

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



**Fiscal Year 2021-2022**

**Budget Briefings**

**House Ways & Means**

**Constitutional Subcommittee**

**January 6, 2021**

# **SFAA – Office of the State Auditor**

## **Key Officials**

*Organizational Chart*

## **Agency Overview and Budget Summary**

## **Accountability Report Summary**

*Accountability Report Fiscal Year 2020*

## **Budget Request Summary**

*Budget Request Fiscal Year 2021-2022*

## **Proviso Request/Changes**

## **Carry Forward**

## **FTE's**

## **SFAA – State Auditor**

### Key Officials

#### Attending Hearing:

George L. Kennedy, III, CPA – [gkennedy@osa.sc.gov](mailto:gkennedy@osa.sc.gov) – (803) 832-8929  
**State Auditor**

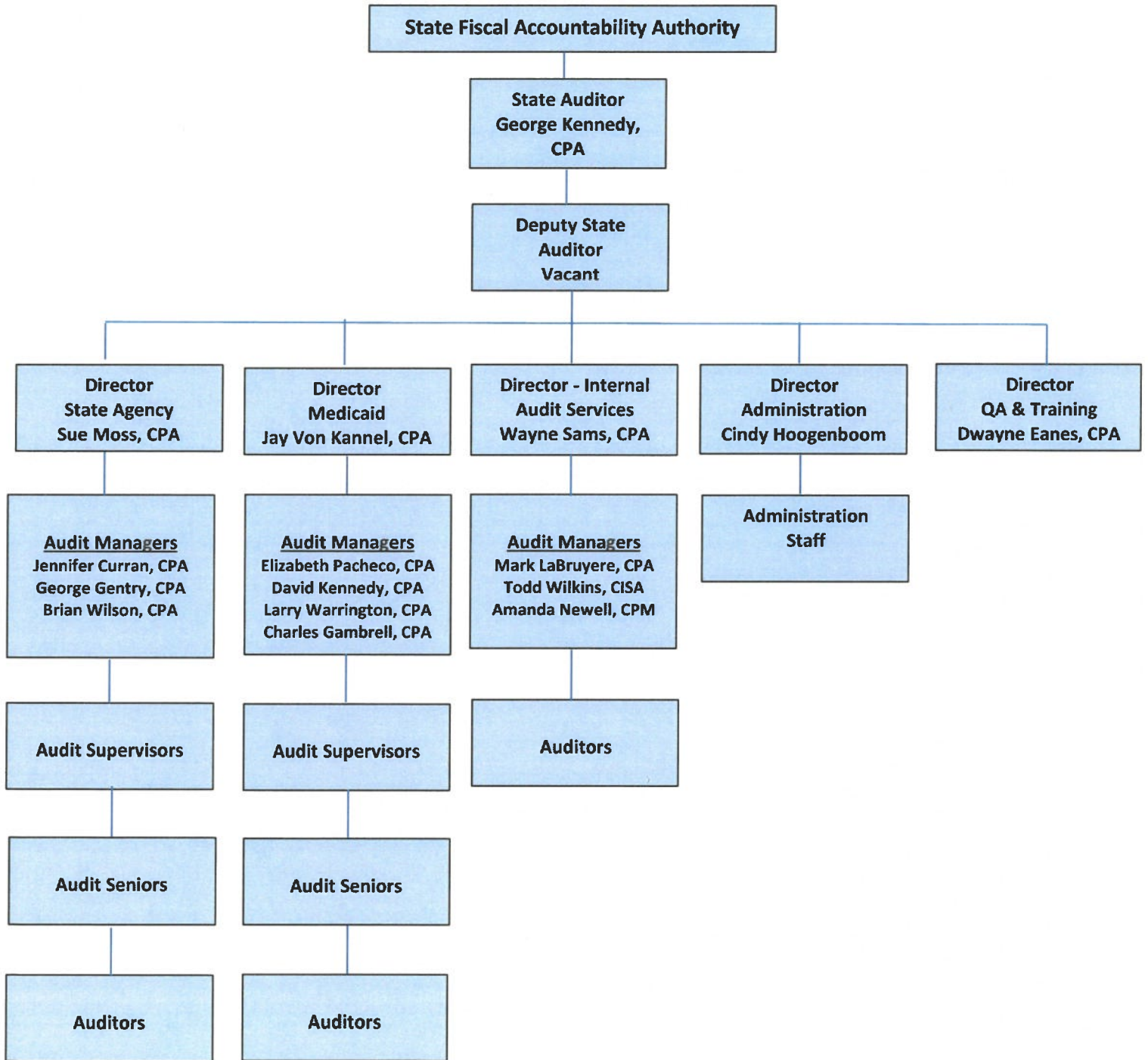
Cindy Hoogenboom – [choogenboom@osa.sc.gov](mailto:choogenboom@osa.sc.gov) – (803) 832-8294  
**Director of Administration**

#### Not Attending Hearing:

Sue F. Moss, CPA – [smoss@osa.sc.gov](mailto:smoss@osa.sc.gov) – (803) 832-8249  
**Director of State Audits**

Jay S. Von Kannel, CPA – [jvonkannel@osa.sc.gov](mailto:jvonkannel@osa.sc.gov) – (803) 832-8257  
**Director of Medicaid Audits**

Wayne T. Sams, CPA – [samswt@scdot.org](mailto:samswt@scdot.org) – (803) 737-1151  
**Director of Internal Audit Services**



## Office of the State Auditor

- **Mission.** To promote trust and confidence in South Carolina state government.
- **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, supported by an Administration division.
  - ✓ **State Agency Division.** Composed of approximately 28 audit professionals, this division has 4 core responsibilities:
    - Annual audit of the State's Comprehensive Annual Financial Report (CAFR)
    - Annual audit of the Schedule of Expenditures of Federal Awards (Single Audit).
    - Attestation engagements of each state agency not separately audited
    - Attestation engagements of county and municipal treasurers, county clerks of court, magistrates, and municipal courts 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 19 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 cost reporting periods.
  - ✓ **Internal Audit Services Division.** Composed of approximately 7 audit professionals, this division focuses on providing services to the SC Department of Transportation (DOT) and performs independent and objective assurance and consulting activities designed to add value or improve DOT'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 6 administrative professionals who provide accounting, budgeting, human resource, purchasing, technology, word processing and other administrative support for the agency.

**2022 Budget Request.** The OSA asks for the following support for FY2022:

Increase in General Funds to Support Cloud Based Services      \$32,000

The Office of the State Auditor currently uses a work paper management software application that is leased from Wolters Kluwer, Inc to perform audits and attestation engagements. This application, called ProSystem FX, is stored on a dedicated server that is paid for monthly and accessed by OSA staff via laptop and desktop computers. Multiple vendors have developed a cloud-based version of the software which will replace the server version we are currently using.

There are several advantages to switching from a server version to a cloud based version including real time software updates, no longer needing to access files via Virtual Private Network (VPN), and being able to host the work paper files of the audit of the Comprehensive Annual Financial Report (CAFR). As well, a cloud-based version for work paper management will alleviate staff time and salaries to an area where they have no formal expertise.

At this time, the CAFR work papers are housed on a server at the CPA firm of Clifton Larson Allen – which performs the CAFR audit jointly with OSA. Once all the data is migrated to the cloud, OSA staff will be able to access work papers from any computer with an internet connection. Access will be granted by entering a username and password and using two factor authentications. There will be a substantial one-time implementation cost to migrate all current data from the dedicated server to the cloud. Once implemented, there will be an annual cost associated with the services.

# **SFAA – State Auditor**

## **FY20 Accountability Report Summary**

### **Analysis of the Agency**

OSA continues to focus on implementing initiatives designed to improve productivity and utilization, increase our value, develop and retain staff and maintain a strategic focus.

### **Major Accomplishments**

The following accomplishments relate to the agency's core mission:

- The audit of the CAFR for fiscal year June 30, 2019, performed jointly with CliftonLarsonAllen, LLP (CLA), a national public accounting firm, was completed November 14, 2019, the date mutually agreed to with the Office of the Comptroller General. The total cost for CLA's services was \$345,200, which was reimbursed by state agencies.
- The audit of the State's Schedule of Expenditures of Federal Awards (Single Audit) for fiscal year ended June 30, 2019, also performed jointly with CLA, was issued March 6, 2020. Covering compliance with laws and regulations for over \$8.4 billion in federal award expenditures, the single audit engagement required over 11,000 hours to complete in addition to the assistance provided by various state agencies. Total cost for CLA's services was \$632,000, which was reimbursed by state agencies.
- Completion of 77 agreed-upon procedures engagements for state agencies covering fiscal years 2018 and 2019.
- Completion of 68 reports covering 37 healthcare providers receiving Medicaid reimbursement. Medicaid receivables of \$14.6 million to date have been established based on these engagement findings.
- Through contract with three certified public accounting firms, completion of 26 agreed-upon procedures engagements of county and municipal courts.
- Completion of 15 internal audit reports related to SCDOT.

Other significant accomplishments and initiatives:

### **Productivity and Utilization**

- Productivity and effectiveness have increased by utilizing technology, by refining our everyday processes and by filling open positions as quickly as possible. We measure utilization (productive time/total time) for approximately 42 auditors who averaged 74% of their time, or over 58,000 total hours, worked directly on audit engagements in fiscal year 2020.
- Effectively converted to remote work within days in March with little to no impact to production, realizing staff utilization of 74.16% for 4<sup>th</sup> quarter 2020 compared to 74.60% for the same period in 2019.
- Assured the 26% of staff time not charged to audit engagements is spent productively on training, development and other beneficial activities, including leave.
- Positioned our staff to take a proactive role in leading the audit of the State's financial statements with the signing of a new contract with a joint auditor. Our goal is to continue to build internal capacity that would allow us to consider eliminating assistance by an external CPA firm by 2025.

- OSA staff will perform the audit of the State's expenditures of federal awards for fiscal year 2020 without the assistance of an external CPA firm for the first time since fiscal year 2011. This eliminates \$630,000 of audit fees paid by state agencies.

#### **Assuring Value for Those We Serve**

- Continuously seek feedback from stakeholders on how we can better add value to the work we perform.
- Require planning meetings with staff of the entity under audit to better understand their mission and operations and what has changed from the prior year, to provide us with information to better identify and address risks.
- 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 over 4.3 times the cost of the attest services provided.
- Continue to build a trusted advisor role between our internal audit team and SCDOT leadership.
- Began internal discussions about the role OSA could play in facilitating enhanced internal audit activities across State agencies, particularly for smaller agencies that cannot support a full-time internal audit function.
- Began internal discussions regarding the feasibility of, and stakeholder appetite for, transitioning certain OSA services to a fee reimbursement basis, allowing better customer service by providing flexibility to perform value-add audit or consulting work over and above that which is legislatively mandated.

#### **Developing and Managing A Professional Workforce**

- Supported by laptops, monitors and remote work and flexibility policies that were already in place, OSA staff quickly and successfully transitioned to remote work in March, while maintaining a high level of productivity and accountability.
- Implemented Microsoft Teams, a platform that encourages collaboration through chat, video meetings and integrated file sharing, to enhance the remote work experience.
- Actively working with OSA's leadership team to seize the opportunity to re-imagine the workplace, understanding that the next phase of re-opening our office will not be a return to normal.
- Continue to reinforce teamwork, accountability and feedback as core elements of our culture, especially in a remote environment.
- Continue to recognize exceptional performance through a pay increase or a bonus to encourage staff to meaningfully contribute over and above what is expected of them.
- Created a new approach to employee onboarding, including assigning a coach to ensure the new hire receives the support they need to be successful in their first year and beyond.
- Onboarded three employees remotely, and successfully delivered technical training using Zoom and Microsoft Teams.
- Continue to encourage staff to challenge legacy thinking through process improvement.
- Increased the number of staff with professional certification by continuing our bonus plan. We now have 25 staff with a CPA or other relevant professional certification, 12 more than in fiscal year 2016.

- Managed turnover for fiscal year 2020 to approximately 10%, which we consider to be a healthy rate.
- Use volunteer service such as delivering meals for Meals on Wheels, working at Harvest Hope, and serving meals at Transitions to build comradery among our teams while serving our community.

#### **Responding to Change by Maintaining a Strategic Focus**

- Developing a strategy to replace major agency-hosted software applications with cloud-based solutions as funding permits. While this move may result in overall increased cost, the arrangement is a better fit for a small agency because it eliminates the burden of agency-based application management and reduces reliance on hosting applications through the State's technology operation servers.
- Implementing basic data analytics capabilities to streamline financial analysis and testing and to provide more robust audit insights.
- Exploring implementation of robotics process implementation for low-level repetitive tasks to be implemented as funding permits.

#### **Managing Agency Resources Effectively**

- Continuing to be a good steward of the OSA's resources by investing in the tools that assist us in working more efficiently and effectively.
- Managed OSA's budget conservatively and with accountability.
- Proactively seeking opportunities to make OSA leaner with minimal disruption to workflow to help better respond to potential variations in State appropriations.



**FY 21-22 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 Support Cloud Based Services	To support Cloud Based Services that will enable OSA to manage the agency's workpapers for audits - including the CAFR - and attestation engagements	32,000	0	0	0	32,000	0	0	0	0

Constitutional Subcommittee Proviso Request Summary FY 2021-22				
Proviso # in FY 19-20 Act	Renumbered FY 21-22 Proviso #	Proviso Title	Short Summary	Agency Recommended Action (keep, change, delete, add)
105.1		Annual Audit of Federal Programs	Reimbursement for cost of Statewide Single Audit	KEEP
105.2		Medical Assistance Audit Carry Forward	Gives authorization to use Medical Assistance Carry Forward for same purpose	KEEP
105.3		Coordination with Inspector General	OSA will refer any fraud, waste, and abuse that is identified during an audit to the Inspector General	KEEP
105.4		Annual Audit of Court Fees and Fines Reports	Conduct a minimum of 15 audits annually	KEEP

**PROVISOS**  
**SECTION 105 - F270**  
**SFAA - OFFICE OF STATE AUDITOR**

**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 (CFR) 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 contracting with a nationally recognized CPA firm to conduct a portion of 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.

***ACTION REQUESTED: KEEP***

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

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.

***ACTION REQUESTED: KEEP***

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

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.

***ACTION REQUESTED: KEEP***

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

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.

***ACTION REQUESTED: KEEP***



**SFAA - State Auditor  
FTE Positions**

	<b>General Fund</b>	<b>Other Fund</b>	<b>Total</b>
<b>Filled</b>	<b>36</b>	<b>19</b>	<b>55</b>
<b>Vacant</b>	<b>5</b>	<b>0</b>	<b>5</b>
	<b>41</b>	<b>19</b>	<b>60</b>