



**Auditor General Russell Olson**



# FY 2025 Budget Request for the Department of Legislative Audit

This presentation provides a summary of the budget request for the Department of Legislative Audit for FY 2025 using the guidelines provided in the November 30, 2023 memorandum from the Chairs of the Joint Committee on Appropriations.



# Overview of Legislative Audit

## *Mission*

Our mission is to serve the legislators, government officials, and citizens of the State of South Dakota by providing quality independent audits and assistance to the State of South Dakota and local governments. Our goal is for these services to continuously improve governments' financial management and reporting, thereby enhancing the accountability of government to its citizens.



# Overview of Legislative Audit

## *Organizational Structure*

- We are a nonpartisan agency of the Legislative Branch.
- Auditor General is appointed to eight-year term by joint legislative resolution.
- Executive Board of the Legislative Research Council directs Legislative Audit's activities.
- Legislative Audit is organizationally structured to meet independence requirements of professional auditing standards set by the AICPA and Government Accountability Office (GAO).
- Auditor General is a member of the SD Board of Accountancy by statute.



# Overview of Legislative Audit

## *Services Provided*

Legislative Audit provides assurance (commonly called audit) and technical assistance services to South Dakota's State and local governments. In addition, Legislative Audit provides services to the Legislature by staffing the Government Operations and Audit Committee (GOAC) and providing information and analysis as requested.

Legislative Audit's responsibilities are defined in SDCL Chapter 4-2 *Department of Legislative Audit* and SDCL Chapter 4-11 *Post-Audit of Accounts*



# Overview of Legislative Audit

## *Services Provided* (Continued)

### **Assurance Services**

Assurance services provided by Legislative Audit include:

- Financial and compliance audits.
- Attestation engagements for State and local governments.
- Internal control reviews of small municipalities.
- Special purpose reports on fraud engagements and other engagements as requested by the governments Legislative Audit serves.
- Legislative Audit provides a link on its website where anyone can report instances of fraud, noncompliance, or abuse. A report can be filed at this link: <https://legislativeaudit.sd.gov/fraud.aspx>
- These services provide assurance to citizens and financial statement users regarding the reliability of a government's financial reports, the condition of its internal control system and its compliance with laws and regulations. In addition, these services provide recommendations for improvement to those charged with governance and government managers.



# FY 2025 Budget Request

## *Funding Sources*

(LRC briefing document page 9)

- As noted on page 9 – “Auditor General 2880” of your Budget Briefing document, Legislative Audit is funded entirely by an annual appropriation from the General Fund.
  - However, through billings for services provided, Legislative Audit collected from other State government funds and units of local government approximately \$1.87 million dollars for the General Fund in FY 2023. (Budget Briefing page 12)
  - In addition, approximately \$741,000 was memo billed to the State’s Accounting and Payroll Fund which is then recovered from various funds of the State through interagency billings.



# FY 2025 Budget Request

(LRC briefing document page 9)

- Legislative Audit's budget request is first reviewed and approved by the Executive Board during the summer of each year. This year co-chairs of the Joint Committee on Appropriations were included. The budget request is then submitted to the Bureau of Finance and Management (BFM) as part of the Governor's budget process.
- The following narrative will explain the requested increases for FY 2025 and address differences between the budget request approved by the Executive Board and the Governor's recommended budget, as applicable.





# FY 2025 Budget Request

## Salaries and Benefits

### Legislative Audit Compensation Plan Background

- First, a little background on Legislative Audit's Compensation Plan.
- SDCL 4-2-6 provides that Legislative Audit employees are to be compensated "at salaries fixed by the auditor-general within policy guidelines established by the Executive Board of the Legislative Research Council."
- A likely reason for having the Executive Board establish the salary guidelines for Legislative Audit employees is to maintain Legislative Audit's organizational independence from the Executive Branch which is required by professional auditing standards followed by Legislative Audit.
- Thus, Legislative Audit has established its own compensation plan and Legislative Audit employees have never been under the Bureau of Human Resources (BHR) classifications.



# FY 2025 Budget Request

## **Salaries and Benefits** *(Continued)*

### **Legislative Audit Compensation Plan Background** *(Continued)*

- Legislative Audit's current compensation plan was approved by the Executive Board in June 2003.
- The plan established salary ranges for each position classification and includes a goal of an auditor reaching the mid-point of the salary range within seven years of entering a position classification if the employee performs as expected.
- Since Legislative Audit's classification ranges are not part of the BHR System, Legislative Audit has always separately budgeted for and requested funds to move Legislative Audit salaries to mid-point within its compensation plan.



# FY 2025 Budget Request

## **Salaries and Benefits** *(Continued)*

**(LRC briefing document bottom of page 9)**

- A challenge I addressed in the FY 2025 budget request to the Executive Board was:
  - increase need for auditors due to implementation of the new Enterprise Resource Planning System (ERP) – Project Bison.
- The Executive Board approved an increase of \$346,409 in salary and benefits for adding 4 new auditor positions for Legislative Audit.
- The Governor included ½ of this requested increase - \$173,206 and 2 new auditor positions. HOWEVER, as explained on the next page, there is a plan for the 2 additional requested positions.



# FY 2025 Budget Request

## **Salaries and Benefits** *(Continued)*

(LRC briefing document bottom of page 9)

- I have had a discussion with the Commissioner of the Bureau of Finance and Management and his management team on the need for additional auditors due to the anticipated increase in workload due to implementation of the new ERP system.
- The Commissioner did not disagree to our need for additional auditors.
- The Governor's budget approved 2 additional FTE and the Commissioner has proposed that the 2 additional FTE positions, not funded in the Governor's budget, would be funded using resources set aside through the Project Bison funding if and when needed.



# FY 2025 Budget Request

## **Salaries and Benefits** *(Continued)*

(LRC briefing document pages 9-10)

- When I spoke to the Executive Board in August of 2023, I discussed additional challenges Legislative Audit faces dealing with our compensation plan and compensation competitiveness.
- There were three components to the requested increase for salary and benefits made to the Executive Board. A summary of the details regarding these components are shown on page 10.



# FY 2025 Budget Request

## Salaries and Benefits *(Continued)*

### Component 1 – Legislative Audit Compensation Plan

(LRC briefing document page 10)

- I researched auditing and accounting salaries using the National Association of State Auditors, Comptrollers and Treasurers (NASACT) *Auditing in the States* publication and online resources.
- From this research, I found that the salaries we can offer are lower than the surrounding states and private market in most all classifications.
- I requested, and the Executive Board approved, a proposal to increase Legislative Audit's starting salary from \$58,000 to \$62,000 to attempt to be more competitive in the market for quality professional candidates and make additional equitable adjustment to avoid compaction with existing employees.
- The Executive Board approved this increase, and the Governor included this request.



# FY 2025 Budget Request

## Salaries and Benefits *(Continued)*

### Component 2 – Legislative Audit Compensation Plan

(LRC briefing document page 10)

- Another key component of our compensation plan includes an annual increase of up to 3.75% for our professional staff when they have reached our career Auditor III classification. This annual increase is to recognize the value added by the increased knowledge, skills, and experience (KSE) as an auditor progresses with Legislative Audit.
- I believe this annual adjustment is critical in maintaining our salary competitiveness and ensuring that we retain experienced senior audit professionals to address upcoming retirements of members of the management team and senior staff.



# FY 2025 Budget Request

## **Salaries and Benefits** *(Continued)*

(LRC briefing document page 10)

### **Component 2 – Legislative Audit Compensation Plan** *(Continued)*

- I requested an increase to fund this critical component of the compensation plan to recognize the value added by the increased knowledge, skills, and experience (KSE) as an auditor progresses with Legislative Audit and to attempt to not fall behind on staying competitive with the market.
- The Executive Board approved this increase, and the Governor included this request.





# FY 2025 Budget Request

## **Salaries and Benefits** *(Continued)*

(LRC briefing document page 10)

### **Component 3 – Legislative Audit Compensation Plan**

- I requested an increase for another critical component of our compensation plan, the salary progression for our new auditors, longevity pay, and certification pay.
- The Executive Board approved this increase, and the Governor included this request.



# FY 2025 Budget Request

## **Salaries and Benefits** *(Continued)*

(LRC briefing document page 10)

- Summary of additional challenges Legislative Audit faces:
  - additional salary dollars for increasing our starting salary offering (\$67,700),
  - additional salary dollars for Legislative Audit's compensation plan (\$54,652),
  - additional salary progression (Auditor I's), Longevity and Certification Pay (\$36,633), and
  - benefits related to the requested salary increases (\$34,911)
  
- The Executive Board approved an increase of \$193,896 in salary and benefits for Legislative Audit's increase in starting salary, employee compensation plan, and salary progression, longevity and certification pay.
  
- The Governor did include these increases in the Governor's recommended budget.



# FY 2025 Budget Request

## Salaries and Benefits Summary

(LRC briefing document pages 9-10)

- We requested and the Executive Board approved, an increase in Salaries and Benefits in the amount of \$540,305 and 4 additional FTE.
- The Governor recommended an increase in budget for Salaries and Benefits of \$367,102 and 2 additional FTE; HOWEVER, as previously discussed the additional salaries and benefits for 2 of the additional FTE will be funded from the Project Bison appropriation if and when needed.



# FY 2025 Budget Request

## Operating Expenditures Summary

(LRC briefing document pages 11-12)

- We did not request any increase for Operating Expenditures (Travel, Contractual Services, Supplies, Capital Outlay) for FY 2025.
- The Governor recommended no increase in budget for Operating Expenditures.



# FY 2025 Budget Request

## Budget Request Summary *(Continued)*

- Just as a reminder, the final implementation of Legislative Audit's salary policy will be reviewed by the Executive Board of the Legislature in May or June of 2024.



# JCA Requested Information

- Certain information was requested by the Joint Committee on Appropriations (JCA) Memorandum. The following responds to that request.
  - Item 3a. – Item 3a was addressed in my budget presentation.
  - Item 3b. – One change that we started in FY 2023 was the allowance for remote work possibility for our trained professional auditors in certain circumstances. We have found that this allowed us to keep our professionals on staff and still maintain our professional quality and efficiency.
  - Item 3c. – We did not request any special appropriation or supplemental budget.



## JCA Requested Information

- Item 3c. – Although we did not request any special appropriation or supplemental budgets for FY 2023, the Legislature did add \$200,000 to our FY 2023 appropriations with the request that Legislative Audit, in conjunction with the Department of Human Services, contract for a consultant to perform a study on the Family 360 and Shared Living Programs. This task was accomplished, and the final report was presented to JCA and GOAC in November. Legislative Audit's ½ of the contract amounted to \$174,350.



## JCA Requested Information

- Item 3d. – At this time, we are not requesting any special appropriation or supplemental budget requests to our original FY 2024 appropriation.
- Item 3e. – We have not had any major IT projects in the last two fiscal years, and, currently, none are anticipated in the coming fiscal year.
- Item 3f. – We have not instituted any new internal measures, such as LEAN Methodology. We continuously monitor our professional's effectiveness and efficiency for each engagement we perform. In addition, we request input from our clients after each engagement.





## JCA Requested Information

- Item 3g. & 3i. – Legislative Audit professional staff are not overtime eligible. We still have difficulties recruiting professionals for our Pierre office positions. Other workforce issues will be discussed shortly.
- Item 3h. – Legislative Audit, in the past has utilized interns; however, we have not done so in at least the last five fiscal years. We are in discussion with various universities on implementing an internship program in the near future.
- Item 3j. – We are not proposing raising fees, increasing cost sharing or raising revenue by other methods. Legislative Audit’s billing rate determination is established by state statute.



# JCA Requested Information

## **Legislative Audit Workforce (LRC briefing document page 11)**

- Legislative Audit is authorized 40 FTE for FY 2024. For FY 2025 we requested, and the Executive Board approved, an additional 4 FTE. The Governor's budget added 2 additional FTE, with 2 additional FTE funded from the Project Bison allocation if and when needed.
- All positions are intended to be full-time benefitted positions. We currently have one retired auditor who is working part-time with no benefits to help us provide services until we can fill our open full-time positions. This retiree has extensive knowledge, skills, and experience, and we appreciate his service in this part-time temporary capacity.
- Legislative Audit has no positions that are currently vacant due to a lack of funding.
- Additionally, no services are being contracted because of the open positions.



# JCA Requested Information

## Legislative Audit Workforce – Unused FTE (LRC briefing document pages 11-12)

- For FY 2022 and FY 2023, Legislative Audit had 6.1 and 6.8 unused FTE respectively.
- This was not by intent. In the past 15 months we have been able to add four new excellent auditors to our department, with one professional starting just this week.
- We are always actively seeking to fill all open positions and want to keep them filled.



# JCA Requested Information

## Legislative Audit Workforce – Turnover and Open Positions

- Over the last four and a half fiscal years (FY 2020-FY 2024) and through December 31, 2023, we had a net of twelve auditors leave Legislative Audit. Three were retirements; however, seven were lost to the private sector for more than their annual compensation at Legislative Audit and five were lost to other State and Local Agencies for more than their annual compensation at Legislative Audit. HOWEVER, three of the professionals (included in the numbers above) came back to Legislative Audit. We appreciate them “coming back home”.



# JCA Requested Information

Fiscal Year	Audit Position	Hire Date	Leave Date	Years of Service	Reason	Rehired to DLA
FY 2020	State Audit Position	06/16/2014	09/23/2019	5.3	Went to State Agency	
FY 2020	Local Audit Position	05/01/2017	11/06/2019	2.5	Went to Private Sector	
FY 2020	Local Audit Position	05/15/2019	04/10/2020	0.9	Went to Private Sector	
FY 2021	Auditor General	06/12/1978	07/08/2020	42.1	Retirement	
FY 2021	State Audit Position	01/09/2007	08/23/2020	13.6	Went to State Agency	Rehired 5/11/23
FY 2021	State Audit Position	06/24/2015	12/08/2020	5.5	Went to State Agency	Rehired 8/24/22
FY 2021	State Audit Position	12/18/2017	12/03/2021	4.0	Went to Local Government	Rehired 12/5/22
FY 2022	Local Audit Position	07/28/2014	01/03/2022	7.4	Went to Private Sector	
FY 2022	State Audit Position	06/07/1982	06/08/2022	40.0	Retirement	
FY 2023	State Audit Position	04/24/2014	11/23/2022	8.5	Went to Private Sector	
FY 2023	State Audit Position	07/29/2013	12/08/2022	9.3	Went to State Agency	
FY 2023	Local Audit Position	05/01/2018	01/08/2023	4.7	Went to Private Sector	
FY 2023	State Audit Position	01/14/2003	04/08/2023	32.8	Retirement	
FY 2023	State Audit Position	05/17/2004	04/09/2023	18.9	Went to Private Sector	
FY 2024	Local Audit Position	05/27/2020	11/08/2023	3.5	Went to Private Sector	
	Net Years of Service			175.9		
Count Based on Reason:						
	Retirement				3	
	Went to Private Sector				7	
	Went to State Agency				4	
	Went to Local Government				1	
	Rehired-Came Back to DLA				(3)	
	Net Number Leaving DLA From FY 2020 to FY 2024 Through December 31, 2023				12	



# JCA Requested Information

## Legislative Audit Workforce – Turnover and Open Positions

(Continued)

- Legislative Audit currently has four open Auditor I positions and one open administrative assistant position. We have had open positions posted for more than a year.
- It continues to be difficult to recruit people for the Pierre location and other locations. This is one reason we requested increasing our starting salary and compensating our professional staff for their KSE.
- We have already incorporated or utilized various remote work methods. We have found that remote work, in all instances, is not as efficient, especially with the training of new staff. Also, many records are not electronic, so staff still needs to go to the audit sites.



# JCA Requested Information

## Legislative Audit Workforce – Turnover and Open Positions

(Continued)

- It is important to note that we continue to make excellent additions to the professional staff. As I mentioned previously, we have added four great professionals to our staff in the last 15 months and we hope to add more soon. However, it is very difficult competing for qualified accounting graduates in an environment of high demand and limited supply of candidates.
- Also, when we are recruiting new professionals, we are not looking to just fill a spot, but to recruit the right individual for the position.



# JCA Requested Information

## **Legislative Audit Workforce – Retirement Eligible Employees**

- One of the four Legislative Audit managers/supervisors and three senior audit staff members are currently eligible for retirement. At the current time, all but one of the retirement eligible employees have indicated they will be working at least through FY 2025.





# JCA Requested Information

## Legislative Audit Long-Range Plan for the Next 3 to 5 Years

- I believe that Legislative Audit's current mission, statutory responsibilities, and the related services we provide remain relevant and of great value to the Legislature, governments, and taxpayers of South Dakota.
- Legislative Audit will need to continue to adapt to changes in professional standards, technology, and the governments we serve.
- I believe the biggest challenge will continue to be recruiting and retaining a highly qualified team of professionals to provide the very needed services.



Questions??

Thank you for the opportunity to discuss the Department of Legislative Audit with you today.