

South Carolina General Assembly

LEGISLATIVE AUDIT COUNCIL

ANNUAL ACCOUNTABILITY REPORT

FY 04-05





Independence
Reliability
Integrity

South Carolina General Assembly

LEGISLATIVE AUDIT COUNCIL

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September 15, 2005

His Excellency, Mark Sanford, 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, 2005. 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, deputy director, at (803) 253-7612 with questions or comments.

Respectfully submitted,

A handwritten signature in black ink, reading 'George L. Schroeder'.

George L. Schroeder
Director

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Section I — Executive Summary

1. 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.

2. Major Achievements in FY 04-05

In FY 04-05, the Legislative Audit Council published six performance audits and four follow-up reports of state government programs. We made 50 recommendations and identified potential financial benefits of about \$4.8 million. In addition, we identified many ways to improve the performance of state government that are not financial. Summaries of the audits and follow-up reports we published in FY 04-05 are on pages 19 –22.

3. Key Strategic Goals

The LAC has three strategic goals:

1. Identify specific ways to reduce the cost of state government.
2. Identify specific ways to improve the performance of state government.
3. Provide information to the South Carolina General Assembly and the public.

4. Opportunities and Barriers

In June 2005, the LAC received appropriations for two additional auditors. In the next fiscal year (FY 05-06), these additional staff will enable us to respond more quickly to requests for audits.

5. Use of the Accountability Report

The process of developing annual accountability reports has resulted in our use of formal strategic planning to identify and address areas in need of improvement. It has also resulted in our development of outcome measures. In FY 03-04, we introduced a new outcome measure called “Percent of Audit Recommendations Implemented.” In FY 04-05, we introduced a new outcome measure called “Financial Benefits Realized.” Over time, these measures will enable us to focus more directly on and improve the effectiveness of our organization.

Section II — Business Overview

1. Number of Employees The LAC had 15 employees at the end of FY 04-05.

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

1331 Elmwood Avenue
Suite 315
Columbia, SC 29201

3. Expenditures and Appropriations

MAJOR BUDGET CATEGORIES	FY 03-04 ACTUAL EXPENDITURES		FY 04-05 ACTUAL EXPENDITURES		FY 05-06 APPROPRIATIONS ACT	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$621,871	\$621,871	\$717,641	\$717,641	\$721,216	\$721,216
Other Operating	96,143	96,143	140,781	140,781	107,767	107,767
Special Items						
Permanent Improvements						
Case Services						
Distribution to Subdivisions						
Fringe Benefits	163,607	163,607	184,105	184,105	182,098	182,098
Non-recurring						
TOTAL	\$881,621	\$881,621	\$1,042,527	\$1,042,527	\$1,011,081	\$1,011,081

Other Expenditures

Sources of Funds	ACTUAL EXPENDITURES	
	FY 03-04	FY 04-05
Supplemental Bills	\$0	\$0
Capital Reserve Funds	\$0	\$0
Bonds	\$0	\$0

4. Major Program Areas

PROGRAM NUMBER AND TITLE	MAJOR PROGRAM AREA PURPOSE	FY 03-04 BUDGET EXPENDITURES	FY 04-05 BUDGET EXPENDITURES	KEY CROSS REFERENCES FOR FINANCIAL RESULTS
I - II	The work of the Legislative Audit Council is authorized by S.C. Code §2-15-10 <i>et seq.</i> Our sole program is to conduct performance audits of state agencies and programs to find ways to save money, improve the performance of state agencies, and provide information to the General Assembly and the public. We help ensure that operations are efficient and that agencies follow the law and achieve the desired results.	State: 881,621 Federal: 0 Other: 0 Total: 881,621 % of Total Budget: 100%	State: 1,042,527 Federal: 0 Other: 0 Total: 1,042,527 % of Total Budget: 100%	See Chart 7.2.1 Table 7.2.3

5. Key Customers

The LAC's key customers are the General Assembly and the citizens of South Carolina. We provide information, analysis, and recommendations to help the General Assembly improve state agencies and to help the citizens of South Carolina oversee state government. A key component of our analysis, information, and recommendations is the independent, accurate, and thorough manner in which they are provided.

6. Key Stakeholders

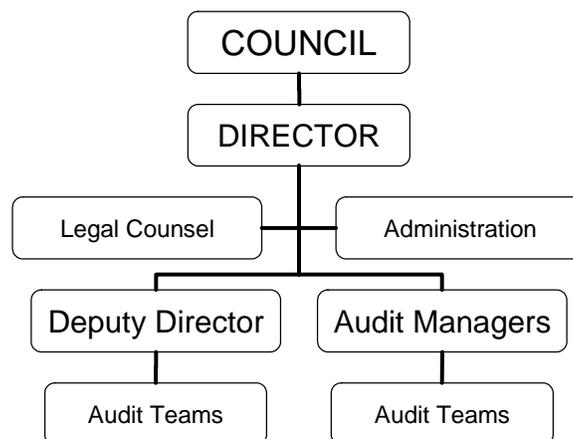
The LAC's key stakeholders are the agencies we audit. We provide information, analysis, and recommendations to assist them in improving their operations.

7. 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 conduct almost all of the information collection, analysis, and writing required to prepare an audit. Infrequently, we obtain the services of an outside entity to conduct analysis. The key suppliers of our 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 Office of the Comptroller General, Office of the State Treasurer, and the Office of Human Resources), agencies in other states, and the federal government.

8. Organizational Structure



Section III — Elements of Malcolm Baldrige Award Criteria

Category 1 — Leadership

1. How do senior leaders set, deploy, and ensure two-way communication for:

a) Short- and long-term direction?

The LAC's short-term direction is established by its senior leaders (council, director, deputy director, and 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 2-15-10 *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 committees.
- Input, both informally and formally, from the General Assembly.

Long-term direction and policy are discussed among all staff at agency and audit team meetings and further communicated 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 discussed among all staff at audit team meetings, and further communicated 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 discussed and communicated among all staff at agency and audit team meetings, and further communicated 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 has informal discussions, staff meetings, and ad hoc quality teams. Senior leaders also use an independently developed and administered employee satisfaction 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 discussed and communicated among all staff at audit team meetings, and are further communicated through audit and policy manuals, and during 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 discussed and communicated among all staff at agency and audit team meetings, and further communicated through audit and policy manuals, and through a written personnel evaluation instrument.

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

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

3. How do senior leaders maintain fiscal, legal, and regulatory accountability?

Senior leaders are subject to external processes required by state law, that address fiscal, legal, and regulatory accountability. These external processes include financial audits, procurement audits, as well as the information we communicate in this annual accountability report. Internally, we have in place policies and procedures that address fiscal, legal, and regulatory accountability. These internal policies and procedures include internal controls in areas such as purchasing, employee travel, and employee leave.

4. 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. We have also developed outcome measures through which we will monitor the percentage of our recommendations that have been implemented as well as the resulting financial benefits.

5. 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 an external quality review of LAC compliance with Government Auditing Standards, in FY 04-05, senior leaders established an ad hoc committee comprised of employees of various rank to revise the LAC's audit manual, with particular emphasis in methodologies for our outcome measures. The results of this work were presented to and discussed with the entire staff.

6. 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. We use the information from these sources to ensure that our recommendations result in lower costs and/or improved services without negative consequences that outweigh the benefits.

7. 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.

8. How does senior leadership 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. 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. Also, our employees support and strengthen the community through participation in efforts such as hospital fundraising events and Red Cross blood donations.

Category 2 — Strategic Planning

PROGRAM NUMBER AND TITLE	SUPPORTED AGENCY STRATEGIC PLANNING GOAL/OBJECTIVE	RELATED FY 04-05 KEY AGENCY ACTION PLAN/INITIATIVE(S)	KEY CROSS REFERENCES FOR PERFORMANCE MEASURES
I - II	Identify specific ways to reduce the cost of state government.	Employ a qualified staff by developing their knowledge, skills, and abilities and providing a positive work environment.	See Table 7.4.1 Table 4.2 Chart 7.4.3
		Conduct performance audits of state agency programs in compliance with Government Auditing Standards.	See Table 7.5.1
	Identify specific ways to improve the performance of state government.	Make and determine compliance with recommendations for reducing the cost of state government and improving its performance.	See Chart 7.2.1 Chart 7.2.2 Table 7.2.3 Table 7.2.4
		Provide information to the General Assembly and the public.	See Table 7.3.2
	Ensure that audits are published in a timely manner.	See Table 7.3.1	
	Ensure that audits are conducted in an efficient manner.	See Table 7.3.1	
Ensure that the performance audits meet the needs of the legislators who request them.	See Chart 7.1.1		

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

The process of developing the LAC's strategic plan includes meetings and formal discussions of senior leaders.

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 and citizens of South Carolina. The strategic plan addresses the need to communicate with the legislators who request audits to ensure that their needs are met. In addition the strategic plan addresses the need for audit reports to have accurate and unbiased information that can be used by the General Assembly and the public to reduce the cost and improve the performance of state government.

b) Financial, regulatory, societal, and other potential risks?

The LAC's strategic plan contains the key strategic goals of identifying ways to reduce the cost of state government and identifying ways to improve its performance. Consistent with these goals, our audit reports contain recommendations regarding:

- How to reduce the risk of unnecessary or excessive state government expenditures.
- How to reduce the risk of unnecessary or excessive state government regulation.
- How to reduce the risk of harm to citizens resulting from the implementation of state government programs.

c) Human resource capabilities and needs?

To ensure that the LAC attracts and retains qualified staff, the LAC's strategic plan requires that auditors have graduate degrees and/or professional licenses. It requires that auditors undergo continuing education in accordance with Government Auditing Standards. It also requires that the LAC conduct satisfaction surveys of its employees every other year.

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 who assist in conducting audits. As a result, supplies/contractor/partner capabilities and needs are not part of the strategic plan.

2. What are your key strategic objectives? (See strategic planning chart on page 10.)

Our key strategic objectives are:

- Identify specific ways to reduce the cost of state government.
- Identify specific ways to improve the performance of state government.
- Provide information to the General Assembly and the public.

3. What are your key action plans/initiatives? (See strategic planning chart on page 10.)

Our key strategic action plans/initiatives are:

- Maintain a qualified staff by developing their knowledge, skills, and abilities and providing a positive work environment.
- Conduct performance audits of state agency programs in compliance with Government Auditing Standards.
- Make and determine compliance with recommendations for reducing the cost of state government and improving its performance.
- Ensure that audits are published in a timely manner.
- Ensure that audits are conducted in an efficient manner.
- Ensure that audits meet the needs of the legislators who request them.

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

The process of developing LAC action plans that address key strategic objectives, and tracking their implementation, includes communication among various senior leaders, auditors, and administrative staff and reviewing statistics calculated by audit teams.

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

The LAC communicates its strategic objectives, action plans, and performance measures through discussions among all staff at agency and audit team meetings. They are further communicated through audit and policy manuals. The deployment of strategic objectives, action plans, and performance measures is conducted by senior leaders, audit teams, and administrative staff.

6. If the agency's strategic plan is available to the public through the agency's Internet homepage, please provide an address for that plan on the website.

Our strategic plan is available on our website at www.state.sc.us/sclac.

Category 3 — Customer Focus

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

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 citizens 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 copies of our reports to news media and answer their questions.

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

The LAC listens to and learns the needs of legislators through post-audit surveys and face-to-face conversations.

3. How do you use information from customers/stakeholders to keep services or programs relevant and provide for continuous improvement?

To meet the needs of legislators who have said they want audits to be completed in a predictable and timely manner, we have a goal of publishing 80% of audits within 30 days of the date projected. Because many legislators and citizens do not have the time to read an entire audit report, we make available two- or four-page summaries of each report. Also, to better serve many of the legislators, citizens, and agency officials who request copies of our reports and must then wait for mail delivery, we have made available on our website (www.state.sc.us/sclac) all LAC reports issued from 1999 forward.

4. How do you measure customer/stakeholder satisfaction?

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

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

The LAC maintains open lines of communication with legislators, citizens, and the agencies we audit. We regularly provide them with information from our audits. On short notice, any legislator, citizen, or agency official may meet with a senior staff member of the LAC.

Category 4 — Measurement, Analysis, and Knowledge Management

1. How do you decide which operations, processes, and systems to measure for tracking financial and operational performance?

We have developed performance measures that address audit results as well as the quality and efficiency of internal operations. These measures were selected by LAC senior leaders, in conjunction with staff, based on similar measures used by the federal Government Accountability Office.

Audit Results

Each year we measure the following key *outputs*:

- The potential financial benefits identified in LAC audits.
- The number of recommendations in LAC audits.

Each year we also measure the following key *outcomes*:

- The percentage of recommendations implemented from LAC audits.
- The financial benefits realized from LAC audits.

The type of auditing the LAC does and the way it gets assignments make it difficult to quantify targets or benchmarks from other states 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.

Quality and Efficiency of Internal Operations

Each year we measure aspects of the LAC's internal operations that we associate with quality and efficiency. Below is a list of internal management targets established for FY 05-06.

- 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 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 or above the 55th percentile of organizations nationwide on the Campbell Organizational Survey, a nationally recognized employee satisfaction instrument.
- The LAC will publish 80% of audits within 30 days of their projected dates of publication.
- The LAC's costs will be limited to \$65 per audit hour.

2. What are your key measures?

In the short term, our key measures are measures of *output* — potential financial benefits *identified* and the number of recommendations *made* in LAC audits. In the long term, our key measures are measures of *outcome* — the percentage of recommendations *implemented* from LAC audits and the financial benefits *realized* from implementing LAC recommendations.

3. How do you ensure data integrity, timeliness, accuracy, security, and availability for decision making?

The LAC ensures the soundness of data 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 inspect original documentation, make comparisons with other sources of data, and review internal controls of the agencies being audited. In addition, agencies are allowed to review and comment on our reports prior to publication.

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

We use data/information analysis to provide effective support for decisions in multiple areas. For example, before determining the appropriate staff to assign to an audit, we conduct a preliminary assessment of the potential issues and estimate the time and expertise the project will require. When deciding whether to make a recommendation in an audit report, we assess the potential costs and benefits of the recommendation.

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

The LAC has chosen to follow Government Auditing Standards because they are recognized as a national benchmark 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.

6. How do you manage organizational knowledge to accomplish the collection and transfer and maintenance of accumulated employee knowledge, and identification and sharing of best practices?

The LAC manages organizational knowledge through several mechanisms. First, for new auditors, we have a detailed orientation and training program conducted by experienced auditors. Not only does this practice transfer organizational knowledge to new auditors, it gives our experienced auditors the opportunity to rethink LAC audit practices. Second, we have developed and continuously update policy and procedure manuals for auditing and administrative activities. Amendments to these manuals are developed and analyzed by staff committees. Third, we are members of the National Legislative Program Evaluation Society, through which we share with staff in other states accumulated knowledge and best practices.

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 formal and informal recognition from senior leaders, promotion within the organization, and formal programs of recognition among co-workers.

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 three strategic goals of identifying ways to reduce the cost, improve the performance of state government, and provide information to the General Assembly and the public.

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

The LAC's employee performance review 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. All performance evaluations are discussed in private meetings, during which the views of the staff and his or her supervisor are exchanged.

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

The LAC periodically uses the "Campbell Organizational Survey" to formally measure the views of staff. (See performance measures Table 7.4.1.) 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, secure, 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 activities are employees involved with that make a positive contribution to 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. Also, our employees participate in efforts such as hospital fundraising events and Red Cross blood donations.

Category 6 — Process Management

1. What are your key processes that produce, create, or add value for your customers and your organization, and how do they contribute to success?

The LAC's single program is conducting performance audits of state agencies and programs. The design and delivery processes that add value for our customers and our organization include determination of the needs of legislative customers and LAC staff, and adherence to Government Auditing Standards such as independence, thoroughness, and accuracy. These processes contribute to the success of state government by providing a source of reliable information that is needed by state leaders to make decisions.

2. How do you incorporate organizational knowledge, new technology, changing customer and mission-related requirements, cost controls, and other efficiency and effectiveness factors into process design and delivery?

The LAC uses multiple methods for incorporating organizational knowledge, new technology, changing customer and mission-related requirements, cost controls, and other efficiency and effectiveness factors into process design and delivery. 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 and our strategic plan are available on the Internet at www.state.sc.us/sclac.

3. How does your day-to-day operation of these 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 information requests from state legislators in a responsive, fair, independent, thorough, and accurate manner. In FY 04-05, for example:

- The LAC's director and audit managers used monthly time sheets to ensure that audits were completed in a timely manner.
- The LAC's audit managers 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's audit teams tabulated the potential financial benefits identified in audits, the number of recommendations made, the financial benefits realized, and the percent of recommendations implanted.
- The LAC's 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's staff participated in ongoing communication with organizations in other states to keep abreast of developments in performance evaluation and auditing throughout the nation.

4. 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 are staff input and analysis, ongoing training, and up-to-date information technology. The format of our reports and our audit methods are modeled after those used by the federal Government Accountability Office. Staff training is provided primarily by technical colleges and private trainers.

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

Because the LAC is a small organization, 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.

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.

Category 7 — Business Results

Summaries of Performance Audits Published in FY 04-05

A REVIEW OF REGULATORY ISSUES AT THE DEPARTMENT OF NATURAL RESOURCES (JULY 2004)

We reviewed whether DNR was promulgating regulations in compliance with the Administrative Procedures Act (APA). In addition, we examined how DNR enforces state laws and regulations and how effectively it communicates changes in the laws to its officers and the public. We found that DNR has generally complied with the Administrative Procedures Act when promulgating regulations. However, DNR has in some cases misstated its statutory authority or did not have authority to include some provisions. From 1998 to 2002, DNR issued more emergency regulations than any other state agency with over half of its regulations being emergency regulations. The use of emergency regulations can limit legislative and public oversight. DNR administratively establishes no wake zones when it would be more appropriate to establish this process through regulation. In 30% (24 of 81) of the tickets that were sampled, DNR fined individuals when it did not have the authority or when the regulations were not in effect. DNR has written tickets citing statutes that have been repealed or redesignated. We found 186 tickets that cited incorrect statutes. DNR has issued tickets for violations of the state-managed lakes program at a lake which was not a part of the program. In addition, citations were issued for violations at state-managed lakes after officers had been instructed to stop issuing tickets. DNR has not always effectively communicated changes in statutes and regulations to the public and to its law enforcement officers. *Contact: Perry Simpson, Audit Manager*

A REVIEW OF THE FAMILY INDEPENDENCE ACT 2002-2004 (SEPTEMBER 2004)

The Family Independence Act (FIA) requires the Legislative Audit Council (LAC) to report every two years on the success and effectiveness of the policies and programs created under the act. Specifically, we are to review the number of families and individuals no longer receiving welfare, the number of individuals who have completed education and training, and the number of individuals finding employment. We found that the number of welfare recipients has decreased over the past two calendar years. We also found that DSS is meeting the federal mandated participation rate for all FI families and for two-parent FI families. However, DSS has lost a federal waiver which allowed it to exclude certain groups when calculating the participation rate and broadened the list of the activities that could be counted. This could make it more difficult to meet federal participation rates and possibly result in a loss of federal funds. We also found that from January 2002 through December 2003, family independence recipients obtained 13,616 full-time and 6,802 part-time jobs. The majority of those jobs were in the service category (52%) followed by the clerical/sales (27%) category. The average hourly wage

was \$6.70, up 3% from our last review. We also followed up on the recommendations in our 2002 review. DSS staff conducted a review of all agency contracts and terminated 17 of the 21 contracts cited in our 2002 report. These contracts were valued at approximately \$15 million. Our 2002 review also recommended that DSS redirect \$5 million in TANF funds that had been committed to the First Steps program. According to DSS staff, the First Steps agreement has been terminated and the funds were redirected to an after-school program.

Contact: Perry Simpson, Audit Manager

ISSUES OF EFFICIENCY AND ACCOUNTABILITY RELATING TO SCHOOL DISTRICTS (SEPTEMBER 2004)

This report addressed issues relating to the operations of the state's 85 school districts. We found that South Carolina does not have an adequate statewide process for measuring school district financial management. Other states, such as Florida and Arizona, conduct detailed performance-based reviews of their school districts that have resulted in cost savings and improved performance. Analysis of school spending patterns is a useful first step in reviewing operational efficiencies. Although there is no uniformly accepted definition of "dollars to the classroom," there is a wealth of information available about expenditures for K-12 education. We also found that South Carolina school districts are relatively consolidated compared to those of other states. While there is evidence that per pupil costs tend to be higher in small districts, it is unclear whether and how soon significant savings would be realized from widespread consolidation. Consolidations are more likely to be successful if undertaken on a case-by-case basis, with community support and identified benefits. *Contact: Jane Thesing, Deputy Director*

A LIMITED-SCOPE REVIEW OF STATE PURCHASING OVERSEEN BY THE BUDGET AND CONTROL BOARD (JANUARY 2005)

We found that the Budget and Control Board did not maintain adequate documentation regarding the rationale for its procurement decisions. The board instructed persons who score criteria used to award contracts not to maintain documentation of their analysis. Also, the board did not provide written justification about the method of purchase used in 8 (27%) of the 30 cases that we reviewed. There may be a perception that the decision making process is unfair.

State law requires that vendors who sell goods and services to state government through the best value bidding process (in which contracts may be awarded to vendors who do not have the lowest price) and the competitive sealed bidding (in which contracts are awarded to vendors with the lowest price) be given a pricing preferences if they are South Carolina residents or if their products are made or grown in South Carolina. Preferences are also required for vendors whose products are made or grown outside of South Carolina but within the United States. It is questionable whether in-state purchasing preferences result in net benefits to South Carolina's state government or to its economy. Although in-state preferences benefit some South Carolina companies, in-state preferences also result in higher prices paid by South Carolina taxpayers for the goods and services needed to operate state government. In addition, South Carolina companies seeking to do business with other state governments are being penalized because of the preferences in South Carolina. *Contact: Priscilla Anderson, Audit Manager*

A REVIEW OF THE SOUTH CAROLINA UNIVERSAL SERVICE FUND (FEBRUARY 2005)

We reviewed the S.C. universal service fund (USF) administered by the Public Service Commission and found that the state USF does not need to be continued in its present form and should be scaled down. The goals of universal telephone service have largely been met, and telephone companies also receive support from the federal universal service fund. None of the eight other states in BellSouth's service area has a USF comparable to South Carolina's, and the telecommunications market is rapidly changing. It is not an appropriate long-term policy to regulate and subsidize landline providers when an increasing part of the market (cellular and Internet-based providers) is not regulated or subsidized by the state. The state USF should be scaled back to include only supplements for low-income subscribers and support for those lines for which companies can provide evidence that costs are excessive. We also found that the Public Service Commission had not implemented adequate controls over the management of the state USF, with no independent audits and inadequate policies and procedures. Beginning in January 2005, the administration of the state USF is the responsibility of a newly-created state agency, the Office of Regulatory Staff. *Contact: Jane Thesing, Deputy Director*

A REVIEW OF STATE TRAVEL (MAY 2005)

We reviewed state travel and focused primarily on the efficiency of state agency travel including lodging, one-day meals, airfares, subsistence, and video conferencing. The state spent approximately \$63 million on travel in FY 03-04. This was less than 1% of total state expenditures. During the three-year period, FY 01-02 to FY 03-04, state travel expenditures *decreased* by approximately 7% while total state expenditures *increased* by approximately 11%. We found that there is no centralized office that is responsible for managing travel by South Carolina state agencies to ensure that travel expenditures are efficient and cost effective. We made recommendations to adopt limits on the amount of reimbursement for lodging, establish a contract for discounted airfares, eliminate subsistence payments for Public Service, Employment Security, and Workers' Compensation commissioners and eliminate reimbursement for one-day meals. *Contact: Perry Simpson, Audit Manager*

Summaries of Follow-Up Reviews Published in FY 04-05

FOLLOW-UP REVIEW OF ISSUES INVOLVED IN THE STATE PORTS AUTHORITY'S EXPANSION PLANS (JULY 2004)

In our March 2002 audit of the State Ports Authority we made recommendations regarding plans for the expansion of the port of Charleston as well as recommendations to improve the operational efficiency of the port. The General Assembly has passed legislation addressing expansion of the port on the former Charleston Naval Base. The SPA has generally implemented the recommendations directed to the agency, including enforcement of excess dwell time for empty shipping containers. Between January and December 2003, the SPA collected over \$800,000 in penalties for excess storage days. *Contact: Perry Simpson, Audit Manager*

FOLLOW-UP REVIEW OF THE PUBLIC SERVICE COMMISSION (JULY 2004)

In our February 2003 audit of the Public Service Commission (PSC), we made seven recommendations to the General Assembly and two recommendations to the Public Service Commission. The recommendations addressed a number of different areas including ex parte communications between commissioners and other parties to a case, commissioner qualifications, and establishing a separate state agency to represent the public interests before the PSC. In February 2004 the General Assembly passed reforming legislation which made numerous changes to the operations of the Public Service Commission and addressed our recommendations. PSC has also addressed both of the recommendations made to the agency, although it needs to establish additional procedures relating to employees reporting suspected ex parte communications. *Contact: Perry Simpson, Audit Manager*

FOLLOW-UP REVIEW OF SOUTH CAROLINA HEALTH AND HUMAN SERVICES AGENCIES: A REVIEW OF NON-MEDICAID ISSUES (OCTOBER 2004)

Our follow-up found that our recommendations concerning restructuring of the health and human services agencies have not been implemented. In our January 2003 report, we found that similar services were often performed by multiple agencies and there was no single point of accountability for health and human services agencies; five of the eight agencies were not in the Governor's cabinet. We recommended that the General Assembly amend the law to consolidate the state's health and human service programs under the authority of a single cabinet secretary. This would eliminate duplication, allow more comprehensive planning and budgeting, and possibly reduce administrative costs. Although the General Assembly had considered several restructuring proposals, none were enacted. We found that the agencies had implemented some of our recommendations relating to improved collections from clients and the consistency and adequacy of data used for agency performance measures. *Contact: Jane Thesing, Deputy Director*

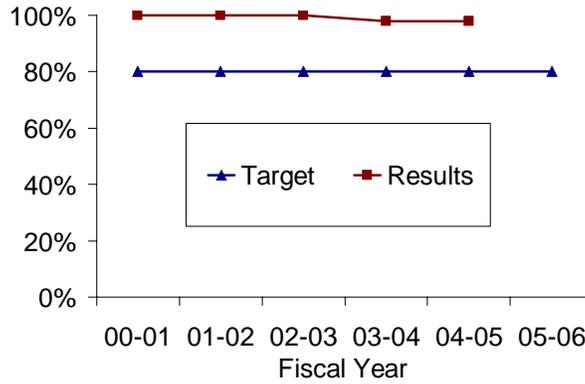
FOLLOW-UP REVIEW OF OPTIONS FOR MEDICAID COST CONTAINMENT (MAY 2005)

The Department of Health and Human Services implemented many of the recommendations in our January 2003 audit which focused on ways to reduce Medicaid costs without reducing services. DHHS began phasing-in a state preferred prescription drug list which we estimated would save \$12.8 million in state funds once fully implemented. Beginning in March 2004, cost sharing with Medicaid recipients was required by charging co-payments from \$1 to \$3 for services such as podiatry and dentistry and \$25 for each inpatient hospital admission. DHHS has also increased collections for fraud and abuse from Medicaid recipients by \$133,000 through an agreement with the Attorney General's office. DHHS has not implemented recommendations to control eligibility. The department has not eliminated the second year of transitional Medicaid that is available for some welfare recipients which could save approximately \$7 million. DHHS has also not eliminated the \$50 income disregard for child support when families apply for Medicaid which we estimated had potential savings of \$3.4 million in state funds. An enrollment fee for participants in the Partners for Healthy Children program has not been implemented. Tighter controls over OxyContin, a very strong narcotic pain reliever, which had saved almost \$400,000, have not been reinstated. *Contact: Andrea Truitt, Senior Auditor*

Performance Measures

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

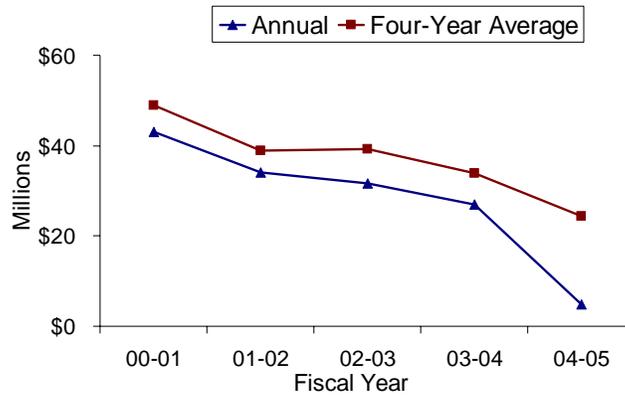
**CHART 7.1.1
LEGISLATORS SATISFIED WITH QUALITY OF AUDITS**



	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06
Target	80%	80%	80%	80%	80%	80%
Results	100%	100%	100%	98%	98%	

7.2 What are your performance levels and trends for the key measures of mission accomplishment and organizational effectiveness?

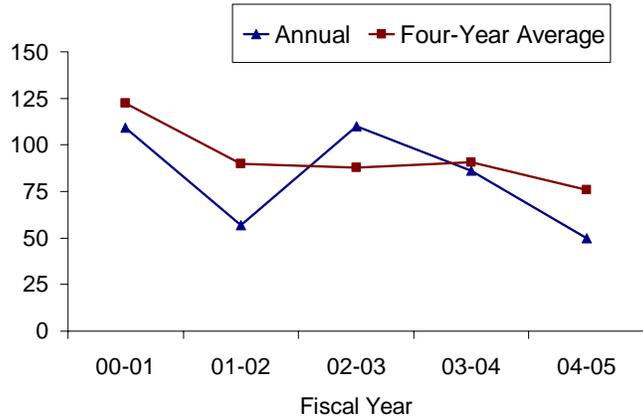
**CHART 7.2.1
POTENTIAL FINANCIAL BENEFITS IDENTIFIED***



	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Annual	\$43 million	\$34 million	\$31.6 million	\$27 million	\$4.8 million
Four-Year Average	\$49 million	\$38.9 million	\$39.3 million	\$33.9 million	\$24.4 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 pages 13-14.

**CHART 7.2.2
NUMBER OF RECOMMENDATIONS***



	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Annual	109	57	110	86	50
Four-Year Average	122.5	89.8	87.8	90.5	75.8

* 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 pages 13-14.

**TABLE 7.2.3
FINANCIAL BENEFITS REALIZED***

	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Results	N/A	N/A	N/A	N/A	\$29.8 million

* FINANCIAL BENEFITS REALIZED was initiated in FY 04-05. This performance measure is based on the financial benefits realized from the implementation of audit recommendations, as identified in our follow-up reviews.

**TABLE 7.2.4
PERCENT OF AUDIT RECOMMENDATIONS IMPLEMENTED***

	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Results	N/A	N/A	N/A	69%	58%

* PERCENT OF AUDIT RECOMMENDATIONS IMPLEMENTED was initiated in FY 03-04. This performance measure is based on the percentage of audit recommendations implemented, as identified in our follow-up reviews.

7.3 What are your performance levels for the key measures of financial performance?

**TABLE 7.3.1
COST PER DIRECT AUDIT HOUR ***

	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06
Target	N/A	\$55	\$55	\$57	\$66	\$65
Results	N/A	\$53.56	\$55.21	\$66.34	\$66.02	

* The *Results* figure for FY 03-04 reflects a change in methodology. In FY 03-04, we started including all LAC revenues and expenditures that pertain to our audits of the S.C. Education Lottery. We charge the lottery an hourly rate, based on our cost per direct audit hour in the prior year. If this FY 03-04 methodology had been in effect in FY 02-03 (the first year in which we conducted a lottery audit), the cost per direct audit hour would have been \$59.49.

**TABLE 7.3.2
AUDITS PUBLISHED ON TIME ***

	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06
Target	N/A	80%	80%	80%	80%	80%
Results	N/A	0%	67%	40%	50%	

* 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 conducting and reviewing audits made it difficult to be precise when projecting a publication date. In FY 02-03, we started defining “on time” as publishing an audit within 30 days of its projected date of publication.

7.4 What are your performance levels for the key measures of Human Resource Results?

**TABLE 7.4.1
LAC EMPLOYEE SATISFACTION SURVEY COMPARED WITH ORGANIZATIONS NATIONWIDE***

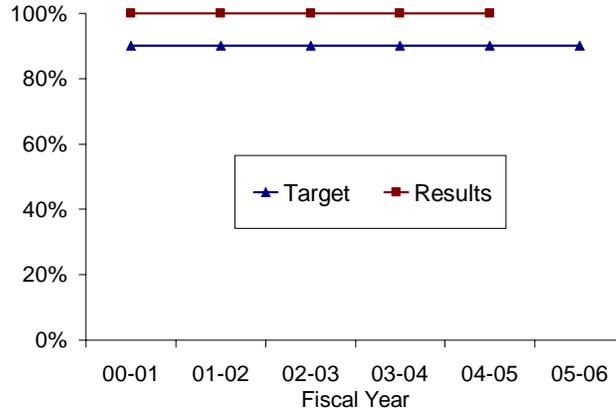
	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Target		55 th Percentile			55 th Percentile
Results		48 th Percentile			50 th Percentile

*We generally administer an employee satisfaction survey every other year but did not in FY 03-04 due to financial limitations.

**TABLE 7.4.2
AUDITORS WITH MINIMUM TRAINING HOURS**

	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06
Target	100%	100%	100%	100%	100%	100%
Results	100%	100%	100%	100%	100%	

CHART 7.4.3
AUDITORS WITH GRADUATE DEGREES OR PROFESSIONAL LICENSES



	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06
Target	90%	90%	90%	90%	90%	90%
Results	100%	100%	100%	100%	100%	

7.5 What are your performance levels and trends for the key measures of regulatory/legal compliance and community support?

TABLE 7.5.1
THREE-YEAR PEER REVIEW*

	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Target				Pass	
Results				Passed	

* A decrease in agency funding prevented the LAC from having an external quality control review conducted in FY 02-03, as was planned.