**TO:** The Honorable Eileen Filler-Corn, Speaker of the House of Delegates

 The Honorable Mamie Locke, Senator

**FROM:** Staci A. Henshaw, Auditor of Public Accounts

**Date:** May 14, 2021

**SUBJECT:** Proposed Organizational and Compensation Enhancements

Considering the increasingly competitive market for professionals with accounting and auditing credentials, we are excited to present, for your approval, the following organizational and compensation enhancements to assist in our efforts to recruit and retain staff as outlined in Item1F of Chapter 552 of the 2021 Acts of Assembly. Our ability to recruit and retain qualified and diverse staff is critical in enabling us to perform all required audits and special projects listed in our annual work plan. The changes included in our new structure provide an increase in starting salary for new staff, additional promotional opportunity for staff, and increase the salary adjustment for staff who become Certified Public Accountants (CPAs) in the Commonwealth. Below, we will discuss each of these enhancements and how they will improve our existing recruitment and retention efforts.

***Chapter 552 of the 2021 Acts of Assembly, Item 1F.***

*F. Out of the amounts appropriated in this item, $325,000 the first year and $325,000 the second year from the general fund shall be available to implement compensation adjustments to address recruitment and retention. Implementation of the salary adjustments is contingent on the approval of a compensation plan by the Committee on Joint Rules.*

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**Enhancement 1 – Increase Starting Salaries**

*Proposal:* Increase our starting salaries from $50,000 to $52,000, which is a four percent increase.

*Justification for Proposed Enhancement:* The majority of entry level staff we hire are recent accounting graduates from higher education institutions, hence public accounting firms are our primary competition when recruiting staff. Many firms now offer signing bonuses and other perks as part of their compensation packages, which has made it increasingly difficult for us to recruit qualified and diverse new staff. Further, when expanding our recruitment efforts to professionals with work experience, the number one reason cited by candidates who reject an extended offer is based on salary. We last increased our starting salaries in 2013.

**Enhancement 2 – Provide Additional Promotional Opportunity**

*Proposal*: Provide additional promotional opportunity when progressing from Associate Auditor to Auditor to assist with staff retention.

*Justification for Proposed Enhancement:* Under our current organizational structure, the progression from Associate Auditor to Auditor occurs when a staff is no longer on probation, which is generally one year, and we provide a nominal salary increase of $1,000. For all other promotions, as staff progress through our organizational structure, we typically provide a 9.6% increase, hence the current progression from Associate Auditor to Auditor is not reflective of a true promotional opportunity. Under our existing structure, qualified staff can quickly progress to Senior Auditor and Audit Supervisor, and after which deem their upward mobility in terms of position and related salary as limited, when comparing the opportunity for upward mobility and salaries offered for experienced auditors by CPA firms and other state agencies.

We propose to make the progression from Associate Auditor to Auditor a true promotional opportunity, no longer tied to the end of the probationary period, and reflective of the typical 9.6 percent promotional increase. This will allow us to extend the timeframe for staff to progress through our organizational structure and assist with ongoing staff retention efforts.

**APA Organizational Progression for Staff**

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**Enhancement 3 – Provide Salary Adjustments for CPAs**

*Proposal*: Further incentivize staff who become licensed CPAs to better align with market value and increase retention of CPAs.

*Justification for Proposed Enhancement:* CPAs continue to be in high demand in the public sector, state agencies, and higher education institutions. We experience a significant amount of turnover among our staff that are licensed CPAs as outside entities heavily recruit them once they attain their license. We perform a significant portion of our work under the financial audit standards and strive to keep a sufficient level of CPAs on staff to help maintain our credibility and provide succession planning if we have turnover in our management level positions. Under our existing structure, when our staff become licensed CPAs, we currently provide a salary increase of $4000. We are proposing to increase this amount to $7,000 to be more in line with the market value of the CPA designation. We are also proposing to change this increase from being provided all at one time to being provided in increments (i.e. $3,500 at the date of licensing and $3,500 at a future date). Our goal in making this change is to continue to encourage our staff to become CPAs and increase retention of staff once they become licensed CPAs.

**Financial Commitment to Implement Organizational and Compensation Enhancements**

The total anticipated cost to implement these three organizational and compensation enhancements is approximately $410,000, including $320,000 in salary increases and $90,000 in associated benefit increases. The anticipated cost of the proposed increase in starting salaries and the proposed creation of the additional promotional opportunity is approximately $315,000 and includes amounts to address salary compression issues with some existing employees who would not be eligible for these changes. The anticipated cost of changing our compensation structure for staff who become CPAs is $95,000.

We will fund approximately $85,000 of this increase with existing non-general fund appropriations and the remaining $325,000 with the additional General Fund appropriation provided in Item 1F. of Chapter 552, of the 2021 Acts of Assembly. As discussed during our May 3, 2021, presentation to the Joint Legislative Audit and Review Commission, we are eager to move forward with implementing these changes as we believe they will boost our existing efforts to be competitive while recruiting qualified and diverse individuals and correspondingly assist in our ability to retain experienced staff.

We appreciate your consideration of our proposal and would be happy to meet with you to discuss this further and answer any questions you may have.

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