

Agency Name: SFAA - State Auditor's Office
 Agency Code: F270 Section: 105



**Fiscal Year FY 2022-2023
 Agency Budget Plan**

FORM A - BUDGET PLAN SUMMARY

**OPERATING
 REQUESTS
 (FORM B1)**

| | |
|--|---|
| For FY 2022-2023, my agency is (mark "X"): | |
| <input checked="" type="checkbox"/> | Requesting General Fund Appropriations. |
| <input type="checkbox"/> | Requesting Federal/Other Authorization. |
| <input type="checkbox"/> | Not requesting any changes. |

**NON-RECURRING
 REQUESTS
 (FORM B2)**

| | |
|--|---|
| For FY 2022-2023, my agency is (mark "X"): | |
| <input type="checkbox"/> | Requesting Non-Recurring Appropriations. |
| <input type="checkbox"/> | Requesting Non-Recurring Federal/Other Authorization. |
| <input checked="" type="checkbox"/> | Not requesting any changes. |

**CAPITAL
 REQUESTS
 (FORM C)**

| | |
|--|--|
| For FY 2022-2023, my agency is (mark "X"): | |
| <input type="checkbox"/> | Requesting funding for Capital Projects. |
| <input checked="" type="checkbox"/> | Not requesting any changes. |

**PROVISOS
 (FORM D)**

| | |
|--|---|
| For FY 2022-2023, my agency is (mark "X"): | |
| <input checked="" type="checkbox"/> | Requesting a new proviso and/or substantive changes to existing provisos. |
| <input type="checkbox"/> | Only requesting technical proviso changes (such as date references). |
| <input type="checkbox"/> | Not requesting any proviso changes. |

Please identify your agency's preferred contacts for this year's budget process.

**PRIMARY
 CONTACT:
 SECONDARY
 CONTACT:**

| <i>Name</i> | <i>Phone</i> | <i>Email</i> |
|------------------------|----------------|------------------------|
| George L. Kennedy, III | (803) 832-8929 | gkennedy@osa.sc.gov |
| Cindy Hoogenboom | (803) 832-8294 | choogenboom@osa.sc.gov |

I have reviewed and approved the enclosed FY 2022-2023 Agency Budget Plan, which is complete and accurate to the extent of my knowledge.

**SIGN/DATE:
 TYPE/PRINT
 NAME:**

| <i>Agency Director</i> | <i>Board or Commission Chair</i> |
|-------------------------------|----------------------------------|
| <i>George L. Kennedy, III</i> | |
| George L. Kennedy, III | |

This form must be signed by the agency head – not a delegate.

| | |
|--------------|-------------------------------|
| Agency Name: | SFAA - State Auditor's Office |
| Agency Code: | F270 |
| Section: | 105 |

| BUDGET REQUESTS | | | FUNDING | | | | | FTES | | | | |
|-----------------|----------------|--|---------|---------|-----------|------------|---------|-------|---------|-----------|------------|-------|
| Priority | Request Type | Request Title | State | Federal | Earmarked | Restricted | Total | State | Federal | Earmarked | Restricted | Total |
| 1 | B1 - Recurring | General Funds Increase to Support Market Salary Adjustments for Current Employees, Retention Issues, and Future Recruiting | 630,000 | 0 | 0 | 0 | 630,000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| TOTALS | | | 630,000 | 0 | 0 | 0 | 630,000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| | | | |
|--------------|-------------------------------|----------|-----|
| Agency Name: | SFAA - State Auditor's Office | | |
| Agency Code: | F270 | Section: | 105 |

FORM B1 – RECURRING OPERATING REQUEST

| | |
|------------------------|----------|
| AGENCY PRIORITY | 1 |
|------------------------|----------|

Provide the Agency Priority Ranking from the Executive Summary.

| | |
|--------------|---|
| TITLE | General Funds Increase to Support Market Salary Adjustments for Current Employees, Retention Issues, and Future Recruiting |
|--------------|---|

Provide a brief, descriptive title for this request.

| | |
|---------------|---|
| AMOUNT | <p>General: \$630,000</p> <p>Federal: \$0</p> <p>Other: \$0</p> <p>Total: \$630,000</p> |
|---------------|---|

What is the net change in requested appropriations for FY 2022-2023? This amount should correspond to the total for all funding sources on the Executive Summary.

| | |
|----------------------|-------------|
| NEW POSITIONS | 0.00 |
|----------------------|-------------|

Please provide the total number of new positions needed for this request.

| | | |
|--|--|---|
| FACTORS ASSOCIATED WITH THE REQUEST | Mark "X" for all that apply: | |
| | <input type="checkbox"/> | Change in cost of providing current services to existing program audience |
| | <input type="checkbox"/> | Change in case load/enrollment under existing program guidelines |
| | <input type="checkbox"/> | Non-mandated change in eligibility/enrollment for existing program |
| | <input type="checkbox"/> | Non-mandated program change in service levels or areas |
| | <input type="checkbox"/> | Proposed establishment of a new program or initiative |
| | <input type="checkbox"/> | Loss of federal or other external financial support for existing program |
| | <input type="checkbox"/> | Exhaustion of fund balances previously used to support program |
| | <input type="checkbox"/> | IT Technology/Security related |
| | <input type="checkbox"/> | Consulted DTO during development |
| <input type="checkbox"/> | Related to a Non-Recurring request – If so, Priority # | |

| | | |
|--|--|--|
| STATEWIDE ENTERPRISE STRATEGIC OBJECTIVES | Mark "X" for primary applicable Statewide Enterprise Strategic Objective: | |
| | X | Education, Training, and Human Development |
| | <input type="checkbox"/> | Healthy and Safe Families |
| | <input type="checkbox"/> | Maintaining Safety, Integrity, and Security |
| | <input type="checkbox"/> | Public Infrastructure and Economic Development |
| <input type="checkbox"/> | Government and Citizens | |

| | |
|--------------------------------|--|
| ACCOUNTABILITY OF FUNDS | <p>There are two specific strategies this requests supports: 1) To create an environment that is recognized as a workplace of choice and 2) to manage the agency's workforce effectively. The Office of the State Auditor (OSA) is seeking legislative assistance through the budget process to strengthen our ability to retain and recruit employees. Funding will be used to re-align employee compensation across the agency with the current market for similar positions and to increase starting compensation for entry-level and experienced hires. 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 3. Increase the number of certified employees <p>Market Adjustments will be made immediately while each fiscal year we will evaluate how funds were distributed to meet these objectives above. As well, we will evaluate the outlook and plan for future compensation needs as we strive to stay competitive within the private sector and state agency markets.</p> |
|--------------------------------|--|

What specific strategy, as outlined in the most recent Strategic Planning and Performance Measurement template of agency's accountability report, does this funding request support? How would this request advance that

Recipient of the funds would include current and future employees.

Auditing Divisions

We used two salary benchmarks to determine competitive compensation for auditors at the Office of the State Auditor (OSA):

- **Accounting & Finance Salary Guide 2021** - Published annually by Robert Half, a global recruiting and staffing firm specializing in accounting and finance, this guide is considered a "go-to" source to determine appropriate salaries for the accounting and auditing industry
- **Private Industry National Pay Guidelines** - Shared with us on a confidential basis, this is a proprietary compensation guideline used by one of the largest accounting firms in the United States.

We selected the benchmarks for auditors that are most closely related to the typical years of experience for similar positions at OSA. For each benchmark we took 94% of the national average to compensate for a lower cost of living in the Columbia SC metropolitan region. We further adjusted the benchmarks to reflect that OSA compensates its employees for 1,950 hours per year rather than the 2,080 hours typical in the private sector. The adjusted benchmarks are as follows:

| | Robert Half | Private Sector |
|-------------------|-------------|----------------|
| Director | NA | NA |
| Senior Manager | 118,748 | 113,769 |
| Manager | 82,397 | 90,504 |
| Senior | 58,823 | 66,446 |
| Auditor | 48,028 | 56,048 |
| Associate Auditor | 43,181 | 51,553 |

Using the above benchmarks as a guideline, we determined a target salary by experience level. The following table compares the target average with the OSA current average (as of 08/31/2021) along with the actual percent increase and the rounded percent increase:

| Position | OSA Target Average | OSA Current Average | % Increase | % Rounded |
|-------------------|--------------------|---------------------|------------|-----------|
| Director | 115,000 | 102,507 | 12.2% | 12.0% |
| Senior Manager | 96,000 | 88,393 | 8.6% | 9.0% |
| Manager | 76,500 | 68,185 | 12.2% | 12.5% |
| Senior | 63,500 | 56,287 | 12.8% | 12.5% |
| Auditor | 53,000 | 49,164 | 7.8% | 8.0% |
| Associate Auditor | 48,000 | 44,270 | 8.4% | 8.0% |

Administrative Division

We have recently planned a reorganization of the Administrative Division and taken the first step by turning one of our recently retired Administrative Assistant positions into an IT Consultant position. As part of this request for legislative support, we would continue the reorganization by reclassifying two positions. The Director of Administration would be classified from a Program Manager II to a Program Manager III - comparable to other Directors within the agency. The Administrative Coordinator would be reclassified to an Administrative Manager - comparable to other Managers with the agency. Both reclassifications would have additional duties and responsibilities. To determine salary increases for the Administrative staff, we compared OSA positions to similar positions within other state agencies to determine that OSA compensation is lower than other state agencies whose staff have equal or less education and equal or less years of experience - averaging approximately 10% lower in some cases. For our only IT position, the position is under compensated by approximately 20%. The requested increase would also be a matter of retention for the IT Consultant position as this staff member has been highly recruited by private companies and other state agencies.

Please see attached spreadsheet for requested increase by classification, as well as, documentation for justification of reclassifications or increases for positions over 15% or over.

RECIPIENTS OF FUNDS

What individuals or entities would receive these funds (contractors, vendors, grantees, individual beneficiaries, etc.)? How would these funds be allocated – using an existing formula, through a competitive process, based upon predetermined eligibility criteria?

About Us

The Office of the State Auditor (OSA) serves as the independent audit function for the State of South Carolina and is organized into three service delivery divisions, State Agency, Medicaid, and Internal Audit Services, supported by the Administrative division. OSA employs a workforce of 60 including 54 audit professionals and 6 administrative professionals. Of the audit professionals, all have at least a bachelor's degree in accounting or a related field of study, many have master's degrees, and 24 hold professional certifications including Certified Public Accountants (CPA), Certified Fraud Examiners (CFE), and Certified Information Systems Auditor (CISA).

OSA uses the following titles for auditor positions, which also indicates the typical years of experience of the staff in those positions:

- Associate Auditor - 0 to 2 years
- Auditor - 1 to 3 years
- Senior Auditor - 3 to 6 years
- Manager - 6 to 10 years
- Senior manager - 10 or more years
- Director - 12 or more years

Current State

Over the last three fiscal years, OSA lost 21 staff to jobs in the private sector, other state agencies, or retirement. Open positions for auditors are filled with entry-level hires because hiring experienced auditors has been challenging in part due to compensation - which is not competitive with the private sector. "Growing our own" staff to be ready to accept more responsibility when experienced staff leaves is a key retention strategy and attractive benefit for our younger staff. However, we also recognize the benefits of having the experience and perspective of auditors who have worked outside of OSA. This experience and perspective is critical to continued success for several of our agency initiatives. These include increasing efficiencies, increasing the value of the work we perform, and in-sourcing work that was previously out-sourced, including work that was out-sourced due to complexity. The results of these initiatives has allowed us, since 2016, to in-source over 10,000 hours of work that we previously contracted out - without an increase in full-time equivalent positions. OSA's hiring philosophy has been to replace open positions as soon as practical, and as a result, our rate of open positions averages around 3%.

Objectives

As mentioned above, OSA is seeking legislative assistance through the budget process to strengthen our ability to retain and recruit employees. This funding will be used to re-align employee compensation across the agency with the current market for similar positions and to increase starting compensation for entry level hires. Our primary objectives are to:

1. Retain experienced staff
2. Position the agency to successfully compete for experienced talent
3. Increase the number of certified employees

Retaining Experienced Staff

Every employer faces the risk that their top talent may leave to take another job. With that in mind, we have created retention strategies that include providing continued growth opportunities, creating an attractive culture, and offering compensation that is competitive with the market for similar positions. And while we feel comfortable we are on the right tract with our strategies, maintaining competitive compensation has been the most challenging area to address.

While we expect turnover, we have lost some of our brightest talent in recent years to jobs offering substantial increases in compensation. Our turnover rate jumped to 17% for fiscal year 2021 after two fiscal years which averaged around 10%. Historically, OSA staff left most often for opportunities at other state agencies. However, in the last three years, 38% left for positions in the private sector while only 29% left for positions in other state agencies. We see this trend continuing unless we re-align our compensation with the market.

Successfully Compete for Experienced Talent

The recruiting model at OSA has long been to replace open positions with entry-level hires, typically recent accounting graduates from South Carolina colleges and Universities. This model was built somewhat out of necessity because OSA's compensation has historically been more competitive at the entry-level than at experienced levels. While we recruit many bright and talented individuals from college campuses, we also must invest considerable resources into training them over

one to two years before they can contribute a level of productivity that would equal the experienced staff they replaced.

By hiring experienced candidates, we can not only reduce our training costs, but we can also maintain productivity because experienced hires will contribute at a high level soon after their first day. Acquiring experienced talent is also an opportunity to gain different perspectives and innovative ideas and strategies from outside our organization that could make us stronger. Additionally, 7 (12%) of OSA employees are eligible to retire now and another 5 (8%) can retire in less than seven years. These upcoming retirements provide an important opportunity to strategically recruit talent from outside the agency into high-level positions vacated by retiring employees.

We began testing our ability to recruit experienced talent in late 2019 when we posted a Senior Auditor opportunity targeting a CPA or CPA candidate with 2-4 years of public accounting or other relevant auditing experience. The position remains open today because all qualified candidates who applied either declined our offer or withdrew from consideration to focus on other opportunities. While our hiring range for this position is \$60,000 to \$65,000, compared to the \$56,287 average compensation for our staff currently at this level, the compensation is not attractive enough to lure qualified applicants.

Additionally, we have actively recruited to fill a Manager and Senior Manager position for our Internal Audit Services division, with hiring ranges of \$65,000 to \$75,000 and \$75,000 to \$90,000 respectively, but have attracted interest from only a handful of qualified applicants. We have successfully filled the manager position at \$76,000 but because qualified applicants for the Senior Manager position were asking compensation of \$100,000 or more, we have downgraded that position to a Manager, which allows us to offer stronger compensation and attract a larger pool of qualified applicants.

Increase the Number of Certified Employees

We encourage all staff to pursue certification, however it is a requirement for promotion to Manager, usually around six years of experience. Non-certified staff often decide by their fifth year if they will stay with OSA, knowing they have hit a ceiling, or if they will look for opportunities elsewhere.

To be eligible for certification, a CPA candidate must have a bachelor's degree with 150 or more credit hours. Because most undergraduate accounting degrees are only 120 credit hours, many accounting graduates obtain their master's degree or complete additional undergraduate courses to obtain 150 credit hours.

In the last two years, we have seen decidedly less interest in pursuing certification among our non-certified staff. Many of these individuals lack the additional credit hours above their bachelor's degree to become eligible to sit for the exam. When asked why they are not actively pursuing certification, they respond that the process is too expensive or too time-consuming despite offering tuition assistance, flexible work hours, and a \$4,000 bonus for completing the exam. We also understand from a few of our non-certified staff that the additional compensation they would earn at a Manager level or above is not enough to justify the effort and cost to become certified. Similarly, entry-level candidates with a master's degree are difficult for us to attract because they do not view our \$45,000 starting salary as attractive given the options they have for private-sector jobs.

The trend of having fewer certified staff could be detrimental to our ability to grow our staff to the Manager level and above, when certification is required, which would decrease our ability to promote from within as retirements occur in the coming years. This is especially critical due to the retirements we expect over the next five years, many of which will be from our highest experience levels.

To address these issues, we are proposing a more appropriate premium for entry-level hires with a master's degree and/or certification.

2017 Special Adjustment

Recognizing that current salaries had not kept pace with the market, OSA adjusted salaries by pay band using agency funds. The adjustments, which took effect in March 2017, ranged from approximately 5% to 11%. Concurrently our entry-level salary was adjusted by approximately 8% to \$43,500, and \$45,000 for new hires with a Master's degree, placing a \$1,500 premium on the graduate degree. Since the 2017 Special Adjustment, we have awarded compensation adjustments for promotions and merit, but have lacked the resources to award significant non-merit general pay increases. OSA employees have also received two State-funded general pay increases of 2.0% effective June 2019, and 2.50% effective June 2021.

Please thoroughly explain the request to include the justification for funds, potential offsets, matching funds, and method of calculation. Please include any explanation of impact if funds are not received. If new positions have been requested, explain why existing vacancies are not sufficient.

| | | | |
|--------------|-------------------------------|----------|-----|
| Agency Name: | SFAA - State Auditor's Office | | |
| Agency Code: | F270 | Section: | 105 |

FORM D – PROVISIO REVISION REQUEST

| | |
|---------------|-------|
| NUMBER | 105.1 |
|---------------|-------|

Cite the proviso according to the renumbered list (or mark "NEW").

| | |
|--------------|--|
| TITLE | SFAA-AUD: Annual Audit of Federal Programs |
|--------------|--|

Provide the title from the renumbered list or suggest a short title for any new request.

| | |
|-----------------------|--|
| BUDGET PROGRAM | Section 105 - SFAA - State Auditors Office (F270) - II. Audits |
|-----------------------|--|

Identify the associated budget program(s) by name and budget section.

| | |
|-------------------------------|----|
| RELATED BUDGET REQUEST | No |
|-------------------------------|----|

Is this request associated with a budget request you have submitted for FY 2022-2023? If so, cite it here.

| | |
|-------------------------|-------|
| REQUESTED ACTION | Amend |
|-------------------------|-------|

Choose from: Add, Delete, Amend, or Codify.

| | |
|--------------------------------|---|
| OTHER AGENCIES AFFECTED | State agencies receiving Federal Funds would continue to be responsible for a portion of the cost to conduct the audit. |
|--------------------------------|---|

Which other agencies would be affected by the recommended action? How?

| | |
|----------------------------------|--|
| SUMMARY & EXPLANATION | <p>The proviso currently reads that the Office of the State Auditor would be reimbursed for an equitable portion of any expenses paid to a national CPA firm for contracting to conduct a portion of the audit for federal financial assistance. For the last two fiscal years OSA has conducted this audit for state agencies that are receiving federal financial assistance without any assistance from a CPA firm. Because of this, we have not requested any payment from the agencies involved. This amendment would change the text so that an equitable portion of the cost of conducting the audit would be paid by the agencies audited to OSA, rather than for the cost of paying a CPA firm.</p> |
|----------------------------------|--|

Summarize the existing proviso. If requesting a new proviso, describe the current state of affairs without it. Explain the need for your requested action. For deletion requests due to recent codification, please identify SC Code section where language now appears.

FISCAL IMPACT

None

Provide estimates of any fiscal impacts associated with this proviso, whether for state, federal, or other funds. Explain the method of calculation.

**PROPOSED
PROVISO TEXT**

This change would amend the text as indicated in *italics* below as well as remove the sentence that is struck through:

105.1. (SFAA-AUD: Annual Audit of Federal Programs) 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 the expense 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 audit shall be re-bid every five years.~~ 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.

Paste existing text above, then bold and underline insertions and strikethrough deletions. For new proviso requests, enter requested text above.

| | | | |
|--------------|-------------------------------|----------|-----|
| Agency Name: | SFAA - State Auditor's Office | | |
| Agency Code: | F270 | Section: | 105 |

FORM D – PROVISO REVISION REQUEST

NUMBER

NEW

Cite the proviso according to the renumbered list (or mark "NEW").

TITLE

SFAA - AUD: Internal Audit Services offered by the Office of the State Auditor

Provide the title from the renumbered list or suggest a short title for any new request.

BUDGET PROGRAM

Section 105 - SFAA - State Auditors Office (F270) - II.Audits

Identify the associated budget program(s) by name and budget section.

RELATED BUDGET REQUEST

No

Is this request associated with a budget request you have submitted for FY 2022-2023? If so, cite it here.

REQUESTED ACTION

Add

Choose from: Add, Delete, Amend, or Codify.

OTHER AGENCIES AFFECTED

Any state agency that would like to opt into the services offered by the Office of the State Auditor

Which other agencies would be affected by the recommended action? How?

SUMMARY & EXPLANATION

This new proviso would give the Office of the State Auditor the authorization from the SC Legislature to offer internal audit Services to other state agencies under a cost reimbursement, shared services model.

Summarize the existing proviso. If requesting a new proviso, describe the current state of affairs without it. Explain the need for your requested action. For deletion requests due to recent codification, please identify SC Code section where language now appears.

FISCAL IMPACT

If a state agency opts to use the services of the Office of the State Auditor (OSA) there will be an agreed upon cost reimbursement where that agency would remit the cost to OSA.

Provide estimates of any fiscal impacts associated with this proviso, whether for state, federal, or other funds. Explain the method of calculation.

**PROPOSED
PROVISO TEXT**

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.

Paste existing text above, then bold and underline insertions and strikethrough deletions. For new proviso requests, enter requested text above.

| | | | |
|--------------|-------------------------------|----------|-----|
| Agency Name: | SFAA - State Auditor's Office | | |
| Agency Code: | F270 | Section: | 105 |

FORM E – AGENCY COST SAVINGS AND GENERAL FUND REDUCTION CONTINGENCY PLAN

| | |
|--------------|---|
| TITLE | Agency Cost Savings and General Fund Reduction Contingency Plan |
|--------------|---|

| | |
|---------------|-----------|
| AMOUNT | \$143,568 |
|---------------|-----------|

What is the General Fund 3% reduction amount? This amount should correspond to the reduction spreadsheet prepared by EBO.

| | |
|----------------------------------|------|
| ASSOCIATED FTE REDUCTIONS | None |
|----------------------------------|------|

How many FTEs would be reduced in association with this General Fund reduction?

| | |
|----------------------------------|---|
| PROGRAM / ACTIVITY IMPACT | <p>The Contingency Plan would impact the following program:</p> <p>Audit Program - 10010000 - 0500.000.000</p> <p>This includes all audit divisions for the agency.</p> |
|----------------------------------|---|

What programs or activities are supported by the General Funds identified?

| | |
|----------------|--|
| SUMMARY | <p>The Office of the State Auditor is mostly funded by General Fund Appropriations. 88% of our budget consists of personal services and fringe. A 3% reduction in General funds represents 26% of the agency's Operating budget. Because of this, the agency would need to take the reduction from personal services and associated employer contributions in order to preserve training, technology needs and technology support, and other operating expenses that are critical to the agency.</p> <p>To support a 3% general funds reduction, OSA would reclassify the current Deputy State Auditor position to a Senior Auditor position and an open position would not be filled. The elimination of the executive management position would require the redistribution of duties to other members of Senior management, potentially creating work constraints that would need to be addressed through a reprioritization of overall duties. While service delivery timeliness and quality of service would be maintained, strategic initiatives important to the health and sustainability of the agency would receive little to no focus.</p> |
|----------------|--|

Please provide a detailed summary of service delivery impact caused by a reduction in General Fund Appropriations and provide the method of calculation for anticipated reductions. Agencies should prioritize reduction in expenditures that have the least significant impact on service delivery.

**AGENCY COST
SAVINGS PLANS**

No cost savings plans currently in place.

What measures does the agency plan to implement to reduce its costs and operating expenses by more than \$50,000? Provide a summary of the measures taken and the estimated amount of savings. How does the agency plan to repurpose the savings?