

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



Fiscal Year 2025-2026

Budget Briefing

**House Ways & Means
Constitutional Subcommittee**

January 29, 2025



SFAA - State Auditor

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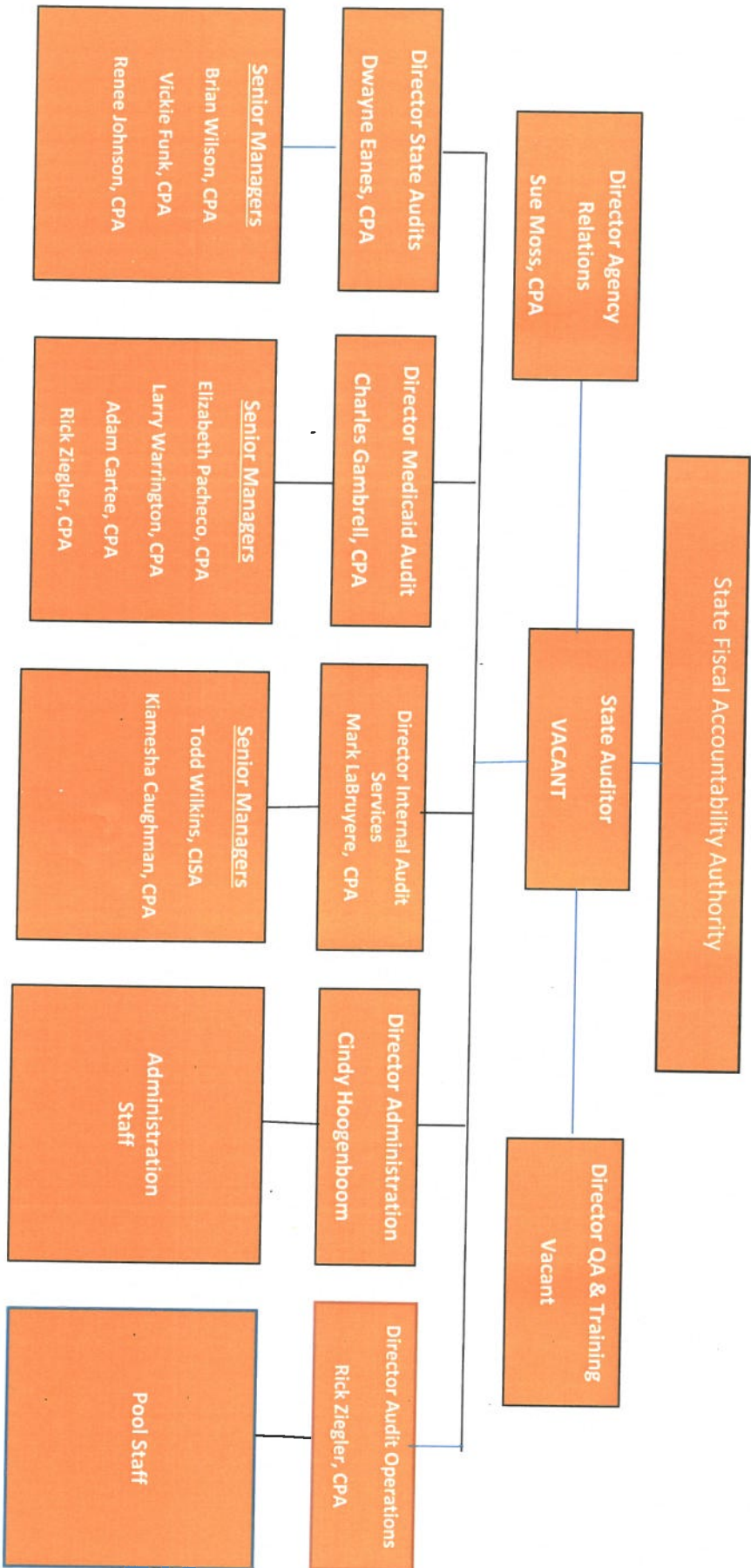
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Organization Chart – as of 1/23/2025





Agency Overview

The Office of the State Auditor (OSA) is organized into four service delivery divisions: State Agency, Medicaid, Audit Services, and Internal Audit Services, and is supported by an Administration division. They are as follows:

State Agency - Composed of approximately 14 permanently assigned audit professionals, this division has 4 core responsibilities:

1. Annual audit of the State's Annual Comprehensive Financial Report (ACFR) as prepared by the Office of the Comptroller General.
2. Annual audit of the Schedule of Expenditures of Federal Awards (Single Audit).
3. Attestation engagements of each state agency that is not separately audited, which are focused on internal controls.
4. Attestation engagements of county and municipal treasurers, county clerks of court, magistrates, and municipal clerks of court to ensure that the imposition, collection, and remittance of court fines, fees, and assessments are in accordance with applicable state laws.

Medicaid - Composed of approximately 14 permanently assigned 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 consecutive cost reporting periods.

Audit Services – Composed of approximately 19 audit professionals, this division performs work across all agency service delivery divisions. The intent is to allow staff from new hires to approximately 3rd year learn about all services provided by OSA before beginning to focus on the work of one division. For staff, it provides a broader understanding of the work OSA performs. For OSA, it provides the ability to shift resources across divisions to address workload needs.

Internal Audit Services – Composed of approximately 7 audit professionals, this division focuses on providing services to the South Carolina Department of Transportation (SCDOT) and performs independent and objective assurance and consulting activities designed to add value or improve SCDOT'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 – Composed of approximately 6 administrative professionals who provide accounting, budgeting, human resource, purchasing, technology, word processing and other administrative support for the agency.

Budget Requests

The Office of the State Auditor has NO budget requests for FY25-26.



Proviso Amendment

Amend Proviso 105.8

Not Related to Other Budget Requests

We are requesting a technical change for this proviso. We are requesting that the proviso be approved for another year to encompass FY25-26 so that the agency can continue to perform operations without having to request recurring funds. By extending this proviso for another year, it would enable the agency to pay for legal expenses that are not recognized as normal expenses for our agency. As we continue to fill our vacant FTE's it will reduce the amount of funds we have to use for unexpected and/or unfunded expenses. As well, it will reduce the amount of funds we have available to use for unknown legal fees. Having the carryforward for an additional year would enable us to plan for these expenses without reducing our workforce or audit programs and would continue to keep productivity at a high level.

If the request to renew this proviso is approved, the Proviso would need to be changed to read:

105.8 (SFAA – AUD: Carry Forward) For Fiscal year ~~2024-2025~~ **2025-2026**, the office of the State Auditor is authorized to carry forward all funds from the previous fiscal year to ensure that the office can perform operations and conduct audits as needed.



**SFAA - State Auditor
FTE Positions**

	General Fund	Other Fund	Total
Filled	40	14	54
Vacant	6	0	6
	46	14	60

As of 1.23.25

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AGENCY'S DISCUSSION AND ANALYSIS

What We Do

The Office of the State Auditor (OSA) serves as the independent audit function for the State of South Carolina. Our mission is to promote accountability and transparency in South Carolina state government. Our major responsibilities include:

Annual Financial Report Audit

The statewide Annual Comprehensive Financial Report (ACFR) audit for fiscal year 2023 was completed on December 20, 2023 and performed jointly with CliftonLarsonAllen, a national audit firm.

Annual Single Audit

The audit of the State's Schedule of Expenditures of Federal Awards (Single Audit) for fiscal year 2023 was completed on March 25, 2024. Covering compliance with laws and regulations for \$13.5 billion in federal award expenditures, the single audit engagement required nearly 16,000 hours to complete in addition to the assistance provided by various state agencies.

Annual Agency Engagements

Completion of 50 agreed-upon procedures engagements for state agencies covering fiscal year 2023, including 20 engagements that also included procedures covering a portion of fiscal year 2024.

Medicaid Examinations

Completion of 39 reports covering 23 healthcare providers receiving Medicaid reimbursement. Medicaid receivables of \$3.2 million have been established based on these engagement findings.

Internal Audit

Completion of 4 internal audit reports related to SCDOT during the fiscal year plus 3 in draft awaiting additional information.

County and Municipal Courts

Through contracts with three certified public accounting firms, completion of 25 agreed-upon procedures engagements of county and municipal courts during the fiscal year.

Strategic Focus

OSA continues to focus on strategic efforts to improve productivity and utilization, increase our value, develop and retain staff, and manage agency resources effectively.

Productivity and Utilization

- We experienced a 4% turnover rate during FY 2024 following three abnormally high years. We attribute this reduction primarily to two strategic initiatives:
 - Two years of legislative support through appropriations have allowed us to increase average salaries across the agency to bring them more in line with the market.

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- A reorganization of the agency leadership team created a position that focuses on our entry-level to approximately 3rd year staff.

We ideally manage turnover to average approximately 10%, however recruiting and retaining the right people is a top issue for OSA, and we may see turnover in excess of 10% in the near term.

- Recruited 5 new employees, including 2 experienced hires.
- Staff utilization remained stable at 73%. Our goal average utilization is 75%.
- Despite workforce challenges, we continue to build internal resources that allow us to insource work that was previously contracted.
- Viewing interns as a short-term response to a challenging hiring market, we employed 2 summer 2024 interns and 2 additional interns who work all year around as the class schedule permits.

Assuring Value for Those We Serve

- Attempt to seek feedback from stakeholders on how we can better add value to the work we perform. Where practical and in line with our mission, we adjust in response.
- Through planning meetings with agency staff, continue to encourage them to use OSA as a resource to help them identify and address agency risk.
- Continue to realize value in Medicaid audit services provided to DHHS. Cumulatively over the last 5 fiscal years, our Medicaid Division has identified amounts for recovery equal to nearly 1.4 times the cost of the attest services provided.
- Recognizing that the historical nature of our agreed-upon procedures engagements does not allow agency management to timely respond to findings, we are shifting focus to procedures performed on more current, rather than historical, financial data and transactions. This allows us to assist agencies in identifying and correcting issues more timely. Nearly half the engagements completed during the year included procedures around current financial transactions.
- Continue to build a trusted advisor role between our internal audit team and SCDOT leadership.
- Working to increase awareness of internal audit services to State agencies on a shared service, cost reimbursement basis. Our focus is on smaller agencies that cannot support a full-time internal audit function.
- Contracted, at the request of a Senate Finance subcommittee, an agreed-upon procedures engagement over the Comptroller General's Office revised cash and investment reconciliation process.
- Contracted, at the request of a Senate Finance subcommittee, a consulting review of the Comptroller General's Office process and procedures for producing the Statewide Annual Comprehensive Financial Report.
- Completed and issued the Special Study of Long-Term Debt as directed by Proviso 105.5, working closely with the staff of 26 higher education institutions to obtain and report complete and accurate data.
- Per Proviso 1.3, work with the Department of Education to develop and maintain a list of auditing firms approved to perform audits of South Carolina school districts and charter schools.

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Developing and Managing a Professional Workforce

- Continue to reinforce teamwork, accountability, and feedback as core elements of our culture.
- Continue to encourage staff to challenge legacy thinking through process improvement.
- Use volunteer service such as delivering meals for Meals on Wheels, working at Harvest Hope, and serving meals at Transitions Homeless Center to build comradery among our teams while serving our community.
- Developed Core Concepts I, a multi-day in-house training program for entry-level employees designed to help them better understand the State, OSA, and the work we perform.
- Developed training for new Senior Auditors to help them in their transition to the role.
- Leadership Team members are actively involved in state and national associations for audit and finance professionals, including board or committee positions for the South Carolina Association of Certified Public Accountants, National Association of State Auditors, Comptrollers and Treasurers, South Carolina State Internal Auditors Association and others.
- As a result of a strategic planning process completed in early fiscal 2022, we continue to focus on: strengthening our recruiting and retention strategies; adding to our existing talent by recruiting experienced CPAs from outside of state government; creating enhanced incentives for staff to become a CPA; providing opportunities for staff growth by offering internal audit services on a shared service, cost reimbursement basis; seeking opportunities to move software applications to the cloud; identifying potential retirements over the next 5 years and planning how best to fill those positions.
- Created two new director-level positions to strengthen OSA's executive leadership team: Director of Audit Operations and Director of Agency Relations.

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.
- Collected a portion of the cost of the statewide single audit from the agencies involved in the audit. These funds are used for technology, training, and retention efforts.
- Proactively seeking opportunities to make OSA more efficient with minimal disruption to workflow.

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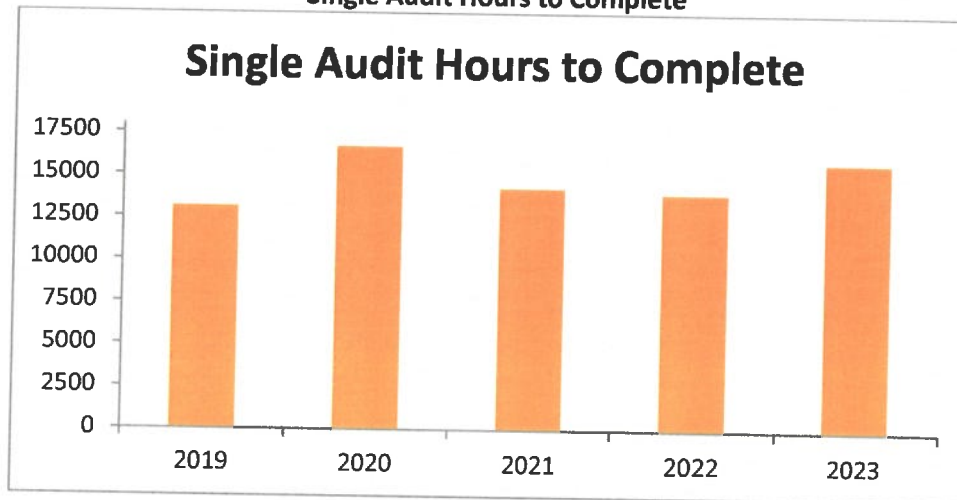
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Performance Comparison to Prior Years

Audit of Expenditures of Federal Awards (Single Audit)

The Single Audit for the fiscal year 2023 required 15,818 hours to complete compared to 13,963 hours for 2022. The hours required have generally increased since 2019 because of federal stimulus funds. We expect hours required to remain in this range for two to three more years before a return to a pre-pandemic average of approximately 12,000 hours. OSA issues this report by March 31 annually, the due date mandated by the federal government.

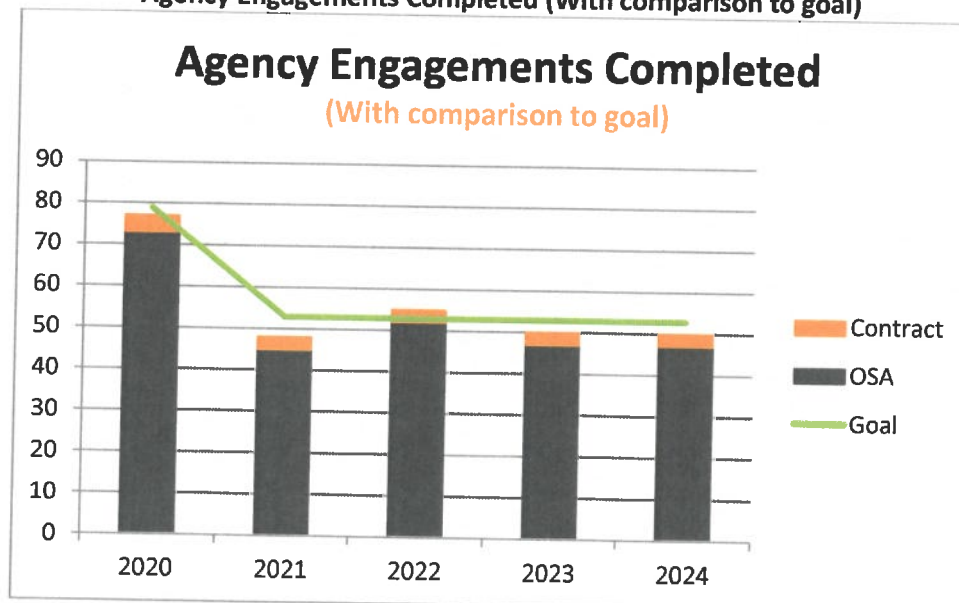
Figure 1
Single Audit Hours to Complete



Agency Engagements Completed

Attest engagements are completed for State agencies. Our goal since 2021 is to complete 70% of these engagements within the fiscal year. These engagements are primarily performed between March and September. Figure 2 illustrates engagements completed during the fiscal year compared to the goal.

Figure 2
Agency Engagements Completed (With comparison to goal)



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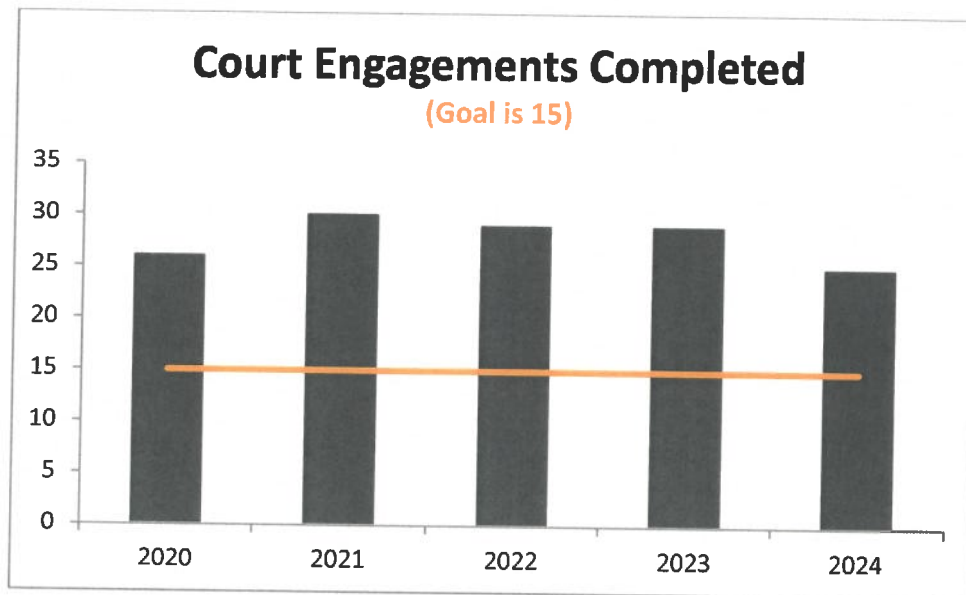
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Court Engagements

For the fiscal year 2024, 25 court engagements were issued, exceeding our goal of 15.

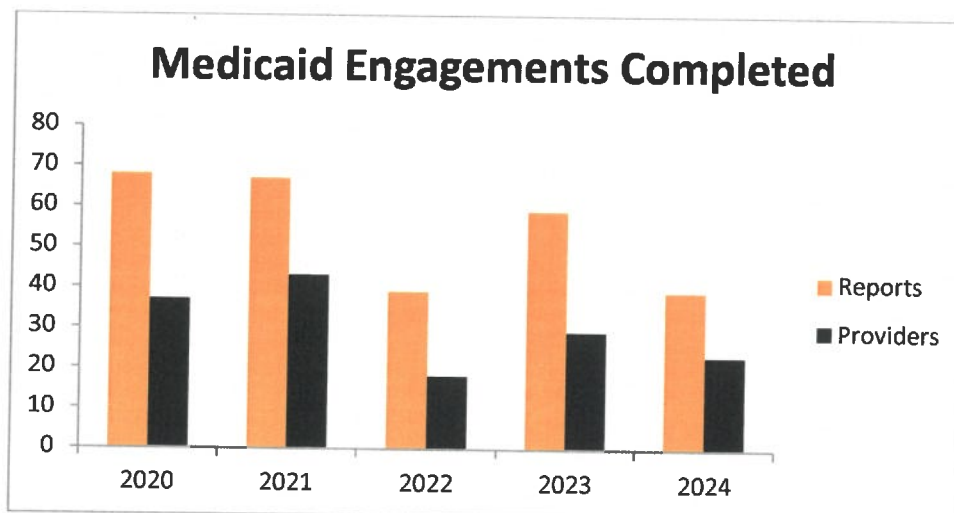
Figure 3
Court Engagements Completed (Goal = 15)



Medicaid Engagements Completed

For the fiscal year 2023, reports for 39 Medicaid engagements were issued, covering 23 healthcare providers. Our contract with the DHHS requires that an engagement be conducted for each nursing home provider at least once every four consecutive reporting periods. Report issuance numbers can vary greatly between fiscal years due in large part to work related to large chain operations and length of engagements.

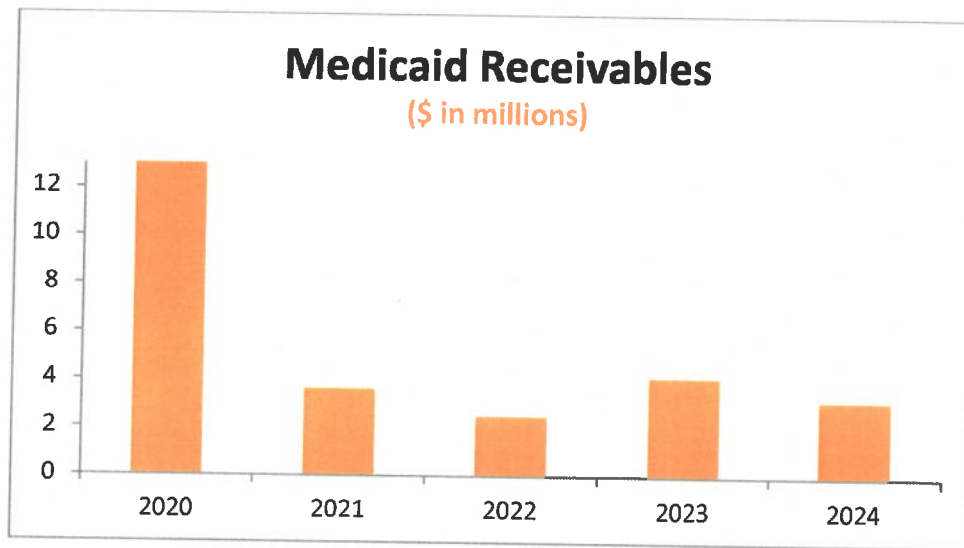
Figure 4
Medicaid Engagements Completed



Medicaid Receivables Established

For the fiscal year 2024, Medicaid receivables of \$3.2 million to date have been established by DHHS, based on the findings in reports we issued. As illustrated in Figure 5, Medicaid receivables can vary significantly from one year to the next. These receivables are not predictive and have no direct correlation to the number of reports issued. The degree of provider compliance with program rules and regulations when reporting cost claimed for reimbursement will always be the determining factor in the amounts established.

Figure 5
Medicaid Receivables Established (\$ in millions)



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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 consecutive cost reporting periods.

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