waste, and abuse during any state agency audit, the State Auditor shall refer such instances to the State Inspector General for examination. The State Auditor shall prepare and submit an annual report to the Chairmen of the House Ways and Means Committee and the Senate Finance Committee and the Governor detailing all written referrals of fraud, waste, and abuse submitted to the State Inspector General.

105.4. (SFAA-AUD: Annual Audit of Court Fees and Fines Reports) KEEP

The State Auditor shall conduct a minimum of fifteen audits annually of county treasurers, municipal treasurers, county clerks of court, magistrates and/or municipal courts as required by Section 14-1-210 of the 1976 Code and allowed by Section 14-1-240; however, the State Auditor shall not be required to spend more than the annual amount of \$250,000, received from the State Treasurer to conduct the said audits pursuant to Section 14-1-210 of the 1976 Code. The State Auditor may contract with one or more CPA/accounting firms to conduct the required audits. The State Auditor shall consult with the State Treasurer to determine the jurisdictions to be audited in the current fiscal year. Jurisdictions may be selected randomly or based on an instance in the current or previous fiscal year of failing to report, incorrectly reporting or under remitting amounts owed. The funds transferred to the State Auditor by the State Treasurer shall not be used for any purpose other than to conduct the described audits and report whether or not the assessments, surcharges, fees, fines, forfeitures, escheatments, or other monetary penalties imposed and/or mandated are properly collected and remitted to the State. Any unexpended balance on June thirtieth of the prior fiscal year shall be carried forward and must be expended for the same purpose during the current fiscal year. The State Auditor shall annually report by October first, its findings of the jurisdictions audited to the Senate Finance Committee and the House Ways and Means Committee.

105.6. (SFAA-AUD: Audited Financial Statements) DELETE

The Office of the State Auditor is directed to work with the State Fiscal Accountability Authority to issue a statewide contract for Fiscal Year 2021-22 for the performance of audited financial statements which municipalities could use for audits required by Section 5-7-240 of the 1976 Code. The State Auditor is directed to convene a working group of stakeholders to develop appropriate auditing requirements for municipalities and to make recommendations for the General Assembly's consideration.

105.7 (SFAA-AUD: Internal Audit Services Offered by the Office of the State Auditor) KEEP

The Office of the State Auditor is authorized to offer internal audit services to state agencies under a cost reimbursement, shared services model. Any state agency that does not have an internal audit function may opt to use the services to conduct such audit. The audit plan will provide will be agreed upon between the two parties and cost will be determined by nature, timing, and extent of the audit work.

105.1. (SFAA-AUD: Annual Audit of Federal Programs) KEEP

Each state agency receiving federal funds subject to the audit requirements of the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (C.F.R) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) shall remit to the State Auditor an amount representing an equitable portion of conducting the audit of the State's Federal Financial Assistance. Each state agency's equitable portion of the expense will be determined by a schedule developed by the State Auditor. Such remittance will be based upon invoices provided by the State Auditor. The State Auditor shall retain and expend the funds received and shall carry forward any unexpended funds from the prior fiscal year into the current fiscal year for the same purpose.

105.2. (SFAA-AUD: Medical Assistance Audit Carry Forward) KEEP

The State Auditor's Office shall retain and expend the funds received from the Department of Health and Human Services for the Medical Assistance Audit Program pursuant to Proviso 33.3 of this act and shall carry forward any unexpended funds from the prior fiscal year into the current fiscal year for the same purpose.

105.3. (SFAA-AUD: Coordination with Inspector General) KEEP

In the event the State Auditor's Office identifies instances of fraud, waste, and abuse during any state agency audit, the State Auditor shall refer such instances to the State Inspector General for examination. The State Auditor shall prepare and submit an annual report to the Chairmen of the House Ways and Means Committee and the Senate Finance Committee and the Governor detailing all written referrals of fraud, waste, and abuse submitted to the State Inspector General.

105.4. (SFAA-AUD: Annual Audit of Court Fees and Fines Reports) KEEP

The State Auditor shall conduct a minimum of fifteen audits annually of county treasurers, municipal treasurers, county clerks of court, magistrates and/or municipal courts as required by Section 14-1-210 of the 1976 Code and allowed by Section 14-1-240; however, the State Auditor shall not be required to spend more than the annual amount of \$250,000, received from the State Treasurer to conduct the said audits pursuant to Section 14-1-210 of the 1976 Code. The State Auditor may contract with one or more CPA/accounting firms to conduct the required audits. The State Auditor shall consult with the State Treasurer to determine the jurisdictions to be audited in the current fiscal year. Jurisdictions may be selected randomly or based on an instance in the current or previous fiscal year of failing to report, incorrectly reporting or under remitting amounts owed. The funds transferred to the State Auditor by the State Treasurer shall not be used for any purpose other than to conduct the described audits and report whether or not the assessments, surcharges, fees, fines, forfeitures, escheatments, or other monetary penalties imposed and/or mandated are properly collected and remitted to the State. Any unexpended balance on June thirtieth of the prior fiscal year shall be carried forward and must be expended for the same purpose during the current fiscal year. The State Auditor shall annually report by October first, its findings of the jurisdictions audited to the Senate Finance Committee and the House Ways and Means Committee.

105.6. (SFAA-AUD: Audited Financial Statements) DELETE

The Office of the State Auditor is directed to work with the State Fiscal Accountability Authority to issue a statewide contract for Fiscal Year 2021-22 for the performance of audited financial statements which municipalities could use for audits required by Section 5-7-240 of the 1976 Code. The State Auditor is directed to convene a working group of stakeholders to develop appropriate auditing requirements for municipalities and to make recommendations for the General Assembly's consideration.

105.7 (SFAA-AUD: Internal Audit Services Offered by the Office of the State Auditor) KEEP

The Office of the State Auditor is authorized to offer internal audit services to state agencies under a cost reimbursement, shared services model. Any state agency that does not have an internal audit function may opt to use the services to conduct such audit. The audit plan will provide will be agreed upon between the two parties and cost will be determined by nature, timing, and extent of the audit work.

Constitutional Subcommittee Proviso Request Summary FY 2023-24

Proviso # in FY 22-23 Act	Renumbered FY 23-24 Proviso #	Proviso Title	Short Summary	Agency Recommended Action (keep, change, delete, add)
105.1	NA	SFAA-AUD: Annual Audit of Federal Programs	<p>Each state agency receiving federal funds subject to the audit requirements of the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (C.F.R) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) shall remit to the State Auditor an amount representing an equitable portion of conducting the audit of the State's Federal Financial Assistance. Each state agency's equitable portion of the expense will be determined by a schedule developed by the State Auditor. Such remittance will be based upon invoices provided by the State Auditor. The State Auditor shall retain and expend the funds received and shall carry forward any unexpended funds from the prior fiscal year into the current fiscal year for the same purpose.</p>	KEEP
105.2	NA	Medical Assistance Audit Carry Forward	<p>The State Auditor's Office shall retain and expend the funds received from the Department of Health and Human Services for the Medical Assistance Audit Program pursuant to Proviso 33.3 of this act and shall carry forward any unexpended funds from the prior fiscal year into the current fiscal year for the same purpose.</p>	KEEP
105.3	NA	Coordination with Inspector General	<p>In the event the State Auditor's Office identifies instances of fraud, waste, and abuse during any state agency audit, the State Auditor shall refer such instances to the State Inspector General for examination. The State Auditor shall prepare and submit an annual report to the Chairmen of the House Ways and Means Committee and the Senate Finance Committee and the Governor detailing all written referrals of fraud, waste, and abuse submitted to the State Inspector General.</p>	KEEP

105.7	105.6	Internal Audit Services Offered by the Office of the State Auditor	<p>The Office of the State Auditor is authorized to offer internal audit services to state agencies under a cost reimbursement, shared services model. Any state agency that does not have an internal audit function may opt to use the services to conduct such audit. The audit plan will provide will be agreed upon between the two parties and cost will be determined by nature, timing, and extent of the audit work.</p>	KEEP AND RENUMBER
-------	-------	---	---	--------------------------