

South Carolina General Assembly

LEGISLATIVE AUDIT COUNCIL

ANNUAL ACCOUNTABILITY REPORT

FY 01-02



LAC

LEGISLATIVE AUDIT COUNCIL

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September 12, 2002

His Excellency, James Hodges, Governor
and Members of the General Assembly:

We are pleased to provide the annual accountability report of the South Carolina Legislative Audit Council for the fiscal year ended June 30, 2002. The LAC encourages legislative requests for performance audits and is committed to audit work that will be responsive to legislative needs. Please call me or Jane Thesing, assistant director, at (803) 253-7612 with questions or comments.

Respectfully submitted,

A handwritten signature in cursive script that reads "George L. Schroeder".

George L. Schroeder
Director

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Section I — Executive Summary

Mission and Values

The LAC's mission is to conduct performance audits of state agencies and programs to help ensure that their operations are efficient, they maximize performance, and they follow the law. In conducting audits, the LAC seeks to uphold the values of responsiveness, fairness, independence, thoroughness, and accuracy.

Key Strategic Goals

The LAC has had two strategic goals since its inception:

1. Identify specific ways to reduce the cost of state government.
2. Identify specific ways to improve the performance of state government.

Opportunities and Barriers

In FY 01-02, South Carolina began operation of a lottery. The LAC is authorized by state law to conduct periodic audits of the lottery. These audits will be an opportunity to help ensure the integrity and efficiency that are necessary for the lottery to be successful.

In FY 01-02, the LAC began monitoring the extent to which recommendations in prior audits have been implemented. As a result, the LAC will have greater opportunity to ensure that improvements take place.

Limited funding throughout state government is giving the LAC an increased opportunity to assist state officials in reducing costs.

Currently, there is a backlog of requests for our audits. Due to our limited number of staff, legislators must often wait six to nine months before we can begin work on an audit.

Major Achievements

In FY 01-02, the Legislative Audit Council published seven performance audits of state government programs. We made 57 recommendations and identified potential cost savings of more than \$34 million. In addition, we identified many ways to improve the performance of state government that do not involve cost savings.

The audits published in FY 01-02, with a summary of findings and recommendations, are listed below.

A Review of the State Housing Finance and Development Authority's Low-Income Housing Tax Credit Program (September 2001)

The Low-Income Housing Tax Credit Program directs private capital towards the creation of affordable rental housing. The tax credits provide incentives by offsetting costs for development acquisition, new construction, or substantial rehabilitation. We found that the authority did not provide adequate oversight of tax credit projects. Although the agency awarded points to a developer based on the developer's plan to use certain construction materials and to install certain amenities, agency staff did not directly verify developer compliance with these requirements. In addition, developers either did not submit progress reports or submitted inaccurate reports on projects to the authority. The authority did not take the initiative to follow up with the developers in these situations. This led to delays in the construction of affordable housing in South Carolina.

Contact: Priscilla Anderson, Audit Manager

Cost Savings Strategies for the South Carolina Medicaid Program (October 2001)

This was our second review to identify cost savings for the S.C. Medicaid program managed by the Department of Health and Human Services (DHHS). Only 5% of S.C. Medicaid clients were enrolled in a managed care program. Some states have mandated enrollment in managed care plans for specific Medicaid groups such as women and children. We estimated a \$21.6 million savings if DHHS required managed care enrollment for the eligible children and low-income families in the 19-county area where Medicaid managed care programs were operating. We also recommended expanding the Health Insurance Premium Payment program to allow DHHS to pay premiums and other costs for low-income Medicaid beneficiaries who have access to employer-based health insurance. This could save up to \$1,313 per recipient who qualified for the program. In addition, we recommended changes to DHHS's contract with another state agency for determining Medicaid eligibility, with a potential savings of \$4.8 million.

Contact: Kathy Snider, Audit Manager

The Department of Education's Administration of the Comprehensive Health Education Act (November 2001)

We reviewed the sources and uses of funds for health education and the department's role in ensuring compliance with the law. The State Department of Education (SDE) has relied primarily on federal funds from the Centers for Disease Control and Prevention to operate the state's healthy schools program. SDE generally met the requirements for use of the CDC funds; however, the department has not always maintained appropriate documentation or measures of program results. Also, SDE did not exercise adequate oversight in administration of its grants for the program by not monitoring the grants and maintaining appropriate fiscal accountability. SDE has not adequately ensured that school districts comply with the Act. Districts have not

complied with provisions requiring advisory committees, parental opt-out procedures, and specified programs of instruction. Also, there has been controversy as to whether some materials used by school districts comply with the law.

Contact: Jane Thesing, Assistant Director

Regulation of the Profession of Forestry (March 2002)

We reviewed the Board of Registration for Foresters to determine how the profession of forestry should be regulated by the state and recommended that the state should not continue to restrict the practice of forestry. The General Assembly should consider a less restrictive type of regulation, such as certification, or could discontinue regulation of the forestry profession. The board has done little to ensure that landowners consult registered foresters or to enforce the law requiring registration. Existing civil and criminal penalties for timber theft and fraud address the potential harm from incompetent practice. The South Carolina Forestry Commission has provided assistance to landowners and increased its enforcement activities to protect the public. A majority of states do not regulate foresters. Also, professional and occupational associations provide another way for the public to identify competent practitioners and become aware of forestry issues.

Contact: Jane Thesing, Assistant Director

Issues Involved in the State Ports Authority's Expansion Plans (March 2002)

The S.C. State Ports Authority (SPA) has been planning to build a new marine cargo terminal complex on a 1,300-acre, undeveloped piece of land it owns on Daniel Island. These plans were opposed by several state legislators as well as environmental and citizens groups and local governments in the Charleston area. We reviewed several issues involving the expansion:

- ❑ The economic impact of the port as measured in port-related employment.
- ❑ The extent to which cargo shipped through the port originated from or was destined for a South Carolina business.
- ❑ Projections for a continued increase in the number of containers shipped through the port.
- ❑ Environmental and traffic issues raised by a draft environmental impact study.
- ❑ Potential costs and source of funds for a new terminal.

We concluded that other sites in the state – the former Navy base in North Charleston and undeveloped land on the Savannah River in Jasper County – represented viable locations for a new terminal.

Contact: Kathy Snider, Audit Manager

*A Review of Competition for the Department of Transportation's Road Paving Contracts
(April 2002)*

We reviewed the level of competition among contractors for SCDOT's road paving contracts and the department's internal controls for detecting bid-rigging or other forms of anti-competitive behavior. We found evidence to indicate that the level of competition is less than optimal in certain geographic areas of the state. We found that nearly one-half (49%) of road paving projects had two or fewer bidders. We identified 13 counties in which the top company had over 70% of the market. This is not necessarily the result of anti-competitive practices. However, improved competition could result in lower costs. We found that the average of the low bids on single-bid projects was 5% *above* SCDOT's estimate, while the average of the low bids for projects with multiple bidders was 4% *below* SCDOT's estimate.

SCDOT does not conduct regular analysis of bidding patterns. Over the last five years, SCDOT spent \$246,000 leasing computer software which it has not used. Also, SCDOT's bid opening procedures increased the likelihood of bid-rigging. Once a month SCDOT opened bids at a hotel in Columbia. The night before bids were due, many contractors stayed in the hotel at discount rates obtained by SCDOT. This can make collusion among contractors easier.

Contact: Perry Simpson, Audit Manager

A Review of the Budget and Control Board's Energy Office Operations and the Board's Hiring Practices (May 2002)

The Budget and Control Board (B&CB) is the state's central administrative agency which oversees areas such as human resources, information technology, and fiscal matters. We found that the B&CB's Energy Office did not properly manage a program which provided low-interest loans to the private sector for the implementation of energy conservation and efficiency measures. In addition, the office had not established guidelines or marketed particular energy grants. Only those applicants who were aware of available grant funds had an opportunity to apply for and receive funds. We did not find significant problems with the board's hiring practices.

Contact: Priscilla Anderson, Audit Manager

Section II — Business Overview

Number of Employees The LAC had 16 employees at the end of FY 01-02.

Office Location The LAC operates out of a single location at:

1331 Elmwood Avenue
Suite 315
Columbia, SC 29201

Expenditures and Appropriations

Major Budget Categories	00-01 Actual Expenditures		01-02 Actual Expenditures		02-03 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$825,151	\$825,151	\$783,085	\$783,085	\$786,082	\$786,082
Other Operating	168,246	168,246	120,223	120,223	110,783	110,783
Special Items						
Permanent Improvements						
Case Services						
Distribution to Subdivisions						
Fringe Benefits	203,840	203,840	197,046	197,046	204,789	204,789
Non-recurring						
TOTAL	\$1,197,237	\$1,197,237	\$1,100,354	\$1,100,354	\$1,101,654	\$1,101,654

Key Customers

The LAC's primary customer is the General Assembly, which represents the citizens of South Carolina.

Key Suppliers

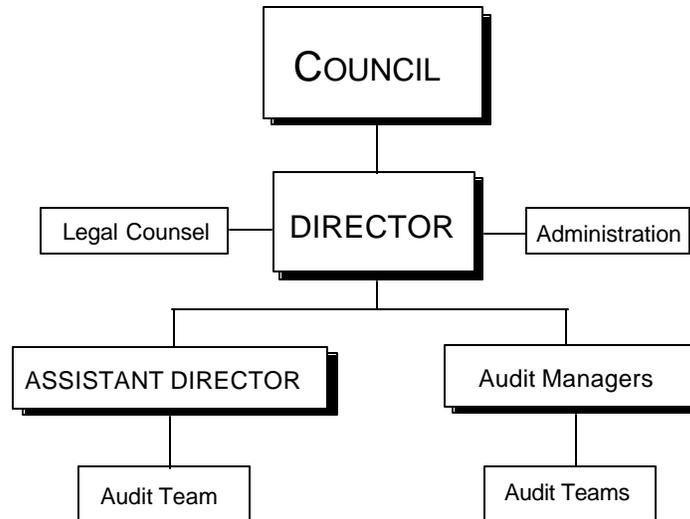
The primary inputs used by the LAC to produce audits are labor and information. Below we describe the key suppliers of these inputs:

- LAC employees do almost all of the data collection, analysis, and writing required to prepare an audit. Infrequently, we will obtain the services of an outside entity to conduct analysis. Our key suppliers of employees are colleges and universities in South Carolina and elsewhere, as well as other government agencies.
- Our key suppliers of information are the agencies we audit, central state government agencies in South Carolina (such as the Comptroller General, State Treasurer, and the Office of Human Resources), agencies in other states, and the federal government.

Major Products and Services

The LAC provides information, analysis, and recommendations to assist the General Assembly and state agencies in improving the operation of state government. A key component of these products is the independent, accurate, and thorough manner in which they are provided.

Organizational Structure



Section III — Elements of Malcolm Baldrige Award Criteria

Category 1 — Leadership

1. How do senior leaders set, deploy, and communicate:

a) Short- and long-term direction?

The LAC's short-term direction is established by its senior leaders (council, director, assistant director, and three audit managers) through the development of audit plans that are written and carried out with the assistance of staff. The LAC's senior leaders set the long-term direction and policy of the agency using:

- Section 2-25-10 *et seq.* of the South Carolina Code of Laws.
- Government Auditing Standards established by the Comptroller General of the United States.
- Input from staff, both informally and in the form of quality teams.
- Input, both informally and formally, from the General Assembly.

Long-term direction and policy are communicated at agency and audit team meetings and through audit and policy manuals.

b) Performance expectations?

The LAC's senior leaders, in conjunction with state law and Government Auditing Standards, have established performance expectations for all aspects of audit work. These are communicated at agency and audit team meetings, through audit and policy manuals, and through a written personnel evaluation instrument.

c) Organizational values?

The LAC's senior leaders have established the organizational values of responsiveness, fairness, independence, thoroughness, and accuracy in a manner that is consistent with Government Auditing Standards. These are communicated at agency and audit team meetings, through audit and policy manuals, and through a written personnel evaluation instrument.

d) Empowerment and innovation?

The LAC's senior leaders encourage input and innovative ideas from staff throughout the year. This organizational atmosphere is evident in the agency's informal discussions, staff meetings, and ad hoc quality teams. Senior leaders also use an independently developed and administered survey to more formally measure the views of staff.

e) Organizational and employee learning?

The LAC's senior leaders establish organizational and employee learning objectives to coincide with the strategic goals of the LAC, which are identifying ways to reduce the cost and improve the performance of state government. These objectives are consistent with the training required by Government Auditing Standards. Learning objectives are communicated through audit and policy manuals, and during audit planning and employee performance evaluations.

f) Ethical behavior?

The expectation of ethical behavior at the LAC has been established by senior leaders and staff in a manner consistent with Government Auditing Standards. Behavioral expectations including independence, thoroughness, accuracy, and compliance with state law, are communicated at staff meetings, audit and policy manuals, and through a written personnel evaluation instrument.

2. How do senior leaders establish and promote a focus on customers?

Senior leaders have established a focus on customers by establishing written policies that require two-way communication with members of the General Assembly and audited agencies at specific points before, during, and after each audit. Also, senior leaders have established policies through which the public and the media are informed of and have access to all audits.

3. What key performance measures are regularly reviewed by your senior leaders?

Key performance measures that senior leaders regularly review include compliance with Government Auditing Standards, legislator satisfaction, employee satisfaction, cost per audit hour, product timeliness, and the number and dollar value of findings and recommendations.

4. How do senior leaders use organizational performance review findings and employee feedback to improve their own leadership effectiveness and the effectiveness of management throughout the organization?

In response to peer reviews of LAC compliance with Government Auditing Standards, senior leaders have improved communication with audited agencies and have made the supervision of working papers a more structured process. A peer review is scheduled for FY 02-03. Agency leaders use employee feedback to identify where organizational effectiveness could be improved. In FY 01-02, management established an ad hoc committee of employees who significantly revised our employee performance evaluation system, with a focus on individual planning and goal setting at the beginning of audits.

5. How does the organization address the current and potential impact on the public of its products, programs, services, facilities, and operations, including associated risks?

In accordance with Government Auditing Standards, the LAC considers the effects of all findings we report; these effects may involve all taxpayers or citizens. During audits, the LAC seeks the input and advice of citizen and business groups. The purpose of this effort is to obtain information to help ensure our recommendations result in lower costs and/or improved services without negative consequences that outweigh these benefits.

6. How does senior leadership set and communicate key organizational priorities for improvement?

Key organizational priorities for improvement are set by senior leadership in conjunction with staff. Sources of ideas for improvement come from leadership, staff, members of the General Assembly, National Legislative Program Evaluation Society (NLPES) member states, and Government Auditing Standards. The forums for developing ideas, which are usually communicated by written policy, include staff meetings, management meetings, quality teams, and informal discussions.

7. How does senior leadership and the agency actively support and strengthen the community?

The LAC supports and strengthens South Carolina primarily by being a source of information about the workings of state government. To this end, the director speaks to community organizations throughout the year. Senior leadership answers questions from the media, which are the primary means by which most citizens learn of our audits. And, on a continual basis, we answer questions from citizens who need direction on how to obtain help from state government. Areas of emphasis usually follow the topics of recent audits, which are determined by the General Assembly.

Category 2 — Strategic Planning

1. What is your Strategic Planning process, including participants?

In FY 01-02, the LAC developed its first strategic plan. The process for developing the plan included a series of meetings and informal discussions among senior LAC leaders, auditors, and administrative staff. Also, the LAC obtained advice from Nathan Strong, who works with the state Office of Human Resources in the Budget and Control Board.

How does your Strategic Planning process account for:

- a) Customer needs and expectations?

The LAC's strategic plan accounts for the needs and expectations of the General Assembly. The plan is therefore aimed at developing systems to ensure that audit reports have accurate and unbiased information that can be used to reduce the cost and improve the performance of state government.

- b) Financial, societal, and other risks?

The LAC's key strategic goals are to identify ways to reduce the cost and improve the performance of state government (see page 4). State officials can reduce financial, societal, and other risks to citizens by implementing the LAC's recommendations.

- c) Human resource capabilities and needs?

To ensure that the LAC will be able to attract and retain qualified staff, the strategic plan sets goals for reviewing compensation levels and ways to recognize staff achievement. To ensure that staff skill levels are maintained after hire, the strategic plan includes a process for ongoing training and evaluation.

- d) Operational capabilities and needs?

The strategic plan focuses on two operational capabilities that are in need of improvement: monitoring the implementation of prior LAC recommendations and ensuring that audits are finished on time.

- e) Supplies/contractor/partner capabilities and needs?

The LAC is a small organization that operates with standard office equipment and supplies, such as personal computers, printers, a copier, paper, etc. The LAC has no contractors or partners. As a result, supplies/contractor/partner capabilities and needs are not part of the strategic plan.

2. How do you develop and track action plans that address your key strategic objectives?

At the beginning of each audit, the LAC develops a written action plan in which we identify specific ways to reduce the cost and/or improve the performance of state government. Action plans are developed using state law, written audit requests, discussions with legislators, and discussions with agency officials.

3. How do you communicate and deploy your strategic objectives, action plans, and performance measures?

Strategic objectives, action plans, and performance measures are communicated internally through monthly status reports, at agency and team meetings, and through audit and policy manuals.

Category 3 — Customer Focus

1. Identify key customers and stakeholders.

The LAC's primary customer and stakeholder is the General Assembly, which represents the citizens of South Carolina.

2. How do you determine who your customers are and what are their key requirements.

The LAC determines who its customers are by reviewing state law. We determine their key requirements as follows:

- All audits must be requested by five or more legislators or be mandated specifically by state law. At the beginning of each audit, we meet with the legislative requesters to ensure that we understand their concerns. We then send a letter confirming audit objectives to the requesters. After each audit has been published, we conduct written satisfaction surveys of legislators.

- Determining the key requirements of the public is a complex task. Citizens will often contact us about an agency that is alleged to be performing in a substandard manner. We give instructions to such callers regarding how audits can be requested through their local legislators. Upon request, we also meet with members of the public to discuss their concerns.
- The news media are crucial to communication between the LAC and the General Assembly and the LAC and the public. A news story will often highlight a concern of members of the General Assembly or the public that is relevant to an upcoming or ongoing audit. For most of the public, news stories are the only source of information regarding LAC audits. We therefore provide news media from around the state copies of our reports and respond to questions they may have.

3. How do you keep your listening and learning methods current with changing customer/business needs?

In recent years, the LAC has expanded the methods by which it listens to and learns the needs of legislators, including post-audit surveys. We also now depend on the Internet for learning the needs of customers and, through our website, communicating with customers. We emphasize direct communication with legislators and staff to determine their needs.

4. How do you use information from customers/stakeholders to improve services or programs?

The LAC has learned that legislators want audits to be completed in a more predictable and timely manner. Beginning in FY 01-02, we initiated a performance measure called “audits published on time.” For each audit, we communicate to the legislative requesters our projected date of publication. We seek to publish 80% of audits within 30 days of the date projected. To ensure better communication with our customers, all LAC reports are available on our website at www.state.sc.us/sclac. We also make available one- to four-page summaries of each report.

5. How do you measure customer/stakeholder satisfaction?

The LAC measures the satisfaction of legislators with post-audit surveys.

6. How do you build positive relationships with customers and stakeholders?

The LAC maintains open lines of communication as a means of building positive relationships with legislators and the public. LAC staff regularly contact legislators and legislative staff to provide information in our audits that may be of use to them in dealing with an issue or problem. On short notice, any legislator or member of the public can meet with a senior staff member of the LAC. Also, all LAC audits are available free of charge and can be accessed on the Internet.

Category 4 — Information and Analysis

1. How do you decide which operations, processes, and systems to measure?

Audit Results

The primary process measured by the LAC is its audits and their impact on state government. To date, LAC has measured the:

- Financial benefits *identified* in LAC audits.
- Recommendations *made* in LAC audits.

In FY 01-02, the LAC developed a methodology for two additional audit results measurements, which will be initiated in FY 02-03:

- Financial benefits *realized* from LAC audits.
- Recommendations *implemented* from LAC audits.

These four measurements were selected to quantify the LAC's strategic goals of identifying ways to reduce the cost and improve the performance of state government.

The type of auditing the LAC does and the way it gets assignments make it difficult to quantify *objectives* or *benchmarks* that relate to reducing the cost and improving the performance of state government. Most LAC audits are requested on an ad hoc basis by members of the General Assembly, preventing us from knowing in the planning process what programs we will be auditing or the objectives of those audits. In addition, organizations similar to the LAC in other states do not always audit the same programs that are audited by the LAC. Therefore, to date we have not established targets for cost reduction or performance improvement.

Quality and Efficiency

The LAC also has quantified internal management objectives that it associates with audit quality and efficiency. These were determined by LAC senior leaders, in conjunction with staff. Below is a list of internal management objectives and targets established for FY 02-03:

- 90% of auditors will have graduate degrees or professional licenses.
- 100% of auditors will have a minimum of 20 training hours in the past year and 80 hours in the relevant two-year training period in accordance with Government Auditing Standards.
- The LAC will comply with Government Auditing Standards, as determined by peer reviews conducted every three years by teams of auditors from throughout the United States.
- 80% of South Carolina legislators will be satisfied with the quality of our audits.

- The LAC will score at the 55th percentile of organizations nationwide on the Campbell Organizational Survey, a nationally recognized employee satisfaction instrument. FY 01-02 was the first year the LAC used this audit objective.
- The LAC will publish 80% of audits “on time.” FY 01-02 was the first year the LAC used this audit objective. In FY 01-02, we defined “on time” as publishing an audit on or before its projected date of publication. We found, however, that uncertainties pertaining to editing and reviewing audits made it difficult to be precise when projecting a publication date. Beginning in FY 02-03, we will define “on time” as publishing an audit within 30 days of its projected date of publication.
- The LAC’s costs will be limited to \$55 per audit hour. FY 01-02 was the first year the LAC used this audit objective.

2. How do you ensure data quality, reliability, completeness, and availability for decision-making?

The LAC ensures the soundness of data (i.e. quality, reliability, completeness, and availability) through various means. The soundness of data regarding LAC professional qualifications, training hours, legislator satisfaction, employee satisfaction, audit results, cost, and audit timeliness is ensured through direct inspection by senior leaders and documentation from independent outside entities. The soundness of data regarding LAC compliance with audit standards is ensured by peer review teams from other states assigned to review the LAC. The soundness of data provided by other organizations is ensured by LAC staff who make comparisons with other sources of data and review internal controls of the agencies being audited. In addition, during our exit process, agencies are allowed to review and comment on our reports prior to publication to help ensure accuracy.

3. How do you use data/information analysis to provide effective support for decision-making?

As a result of peer reviews, conducted every three years by teams of auditors from throughout the United States, the LAC has improved communication with audited agencies and has made the supervision of working papers a more structured process. These changes help ensure compliance with Government Auditing Standards. In response to an employee survey, the LAC plans to initiate a study of the agency’s pay levels in relation to comparable positions elsewhere.

4. How do you select and use comparative data and information?

The LAC has chosen to follow Government Auditing Standards because they are recognized as the national standard for government performance auditing. These standards are detailed in their requirements. They relate to issues including independence, objectivity, thoroughness, and accuracy. The multi-state peer review teams, who help interpret and apply these standards, provide the LAC with information that is used to assess our organization in relation to those in other states.

Category 5 — Human Resources

1. How do you and your managers/supervisors encourage and motivate employees (formally and/or informally) to develop and utilize their full potential?

New LAC employees are selected carefully based on attributes that match with the technical and personal skills needed. Employees work in audit teams to promote cooperation and to provide a support framework for the sharing of ideas. High performance is rewarded through regular informal positive recognition from senior leaders and through promotion within the organization.

2. How do you identify and address key developmental and training needs, including job skills training, performance excellence training, diversity training, management/leadership development, new employee orientation, and safety training?

As part of the planning process for each audit, managers must assess training needs of the staff who will be participating in the audit. Also, as part of employee performance evaluations, individual training needs are assessed. The LAC provides the quantity and types of training that are required by Government Auditing Standards. Courses are provided to new and experienced LAC staff relating to their specific job skill needs, performance excellence, and management/leadership development. These courses are identified keeping in mind the LAC's two strategic goals of identifying ways to reduce the cost and improve the performance of state government.

3. How does your employee performance management system, including feedback to and from employees, support high performance?

The LAC's employee performance management system supports high performance by providing an assessment of each auditor's work on an audit-by-audit basis. The components of the evaluation instrument are tied directly to the skills needed to conduct performance auditing. The performance of employees who are not auditors is evaluated annually and is also tied to the skills needed. All performance evaluations are discussed in private meetings, during which the views of the staff and his or her supervisor are exchanged. During FY 00-01, an LAC quality team evaluated and revised our performance evaluation instrument to ensure that the evaluation process facilitates communication and promotes employee improvement. The new instrument was used for the first time in FY 01-02.

4. What formal and/or informal assessment methods and measures do you use to determine employee well being, satisfaction, and motivation?

The LAC uses the "Campbell Organizational Survey" to formally measure the views of staff. This survey enables us to measure changes in the perceptions of staff across time. Informally, we assess employee well being, satisfaction, and motivation at regular agency and audit team meetings.

5. How do you maintain a safe and healthy work environment?

The LAC maintains regular communication regarding exit signs, lighting, fire extinguishers, etc. with its office space landlord. In addition, the LAC distributes literature on healthy lifestyles, including the topics of diet and exercise.

6. What is the extent of your involvement in the community?

The LAC is actively involved in the community of South Carolina. The director and other senior staff speak to community organizations throughout the year. On a continual basis, we receive visits and telephone calls from citizens who need direction on how to obtain help from state government.

Category 6 — Process Management

1. What are your key design and delivery processes for products/services, and how do you incorporate new technology, changing customer and mission-related requirements, into these design and delivery processes and systems?

The LAC's single program is conducting performance audits of state agencies and programs. The processes and systems that are required for us to complete audits successfully include determination of the needs of legislative customers and the views of LAC staff, and adherence to Government Auditing Standards such as independence, thoroughness, and accuracy.

The LAC uses multiple methods for ensuring that these processes and systems are carried out consistently and efficiently. We utilize frequent communication with legislators, at various stages of each audit, to help ensure that we answer fully their questions and keep up with their evolving requirements as customers. We conduct employee satisfaction surveys of LAC staff and form ad hoc quality teams to ensure their involvement. We establish detailed policies, review the accuracy and completeness of working papers, and maintain active membership in the National Legislative Program Evaluation Society to help ensure that we comply with and remain up-to-date with Government Auditing Standards.

We have incorporated new technology into design and delivery processes and systems in several ways. We use desktop publishing technology for in-house publication of audit report summaries. In addition, all LAC publications are available on the Internet at www.state.sc.us/sclac.

2. How does your day-to-day operation of key production/delivery processes ensure meeting key performance requirements?

The day-to-day operation of the following key production/delivery processes helps ensure that the LAC conducts audits that answer questions from state legislators in a responsive, fair, independent, thorough, and accurate manner. In FY 01-02, for example:

- The LAC director and audit managers used monthly time sheets to ensure that audits were completed in a timely manner.
- The LAC director and audit manager reviewed working papers and carried out quality review processes for each report published to ensure that the LAC passes its peer review process.
- After each audit, the LAC administered satisfaction surveys to the legislators who requested the audit.
- The LAC director tabulated the financial benefits identified in audits as well as the number of recommendations.
- LAC audit managers used personnel records to ensure that auditors have or are working toward graduate degrees or professional licenses (e.g. law and accounting).
- The LAC training coordinator used a database to ensure that auditors obtain training that has been approved by management and meets the requirements of Government Auditing Standards.
- The LAC staff participated in ongoing communication with organizations in other states to keep abreast of developments in performance evaluation and auditing throughout the nation.

3. What are your key support processes, and how do you improve and update these processes to achieve better performance?

The key support processes of the LAC include data analysis, report production, personnel, and purchasing. The primary means by which the LAC improves and updates these processes is ongoing training in current technology. Such training is provided primarily by technical colleges and private trainers. The format of our reports is modeled after those published by the federal General Accounting Office and other states.

4. How do you manage and support your key supplier/contractor/partner interactions and processes to improve performance?

Because the LAC employs only 13 auditors, we have limited influence over the education and training processes used by our key suppliers of labor — colleges and universities and other government agencies. Nonetheless, the LAC director has informal, occasional communication with colleges and universities regarding their educational programs. Also, the LAC regularly hires interns who are college and university students.

Regarding the suppliers of the information with which audits are conducted, the LAC regularly issues recommendations for improving the data reported by South Carolina state agencies. We have given particular emphasis toward the accuracy of information and its consistency across time, geography, and organizations. Outside of making recommendations, we regularly work with other state agencies to ensure that information is reliable. The director of the LAC is currently involved in a multi-agency effort to standardize and improve the quality of information maintained in the records archive maintained by the state.

Category 7 — Results

Audits published by the LAC in FY 01-02 are listed below.

A Review of the State Housing Finance and Development Authority's Low-Income Housing Tax Credit Program (September 2001)

The Low-Income Housing Tax Credit Program directs private capital towards the creation of affordable rental housing. The tax credits provide incentives by offsetting costs for development acquisition, new construction, or substantial rehabilitation. We found that the authority did not provide adequate oversight of tax credit projects. Although the agency awarded points to a developer based on the developer's plan to use certain construction materials and to install certain amenities, agency staff did not directly verify developer compliance with these requirements. In addition, developers either did not submit progress reports or submitted inaccurate reports on projects to the authority. The authority did not take the initiative to follow up with the developers in these situations. This led to delays in the construction of affordable housing in South Carolina.

Contact: Priscilla Anderson, Audit Manager

Cost Savings Strategies for the South Carolina Medicaid Program (October 2001)

This was our second review to identify cost savings for the S.C. Medicaid program managed by the Department of Health and Human Services (DHHS). Only 5% of S.C. Medicaid clients were enrolled in a managed care program. Some states have mandated enrollment in managed care plans for specific Medicaid groups such as women and children. We estimated a \$21.6 million savings if DHHS required managed care enrollment for the eligible children and low-income families in the 19-county area where Medicaid managed care programs were operating. We also recommended expanding the Health Insurance Premium Payment program to allow DHHS to pay premiums and other costs for low-income Medicaid beneficiaries who have access to employer-based health insurance. This could save up to \$1,313 per recipient who qualified for the program. In addition, we recommended changes to DHHS's contract with another state agency for determining Medicaid eligibility, with a potential savings of \$4.8 million.

Contact: Kathy Snider, Audit Manager

The Department of Education's Administration of the Comprehensive Health Education Act (November 2001)

We reviewed the sources and uses of funds for health education and the department's role in ensuring compliance with the law. The State Department of Education (SDE) has relied primarily on federal funds from the Centers for Disease Control and Prevention to operate the state's healthy schools program. SDE generally met the requirements for use of the CDC funds; however, the department has not always maintained appropriate documentation or measures of program results. Also, SDE did not exercise adequate oversight in administration of its grants for the program by not monitoring the grants and maintaining appropriate fiscal accountability. SDE has not adequately ensured that school districts comply with the Act. Districts have not complied with provisions requiring advisory committees, parental opt-out procedures, and specified programs of instruction. Also, there has been controversy as to whether some materials used by school districts comply with the law.

Contact: Jane Thesing, Assistant Director

Regulation of the Profession of Forestry (March 2002)

We reviewed the Board of Registration for Foresters to determine how the profession of forestry should be regulated by the state and recommended that the state should not continue to restrict the practice of forestry. The General Assembly should consider a less restrictive type of regulation, such as certification, or could discontinue regulation of the forestry profession. The board has done little to ensure that landowners consult registered foresters or to enforce the law requiring registration. Existing civil and criminal penalties for timber theft and fraud address the potential harm from incompetent practice. The South Carolina Forestry Commission has provided assistance to landowners and increased its enforcement activities to protect the public. A majority of states do not regulate foresters. Also, professional and occupational associations provide another way for the public to identify competent practitioners and become aware of forestry issues.

Contact: Jane Thesing, Assistant Director

Issues Involved in the State Ports Authority's Expansion Plans (March 2002)

The S.C. State Ports Authority (SPA) has been planning to build a new marine cargo terminal complex on a 1,300-acre, undeveloped piece of land it owns on Daniel Island. These plans were opposed by several state legislators as well as environmental and citizens groups and local governments in the Charleston area. We reviewed several issues involving the expansion:

- ❑ The economic impact of the port as measured in port-related employment.
- ❑ The extent to which cargo shipped through the port originated from or was destined for a South Carolina business.
- ❑ Projections for a continued increase in the number of containers shipped through the port.
- ❑ Environmental and traffic issues raised by a draft environmental impact study.
- ❑ Potential costs and source of funds for a new terminal.

We concluded that other sites in the state – the former Navy base in North Charleston and undeveloped land on the Savannah River in Jasper County – represented viable locations for a new terminal.

Contact: Kathy Snider, Audit Manager

A Review of Competition for the Department of Transportation's Road Paving Contracts (April 2002)

We reviewed the level of competition among contractors for SCDOT's road paving contracts and the department's internal controls for detecting bid-rigging or other forms of anti-competitive behavior. We found evidence to indicate that the level of competition is less than optimal in certain geographic areas of the state. We found that nearly one-half (49%) of road paving projects had two or fewer bidders. We identified 13 counties in which the top company had over 70% of the market. This is not necessarily the result of anti-competitive practices. However, improved competition could result in lower costs. We found that the average of the low bids on single bid projects was 5% *above* SCDOT's estimate, while the average of the low bids for projects with multiple bidders was 4% *below* SCDOT's estimate.

SCDOT does not conduct regular analysis of bidding patterns. Over the last five years, SCDOT spent \$246,000 leasing computer software which it has not used. Also, SCDOT's bid opening procedures increased the likelihood of bid-rigging. Once a month SCDOT opened bids at a hotel in Columbia. The night before bids are due, many contractors stayed in the hotel at discount rates obtained by SCDOT. This can make collusion among contractors easier.

Contact: Perry Simpson, Audit Manager

A Review of the Budget and Control Board's Energy Office Operations and the Board's Hiring Practices (May 2002)

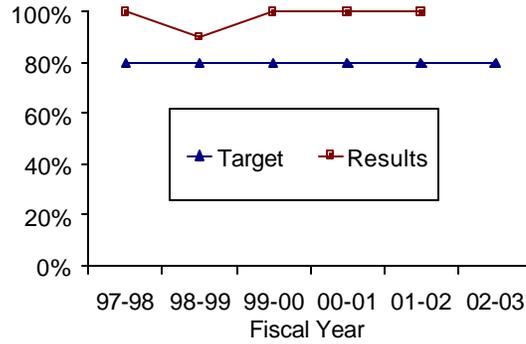
The Budget and Control Board (B&CB) is the state's central administrative agency which oversees areas such as human resources, information technology, and fiscal matters. We found that the B&CB's Energy Office did not properly manage a program which provided low-interest loans to the private sector for the implementation of energy conservation and efficiency measures. In addition, the office had not established guidelines or marketed particular energy grants. Only those applicants who were aware of available grant funds had an opportunity to apply for and receive funds. We did not find significant problems with the board's hiring practices.

Contact: Priscilla Anderson, Audit Manager

Performance Measures

1. What are your performance levels and trends for the key measures of customer satisfaction?

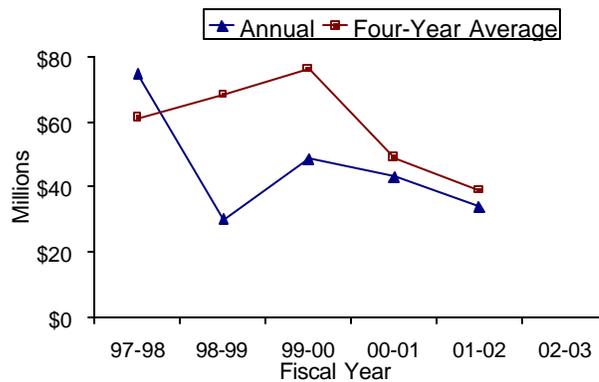
LEGISLATORS SATISFIED WITH QUALITY OF AUDITS



	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03
Target	80%	80%	80%	80%	80%	80%
Results	100%	90%	100%	100%	100%	

2. What are your performance levels and trends for the key measures of mission accomplishment?

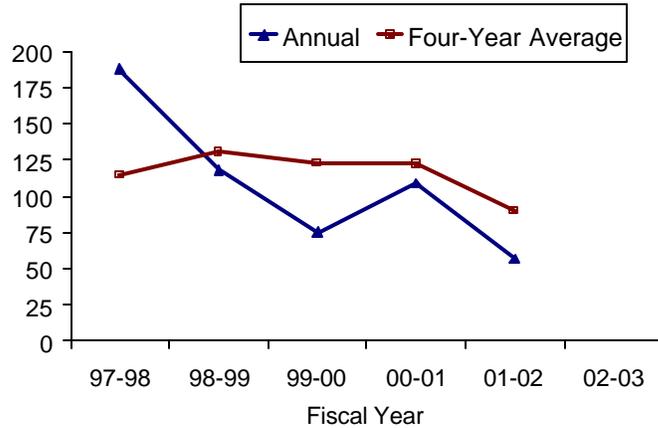
FINANCIAL BENEFITS IDENTIFIED*



	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03
Annual	\$74.5 million	\$30.1 million	\$48.5 million	\$43 million	\$34 million	
Four-Year Average	\$61.1 million	\$68.3 million	\$76.1 million	\$49 million	\$38.9 million	

* For FINANCIAL BENEFITS IDENTIFIED, we include four-year averages to account for year-to-year volatility in the data. We do not have targets for this item for the reasons discussed on page 15.

NUMBER OF RECOMMENDATIONS*



	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03
Annual	188	118	75	109	57	
Four-Year Average	114.5	130.8	122.8	122.5	89.8	

* For NUMBER OF RECOMMENDATIONS, we include four-year averages to account for year-to-year volatility in the data. We do not have targets for this item for the reasons discussed on page 15.

3. What are your performance levels and trends for the key measures of employee satisfaction, involvement, and development?

LAC SCORE ON EMPLOYEE SATISFACTION SURVEY COMPARED WITH ORGANIZATIONS NATIONWIDE*

	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03
Target					55 th Percentile	55 th Percentile
Results					48 th Percentile	

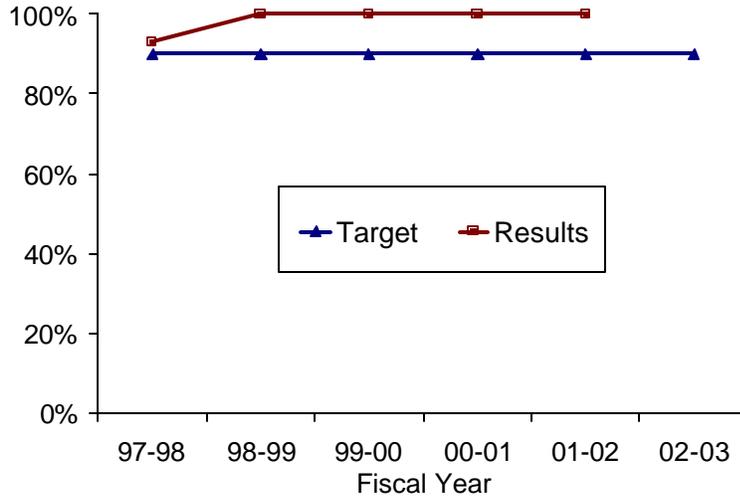
*This was a new performance measure for FY 01-02.

AUDITORS WITH MINIMUM TRAINING HOURS

	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03
Target	100%	100%	100%	100%	100%	100%
Results	100%	100%	100%	100%	100%	

4. What are your performance levels and trends for the key measures of supplier/contractor/partner performance?

AUDITORS WITH GRADUATE DEGREES OR PROFESSIONAL LICENSES



	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03
Target	90%	90%	90%	90%	90%	90%
Results	93%	100%	100%	100%	100%	

5. What are your performance levels and trends for the key measures of regulatory/legal compliance and citizenship?

THREE-YEAR PEER REVIEW

	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03
Target			Pass			Pass
Results			Passed			

6. What are your current levels and trends of financial performance?

COST PER DIRECT AUDIT HOUR *

	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03
Target					\$55	\$55
Results					\$53.56	

*This was a new performance measure for FY 01-02.

AUDITS PUBLISHED ON TIME **

	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03
Target					80%	80%
Results					0%	

**This was a new performance measure for FY 01-02. In FY 01-02, we defined "on time" as publishing an audit on or before its projected date of publication. We found, however, that uncertainties pertaining to editing and reviewing audits made it difficult to be precise when projecting a publication date. Beginning in FY 02-03, we will define "on time" as publishing an audit within 30 days of its projected date of publication.