

**Department of Legislative Audit  
FY2011 Budget Request  
Summary for Joint Appropriations Committee**

• **Budget Related Facts About Legislative Audit**

- The Department of Legislative Audit (DLA) is entirely funded by the State's General Fund. DLA returned approximately \$1.26 million to the general fund through billings to other funds of the state and local governments.
- DLA operates as a single program and there has been no change in the nature of the services provided during FY10 and no change is anticipated for FY11.
- The services that we provided and the approximate percentage of our total effort related to each of these services in FY09 were:
  - State government audits 50%
  - Local government audits 28%
  - Local government assistance 11%
  - External audit review 6%
  - Legislative support 4%
  - State agency assistance 1%

• **FY2011 Budget Request Highlights**

- The Governor's recommended budget includes an increase of \$40,170 in personal services. These funds are needed to maintain the current compensation levels for the Department's employees and includes the amount (\$12,669) added by the Governor for the health insurance increase. A summary of requested dollars for personal services follows:

**FY11 Personal Services Dollar Request Summary**

Compensation Component	Salaries	Health Insurance	Other Benefits	Total
FY10 Salaries (including longevity pay)	\$ 2,005,841	\$ 202,055	\$ 275,302	\$ 2,483,198
Auditor I Promotions	\$ 8,283		\$ 1,137	\$ 9,420
Certification Pay	\$ 11,800		\$ 1,620	\$ 13,420
Straight Time Pay for Comp Time	\$ 35,278		\$ 4,842	\$ 40,120
Health insurance increase		\$ 12,669		\$ 12,669
<b>Total FY11 request</b>	<b>\$ 2,061,202</b>	<b>\$ 214,724</b>	<b>\$ 282,901</b>	<b>\$ 2,558,827</b>
FY10 Budgeted	\$ 2,030,636	\$ 202,055	\$ 285,966	\$ 2,518,657
<b>Net Increase</b>	<b>\$ 30,566</b>	<b>\$ 12,669</b>	<b>\$ (3,065)</b>	<b>\$ 40,170</b>

- The Governor removed \$34,410 (\$30,257 salaries and \$4,153 benefits) that was requested for movement to job worth since his recommended budget included no salary policy. If the Legislature approves a salary package with a job worth component, I would ask that the committee consider adding back these funds.
- The Governor removed \$32,592 that was requested to purchase new notebook computers for the audit staff. The Governor believed that Legislative Audit's reversion history suggested that funds would be available to fund the notebooks without the requested increase for FY11. Based on our current projection of FY10 expenditures, this may be possible.

- **Issue Arising Since Submission of the FY11 Request**

Federal law requires that the Single Audit report for the State of South Dakota be issued within nine months of the close of the State's fiscal year which is March 31<sup>st</sup>. Over the years we have generally been able to comply with this deadline. However, due to increases in audit time required to comply with additional standards for conducting Single Audits issued by both the federal government and the American Institute of Certified Public Accountant's, we have not issued the Single Audit by March 31<sup>st</sup> for the last three fiscal years.

The federal government has authorized an extension of time for the submission of the Single Audit report for each of last three years. Given the State's tight budget situation, I did not ask for additional staff to enable us to meet the March 31<sup>st</sup> deadline in either the FY10 or FY11 budget requests believing that extensions would be granted until such time as the State's budget situation would permit asking for additional staff.

However, the federal government has recently stopped authorizing extensions of time for the submission of Single Audit reports and it is my understanding that they do not intend to authorize extensions going forward. At this point I do not know what the consequences will be of this action by the federal government.

Compounding our existing shortfall of resources is the additional audit time that will be required to audit the stimulus funds provided under the federal government's American Recovery and Reinvestment Act. Based on what we currently know about the amount of stimulus funds that will be expended by the state and audit requirements that will be placed on those funds, we estimate that an additional 3,000 and 5,000 audit hours will be required to complete the State's Single Audits for FY09 and FY10 respectively as compared with FY08. With current staffing levels we estimate that the Single Audits for FY09 and FY10 will not be completed until mid-May 2010 and mid-June 2011 respectively.

When I presented my FY11 budget request to the Executive Board in August, we did not have sufficient details yet regarding federal audit requirements to allow us to make a reasonable estimate of hours required to conduct the Single Audits for FY09 and FY10. At that time, I was still hopeful that the federal guidance would include some flexibility for us regarding the auditing of compliance for the stimulus programs. As it turns out, the audit guidance regarding stimulus funds turned out to be almost entirely in addition to the work that we already have to conduct as part of the Single Audit.

After considering both the ongoing shortfall of staff resources and the additional temporary audit resource needs brought about by the stimulus funds, I believe adding two audit staff members in July of 2010 as part of the FY11 budget cycle would allow us to begin reducing the audit hour deficit that we now face and position us to be able to complete Single Audits within the nine month requirement for FY11 and years following. Two additional audit staff in July 2010 would not improve our ability to meet the nine month audit deadline for FY09, but we estimate it would move forward the completion of the FY10 audit to April 2011 rather than June of 2011.

An additional benefit of adding two auditors would be in dealing with turnover. The timeframes for issuing the Single Audit discussed above assume that we are fully staffed for the audit cycle as we are currently. Although we are authorized 36 FTE, we have averaged only 33.5 actual FTE for the past six years due to turnover. Increasing our FTE to 38 would allow us to achieve actual FTE closer to the 36 that we are currently authorized and give us a better chance of succeeding at meeting the audit deadlines on a continuing basis.

The cost of adding two additional auditors for FY11 would be \$71,616 in salaries and \$22,000 in benefits for a total of \$93,616. If the Legislature should decide that complying with the federal requirements for completing the Single Audit is of a sufficiently high priority to justify funding, I ask that you consider adding \$93,616 and 2 FTE to the personal services budget for the Department of Legislative Audit.

- **Departmental Priorities**

- We and the Bureau of Finance and Management have made it a priority to issue the Comprehensive Annual Financial Report (CAFR), which is a component of the Single Audit, for FY09 by March 31<sup>st</sup>, 2010 and we are target to meet that date. We also intend to issue the CAFR for FY10 by March 31<sup>st</sup>, 2011.
- We continue to look for efficiencies in our audit process for the State's Single Audit to enable us to meet the required deadline for the issuance of the report.
- In our local government audit service area, our top priorities continue to be the timely completion of all county audits and conducting internal control reviews of small cities.
- As was indicated last year, new auditing standards and accounting pronouncements are increasing the time required by local governments to prepare financial statements and for auditors to audit those financial statements. It is a priority of ours to implement these changes so that we achieve compliance with as little burden on the governments and auditors as possible.