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February 25, 2015

To: Joint Appropriations Committee
From: Marty Guindon, Auditor General
Subject: FY2016 budget request for the Department of Legislative Audit

Introduction

This memorandum contains a summary of the budget request for the Department of Legislative Audit (DLA) for FY2016 as approved by the Executive Board and as recommended by the Governor.

FY2016 Budget Request

In the budget approved by the Executive Board in August, I requested a \$208,283 increase in Legislative Audit's budget for FY2016 when compared with the FY2015 authorized budget. The two major needs for the requested increase in funds were in contractual services (\$80,000) and personal services (\$128,383).

Contractual Services

I requested and the Executive Board approved an increase of \$80,000 in contractual services dollars to modernize our website and to create web-based forms for collecting annual financial reports from counties and municipalities. This will reduce the effort required to get the financial reports into the database used for making this data available to the public on our website. The amount requested is based on estimates provided to us by the Bureau of Information and Telecommunications. The request was for one-time funds that would not have recurred in future budgets. The Governor did not recommend this request.

Because we have had two auditor positions open during this fiscal year, we will use salary salvage from the FY2015 budget to fund the website and annual report forms development and there is no longer a need for these funds in the FY2016 budget.

Personal Services

The other major increase to the Executive Board approved budget for FY2016 was additional money to fund the Legislative Audit compensation plan, pay for expected retirements and expand midpoint compensation for selected positions for FY2016. I requested \$128,383 in salaries and benefits dollars for these purposes.

Further breakdown of this requested increase follows:

Salaries for expected retirements:	\$45,000
Salaries for movement to midpoint and midpoint expansion	\$83,383
Total	<u>\$128,383</u>

Salaries for expected retirements:

Four staff members have made me aware that there is a 100%, 70%, 60% and 50% probability respectively that they will retire in June of 2016. I believe that we will have all open positions filled by July 1, 2015 and thus I do not anticipate any salary salvage being available to pay for the sick and annual leave termination pay for these individuals.

When I proposed the FY2016 budget to the Executive Board, I was only aware of two employees who were likely to retire in June of 2016 and requested \$45,000 to fund their sick and annual leave payouts. The Executive Board approved this request, but the Governor did not recommend this request.

Thus, I anticipate that we may need \$98,000 to fund the sick and annual leave payouts for the four potential retirees that are not available in the request recommended by the Governor.

Salaries for movement to midpoint and midpoint expansion:

With the impending retirements of three auditors mentioned previously and the potential for additional retirements over the next five years, I was concerned that the midpoint caps that we had placed on certain position classifications were jeopardizing our ability to retain key senior staff in the auditor and manager classifications.

In FY2013 we lost one Auditor III to the Board of Regents at a salary approximately 19% higher than we were paying. This past fiscal year we nearly lost another Auditor III to a county government for approximately a 15% higher salary. Other opportunities have occurred for the staff and I feel fortunate to have not lost additional staff. With retirements expected to significantly impact the Department over the next 5-10 years, it is important that we retain senior staff to fill the positions vacated as a result of those retirements.

After comparing DLA's compensation program with surrounding states' audit organization compensation and the BHR's compensation program, the Executive Board agreed that we should increase allowable compensation above the midpoint for the Auditor III, Auditor IV and manager/director classifications by 10%, 7.5% and 5% respectively.

I requested and the Executive Board approved adding \$83,383 for funding our normal compensation program and the midpoint expansion. The Governor recommended \$82,440 in his request which represents a slight adjustment for a 2% across the board salary package component rather than the 3% component that I had contemplated in the budget approved by the Executive Board.

The Governor's recommended amount for personal services is sufficient to fund DLA's compensation program, with the exception of the amount needed for retirement payouts discussed previously.

Other FY2016 budget items

The rest of the expenditure sub-objects for FY2016 contain a net decrease of (\$100) as we increased some items due to inflation and reduced other items for anticipated cost reduction as a result of implementing an electronic working paper system.

Legislative Audit Goals and Performance Measures

Pages 4-8 following this memorandum provide a summary of some of the goals and measurement mechanisms we use to assess our performance.

Thank you for your consideration of this request. I look forward to discussing the budget with the Committee on March 3rd.

**Department of Legislative Audit
Mission, Services, Goals and Performance Measures
February 2015**

Mission:

The Department of Legislative Audit's (DLA) mission is to enhance the accountability of state and local government. DLA fulfills its mission by providing services that are designed to improve state and local governments' internal control over financial management; financial reporting, and compliance with laws and regulations.

Services, Goals and Performance Measures:

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

The following sections provide a description of the goals, activities and performance measures for each of DLA's service areas.

Assurance Services:

Assurance services provided by DLA include financial and compliance audits and attestation engagements for state and local governments; internal control reviews of small municipalities and special purpose reports on fraud engagements and other engagements as requested by the governments DLA serves.

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 management.

DLA's assurance services also include the review and approval of over 350 governmental and nonprofit audits done each year by the Independent Public Accounting (IPA) firms licensed by the State.

Assurance services are provided by two State Government Audit Managers, one Local Government Audit Manager, an Information Systems Audit Manager and 27 auditors located in Pierre and various localities around the State.

State Government Assurance Services:

Goal: To provide timely, high quality independent audit and other attest services to state agencies.

Activity 1: Audits of the State's Comprehensive Annual Financial Report (CAFR) and separately issued State agency financial reports.

Timeliness Measure: Issue audit reports by deadlines requested by the Governor and State agencies management. All deadlines have been met for FY2014.

Activity 2: Statewide Single Audit on internal control and compliance with laws and regulations related to federal programs.

Timeliness Measure: Issue audit report by March 31st. The Single Audit Report for FY2014 will be issued by March 31, 2015.

Activity 3: Conduct risk assessments and reviews of small state agencies and programs.

Timeliness Measure: Review all high risk agencies/programs once in three years. This measure has not been achieved, but we are beginning work on this activity with the three FTE added to accomplish issuance of the State's CAFR by December 31st.

Local Government Assurance Services:

Goal: Provide timely high quality independent audit and other attest services to local governments.

Activity 1: Audits of county governments and other governments as resources permit.

Timeliness Measure: Complete Single Audits by required federal deadlines, county audits by end of the subsequent calendar year and other audits by date requested.

All Single Audits were issued by federal deadlines. Some county audit reports were issued after the subsequent calendar year end. Other audit reports were issued by the date requested.

Activity 2: Internal control reviews (ICR) of municipalities between \$100,000 and \$600,000 of revenue.

Timeliness Measure: Complete ICRs of each municipality once every five years. We currently are not meeting this measure, but expect to achieve this measure in 2016.

Activity 3: Other attest, control assessment and fraud engagements as requested.

Timeliness Measure: Complete engagements by date requested. This measure has been met.

External Audit Review:

Goal: Ensure consistency in South Dakota governmental financial reporting and that audits done by Independent Public Accountants (IPA) have complied with applicable standards.

Activity 1: Conduct timely desk reviews of audits conducted by IPA's to ensure consistency in financial reporting and that audits have complied with applicable standards.

Timeliness Measure: Complete desk reviews of IPA audit reports within 5 days of receipt of the draft report. This measure has been met.

Activity 2: Offer a Government Audit Workshop for IPA firms to provide continuing education so that audit firms are aware of changes to government auditing and accounting standards and their application in South Dakota governments.

Quality Measure: Participant evaluations are collected at each workshop and used as feedback for subsequent workshops. The workshop is in its 41st year.

Quality Measures Related to All Assurance Services: Quality measures for assurance services include a triennial peer review of DLA's quality control system conducted by the National State Auditor's Association. DLA's most recent peer review was conducted in June of 2014 and DLA received a pass rating with no deficiencies which is as good a report as can be received.

Additionally, we ask auditee personnel to complete a service assessment survey after each engagement to obtain feedback on the performance of the engagement and suggestions to improve our service. Service assessment surveys have been very positive and any concerns expressed in the surveys are evaluated and corrective action is taken in a timely manner.

Local Government Assistance Services:

These services are designed to help local governing boards and finance and accounting personnel understand their responsibilities and provide training to develop and maintain their ability to perform those responsibilities.

Local government assistance services are provided by a full-time Director of Local Government Assistance located in Sioux Falls, the Local Government Audit Manager located in Brookings and by each of the audit staff located around the state that perform local government audits.

Goal: Ensure consistency in local government financial accounting and reporting and compliance with related state and federal laws and regulations.

Activity 1: Develop and maintain accounting manuals, budget forms and other documents for local governments as required by State law.

Timeliness Measure: Ensure that updates to all manuals, forms and other documents are done annually. This measure has been met.

Activity 2: Present workshops and educational events for local government officials on annual report form preparation, basic accounting tasks and newly elected officials training.

Timeliness Measure: Prepare and present events as requested by local government organizations and as dictated by changes in accounting and reporting requirements. This measure has been met.

Activity 3: Provide telephone and onsite assistance to local governments as requested.

Timeliness Measure: Respond to all requests for assistance in a timely manner. This measure has been met.

Quality Measure for All Local Government Assistance Services: The service assessment surveys used for assurance services provide valuable feedback in developing future educational events. These events are generally highly regarded by our customers. The surveys also provide a basis for assessing the quality and effectiveness of our assistance services.

Legislative Staffing and Assistance Services:

DLA's services to the Legislature include staffing the GOAC committee and responding to requests for service from individual legislators and other legislative committees during the legislative session and the interim. One of DLA's State Government Audit Managers has specific responsibility for staffing the GOAC committee.

Additionally, DLA has a good working relationship with the Legislative Research Council (LRC) and we respond to requests from LRC staff as needed throughout the year.

Goal: To be a high quality, nonpartisan, objective source of staffing, information gathering and analysis for the Legislature.

Activity 1: Staff the GOAC and provide information and analysis to the GOAC as requested.

Timeliness Measure: Prepare materials and conduct information gathering by deadlines established by the GOAC. This measure has been met.

Activity 2: Respond to requests for information and analysis from legislators, other legislative committees and the LRC.

Timeliness Measure: Respond to requests within timeframe established by the requestor. This measure has been met.

Quality Measures for All Legislative Staffing and Assistance

Services: The DLA does not have any specific quality measures for these activities and relies on feedback from the GOAC committee and other requesting parties in evaluating the quality of service provided.

Quality Measure Related to All DLA Services:

All DLA professional staff members are required by government auditing standards to have 80 hours of continuing professional education every two years. Some staff members have professional certifications which have additional continuing education requirements.

DLA has consistently met the continuing education requirements for its staff.

Productivity Measures for All DLA Services:

Each DLA staff member prepares a timesheet and is accountable for their time in tenth of an hour increments. Timecodes used in preparing timesheets distinguish between productive and nonproductive time. Productive time estimates are established for staff members each year in computing DLA's billing rates and developing staff work schedules and staff members are evaluated in part on their percentage of productive time.

Time budgets are established for each engagement and staff members are evaluated in part on their ability to meet established time budgets.