



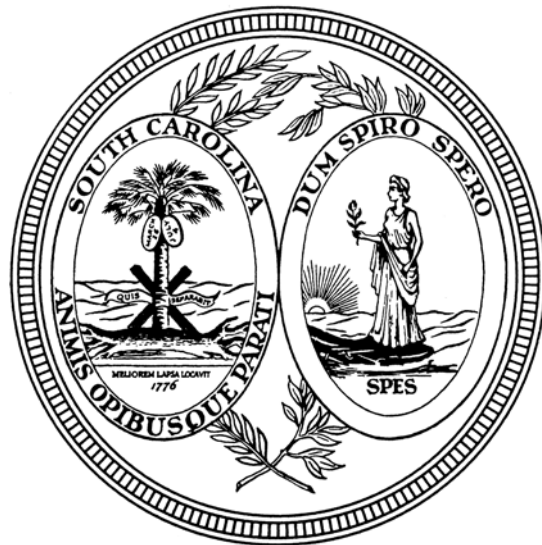
SOUTH CAROLINA GENERAL ASSEMBLY

# Legislative Audit Council

L A C

---

## ANNUAL ACCOUNTABILITY REPORT FY 06-07

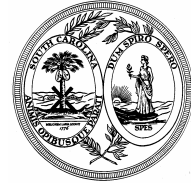




SOUTH CAROLINA GENERAL ASSEMBLY

# Legislative Audit Council

Independence, Reliability, Integrity



September 14, 2007

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, 2007. 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 cursive script that reads 'George L. Schroeder'.

George L. Schroeder  
Director

# Table of Contents

I.	Executive Summary	
	1. Mission and Values.....	1
	2. Major Achievements in FY 06-07 .....	1
	3. Key Strategic Goals .....	1
	4. Opportunities and Barriers.....	1
	5. Use of the Accountability Report .....	1
II.	Organizational Profile	
	1. Main Products and Services.....	2
	2. Key Customers and Their Key Expectations .....	2
	3. Key Stakeholders .....	2
	4. Key Suppliers and Partners.....	2
	5. Office Location .....	3
	6. Number of Employees .....	3
	7. Regulatory Environment.....	3
	8. Key Strategic Challenges.....	3
	9. Performance Improvement Systems .....	3
	10. Organizational Structure .....	3
	11. Expenditures and Appropriations .....	4
	12. Major Program Areas.....	4
III.	Elements of Malcolm Baldrige Criteria	
	Category 1 — Leadership.....	5
	Category 2 — Strategic Planning .....	8
	Category 3 — Customer and Market Focus .....	11
	Category 4 — Measurement, Analysis, and Knowledge Management .....	12
	Category 5 — Workforce Focus .....	14
	Category 6 — Process Management.....	17
	Category 7 — Results .....	19

## 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 and that they maximize performance and follow the law. In conducting audits, the LAC seeks to uphold the values of independence, reliability, accuracy, and thoroughness.

### 2. Major Achievements in FY 06-07

In FY 06-07, the Legislative Audit Council published six performance audits and five follow-up reports of state government programs. We made 100 recommendations and identified potential financial benefits of approximately \$50,000.

In an audit we published of the South Carolina Department of Transportation, we found approximately \$42 million in misspent funds, including \$40.7 million in payments to contractors and \$1.7 million in lost interest. Following publication of this audit, we testified at several legislative committee hearings regarding our recommendations to improve operations at the department.

In each of our audits, we also identified ways to improve the performance of state government that are not financial.

Summaries of the audits and follow-up reports we published in FY 06-07 are on pages 19 – 23.

### 3. Key Strategic Goals

The LAC has three strategic goals:

1. Reduce the cost of state government.
2. Improve the performance of state government.
3. Provide information to the South Carolina General Assembly and the public.

### 4. Opportunities and Barriers

In FY 06-07, the LAC added two additional auditors. Due, in part, to our additional staff, the number of performance audits we published increased from three in FY 05-06 to six in FY 06-07. The number of follow-up audits we published increased from four in FY 05-06 to five in FY 06-07.

### 5. Use of the Accountability Report

The process of developing annual accountability reports has resulted in our use of formal strategic planning. 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.” We calculate these two statistics each year through our follow-up audit process. In FY 06-07, we were able to complete all of our scheduled follow-up audits, including a backlog of projects from the prior year, to ensure that our outcome statistics are up-to-date.

## **Section II — Organizational Profile**

### **1. Main Products and Services**

The LAC’s main products are performance audits of state agencies and programs, in which we identify ways to reduce the cost and 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 to achieve the desired results. We communicate the results of these audits in published reports.

### **2. Key Customers and Their Key Expectations**

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. Our customers’ key expectations include independence, reliability, accuracy, and thoroughness.

### **3. 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.

### **4. Key Suppliers and Partners**

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.

We have no formal partnerships; however, on an as-needed basis, we consult with the Office of the Attorney General, the Office of the State Auditor, the procurement audit section of the Budget and Control Board, and the State Law Enforcement Division.

## 5. Office Location

The LAC operates out of a single location at:

1331 Elmwood Avenue  
Suite 315  
Columbia, SC 29201

## 6. Number of Employees

The LAC had 17 employees, all unclassified, at the end of FY 06-07.

## 7. Regulatory Environment

The LAC operates under the requirements of Government Auditing Standards established by the Comptroller General of the United States.

## 8. Key Strategic Challenges

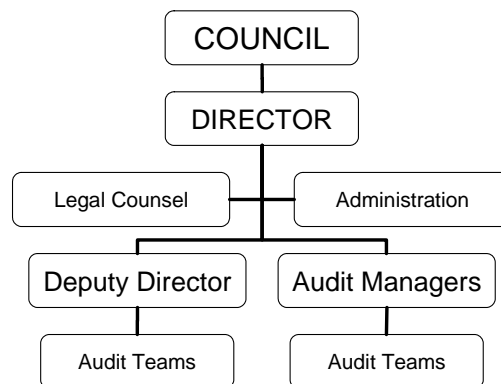
The LAC's key strategic challenges are to reduce the cost and improve the performance of state government.

## 9. Performance Improvement Systems

The LAC's senior leaders encourage input and innovative ideas from staff throughout the year. Our organization has informal discussions, formal staff meetings, and formal staff committees.

We have implemented structured mechanisms for identifying area in need of improvement, including legislator surveys, LAC staff surveys, peer reviews, and performance measures.

## 10. Organizational Structure



## 11. Expenditures and Appropriations

MAJOR BUDGET CATEGORIES	FY 05-06 ACTUAL EXPENDITURES		FY 06-07 ACTUAL EXPENDITURES		FY 07-08 APPROPRIATIONS ACT	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$741,086	\$741,086	\$864,277	\$864,277	\$987,308	\$987,308
Other Operating	129,460	129,460	116,269	116,269	125,913	125,913
Special Items						
Permanent Improvements						
Case Services						
Distribution to Subdivisions						
Fringe Benefits	182,818	182,818	227,000	227,000	244,893	244,893
Non-recurring						
<b>TOTAL</b>	<b>\$1,053,364</b>	<b>\$1,053,364</b>	<b>\$1,207,546</b>	<b>\$1,207,546</b>	<b>\$1,358,114</b>	<b>\$1,358,114</b>

### Other Expenditures

Sources of Funds	ACTUAL EXPENDITURES	
	FY 05-06	FY 06-07
Supplemental Bills	\$0	\$0
Capital Reserve Funds	\$0	\$0
Bonds	\$0	\$0

## 12. Major Program Areas

PROGRAM NUMBER AND TITLE	MAJOR PROGRAM AREA AND PURPOSE	FY 05-06 ACTUAL EXPENDITURES	FY 06-07 ACTUAL 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 conducting performance audits to find ways to reduce the cost and improve the performance of state agencies and programs, and to provide information to the General Assembly and the public.	State: \$1,053,364 Federal: 0 Other: 0 Total: \$1,053,364  % of Total Budget: 100%	State: \$1,207,564 Federal: 0 Other: 0 Total: \$1,207,564  % of Total Budget: 100%	See Chart 7.1.1 Table 7.1.3

## Section III — Elements of Malcolm Baldrige Criteria

### Category 1 — Leadership

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

a) Short- and long-term direction and organizational priorities?

The LAC's short-term direction and organizational priorities are 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 long-term direction and organizational priorities 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 from the General Assembly.

The forums for developing direction and priorities, which are usually communicated by written policy, include staff meetings, management meetings, staff committees, and informal discussions. Ideas come from LAC leadership, staff, members of the General Assembly, National Legislative Program Evaluation Society (NLPES) member states, and Government Auditing Standards.

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. Our organization has informal discussions, staff meetings, and staff committees. 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 two strategic goals of the LAC, which are reducing the cost and improving 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 does the organization address the current and potential impact on the public of its products, programs, services, facilities, and operations, including associated risks?

The LAC considers the effects of our recommendations on the public. During our audits, we seek 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.

4. 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.

5. 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 have outcome measures through which we monitor the percentage of our recommendations that have been implemented as well as the resulting financial benefits.

6. 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? How do their personal actions reflect a commitment to the organization's values?

Our senior leaders seek to uphold the values of independence, reliability, accuracy, and thoroughness by openly responding to shortcomings highlighted by performance measurements, disinterested peer review teams, and LAC staff.

7. How do senior leaders promote and personally participate in succession planning and the development of future leaders?

Our senior leaders identify potential future management staff and send them to participate in the South Carolina Executive Institute, operated by the State Budget and Control Board. Within audit teams, these staff are given supervisory assignments in anticipation of promotional opportunities. In addition, these staff are given responsibility for managing follow-up audits under the direction of our senior leaders.

8. How do senior leaders create an environment for performance improvement, accomplishment of strategic objectives, and innovation?

The LAC's senior leaders encourage input and innovative ideas from staff throughout the year. Our organization has informal discussions, formal staff meetings, and formal staff committees. This environment complements our system of quantitative performance measures and targets.

9. How does senior leadership actively support and strengthen the communities in which your organization operates?

The LAC supports and strengthens South Carolina primarily by being a source of information about the workings of state government. 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 information on how to obtain help from state government. Citizens are usually interested in topics from recent audits, which have been requested by the General Assembly. Also, our employees participate in hospital and school fundraising events and make Red Cross blood donations.

## Category 2 — Strategic Planning

PROGRAM NUMBER AND TITLE	SUPPORTED AGENCY STRATEGIC PLANNING GOAL / OBJECTIVE	RELATED FY 06-07 KEY AGENCY ACTION PLANS / INITIATIVES	KEY CROSS REFERENCES FOR PERFORMANCE MEASURES
I - II	Reduce the cost of state government. Improve the performance of state government. Provide information to the General Assembly and the public.	Employ qualified staff by developing their knowledge, skills, and abilities and by providing a positive work environment.	See Table 7.4.1 Table 7.4.2 Chart 7.4.3
		Conduct performance audits of state agency programs in compliance with Government Auditing Standards.	See Table 7.5.1
		Make and determine compliance with recommendations for reducing the cost of state government and improving its performance.	See Chart 7.1.1 Chart 7.1.2 Table 7.1.3 Table 7.1.4
		Ensure that audits are published in a timely manner.	See Table 7.3.2
		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 7.2.1

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

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

How does your Strategic Planning process address:

- a) Your organization's strengths, weaknesses, opportunities, and threats?

The LAC's strategic plan identifies "organizational integrity" and "professional independence" as our "distinctive competencies." Our strategic objectives include quantified performance targets for areas in which we have identified opportunities and threats. One performance target which we have not met is the publishing of audits in a "timely manner."

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

Our strategic objectives, when met, can reduce financial, regulatory, and societal risks. Consistent with these objectives, our audit reports contain recommendations on how to reduce the risk of:

- Unnecessary or excessive state government expenditures.
- Unnecessary or excessive state government regulation.
- Harm to citizens resulting from the inadequate implementation of state government programs.

(c) Shifts in technology or the regulatory environment?

In our FY 06-07 strategic planning process we identified no shifts in technology or the regulatory environment that would have a material impact on our operations.

(d) Human resource capabilities and needs?

To ensure that the LAC attracts and retains qualified staff, the LAC's FY 06-07 strategic planning process required that auditors have graduate degrees and/or professional licenses. We require that auditors undergo continuing education in accordance with Government Auditing Standards. We also require that the LAC conduct satisfaction surveys of its employees every other year.

(e) Opportunities and barriers?

For FY 06-07, the LAC received appropriations for two additional auditors. These additional staff are enabling us to respond more quickly to requests for audits. Publishing audits in a timely manner is the fourth action plan / initiative listed resulting from our FY 06-07 strategic planning process. (See strategic planning chart on page 8.)

(f) Business continuity in emergencies?

Working papers from completed audits are stored offsite in a state government warehouse. Our computerized data files are backed up offsite each day.

(g) Your ability to execute the strategic plan.

We developed our strategic plan based on the assumption that its execution is largely in our control. Certain performance measures linked with our strategic plan (such as the number of recommendations and potential financial benefits) are also a function of the programs we audit.

2. How do you develop and track action plans that address your key strategic objectives, and how do you allocate resources to ensure the accomplishment of these plans?

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. Senior leaders allocate resources (which, for our agency means personnel, primarily ) through a series of meetings throughout the year, in which projects are matched with the skills of our staff and the necessary number of staff required to accomplish our objectives.

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

The LAC communicates its strategic objectives, action plans, and related 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.

4. How do you measure progress on your action plans?

Each action plan is linked with one or more of our 11 performance measures. (See the strategic planning chart on page 8.) We have established year-end performance targets for seven of these measures (see pages 24 – 27). All of these measures are monitored annually, and some are monitored monthly.

5. How do your strategic objectives address the strategic challenges you identified in your Organizational Profile?

Our first two strategic objectives, reducing the cost and improving the performance of state government, are identical to our key strategic challenges.

6. How do you evaluate and improve your strategic planning process?

Periodically, we have meetings of staff and meetings of senior leaders at which we discuss ways to improve our strategic planning process.

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

Our strategic plan is available on our website at [LAC.SC.GOV](http://LAC.SC.GOV).

### Category 3 — Customer and Market 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 and informing them of the estimated audit completion date. 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 and expectations?

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 performance target 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 publish summaries of each report. These reports and summaries are available on our website ([LAC.SC.GOV](http://LAC.SC.GOV)).

4. How do you measure customer/stakeholder satisfaction and dissatisfaction, and use this information to improve?

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

performance measures and performance targets in our accountability report so that we, legislators, and the public can gauge the extent to which we are improving over time.

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, including progress relative to strategic objectives and action plans?

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 financial benefits realized from LAC audits.
- The percentage of recommendations implemented 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 performance targets established for FY 07-08.

- 90% of auditors will have graduate degrees or professional licenses.
- 100% of auditors will undergo a minimum of 20 hours of training each year and 80 hours within a specified two-year training period, in accordance with Government Auditing Standards. This training addresses topics such as fraud prevention, policy analysis, general management, and accounting.
- 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 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. How do you use data/information analysis to provide effective support for decision making throughout your organization?

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, senior leaders conduct a preliminary assessment of the potential issues and the expertise the project will require. When deciding whether to make a recommendation in an audit report, auditors at all levels assess the potential costs and benefits of the recommendation. Auditors at all levels are provided data to help them match their training needs with agency resources.

3. What are your key measures, how do you review them, and how do you keep them current with business needs and direction?

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.

We review these measures, whose accuracy is ensured by our quality control process, at the end of each audit and follow-up audit.

Because we have established these measures based on the perennial needs of the LAC as an audit organization, it is not likely that they will cease to be current.

4. How do you select and use comparative data and information to support operational and strategic decision making and innovation?

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 and are reflected in our strategic plan and performance measures. Multi-state peer review teams, which review our compliance with



the standards every three years, provide us with information that we use to compare the LAC with audit organizations in other states.

5. 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 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.

6. How do you translate organizational performance review findings into priorities for continuous improvement?

Every three years, a peer review team, comprised of auditors from throughout the country, reviews the LAC's compliance with Government Auditing Standards established by the Comptroller General of the United States. After each peer review, we establish a temporary committee to implement the recommendations of the peer review team.

7. How do you collect, transfer, and maintain organizational and employee knowledge? How do you identify and share best practices?

The LAC collects, transfers, and maintains organizational and employee 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 — Workforce Focus

1. How do you organize and manage work to enable employees to (1) develop and utilize their full potential, aligned with the organization's objectives, strategies, and action plans; and (2) promote cooperation, initiative, empowerment, innovation and your desired organizational culture?

The LAC organizes and manages the work of its auditors in teams. At the beginning of each audit assignment, team members work together to develop an audit plan. Audit

plans are reviewed by the agency director to ensure that they are consistent with the audit request made by legislators as well as the LAC's strategic objectives and action plans.

The audit manager gives assignments to each auditor based, in part, on the skills and expressed interests of the auditor. In completing their assignments, auditors often consult with and obtain the perspective of teammates. New ideas for improving state government and/or reducing its cost are encouraged.

2. How do you evaluate and improve your organization's human resource-related processes?

Periodically, an LAC committee, comprised of staff at different levels in the organization, evaluates and revises our employee performance management system. Senior leaders continually evaluate and improve the process through which we recruit and hire auditors. And, in recent years, we have given renewed emphasis to recognition of employee accomplishments.

3. 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? How do you evaluate the effectiveness of this education and training? How do you encourage on-the-job use of the new knowledge and skills?

The LAC provides the quantity and types of training that are required by Government Auditing Standards. Courses are provided to LAC staff based on their individual needs. These courses are identified keeping in mind the LAC's strategic goals of reducing the cost of state government, improving the performance of state government, and providing information to the General Assembly and the public.

The skills we obtain in training benefit the LAC in ways that are often difficult to quantify. For example, a training course may benefit an auditor on one audit but not another. Also, many of the skills we obtain in training are non-technical, such as the conducting audit interviews, writing, research, and organizational behavior. For these reasons, we have not developed quantified performance measures of the effectiveness and use of our staff training.

4. How does employee training contribute to the achievement of your action plans?

One of our action plan objectives is to conduct performance audits of state agency programs in compliance with Government Auditing Standards. These standards require that our auditors undergo a minimum of 20 hours of training each year and 80 hours within a specified two-year training period. This training addresses topics such as fraud prevention, policy analysis, general management, and accounting.

5. How does your employee performance management system, including feedback to and from employees, support high performance and contribute to the achievement of your action plans?

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. All performance evaluations are discussed in private meetings, during which the views of the staff and his or her supervisor are exchanged.

Some of the factors we use to evaluate employee performance are included within the action plan portion of our strategic plan. These factors include employee education and training, compliance with certain Government Auditing Standards, and auditing efficiency.

6. How do you motivate your employees 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.

7. What formal and/or informal assessment methods and measures do you use to determine employee well-being, satisfaction, and motivation? How do you use other measures, such as employee retention and grievances? How do you determine priorities for improvement?

The LAC periodically has historically used the "Campbell Organizational Survey" to formally measure the views of staff. (See performance measures Table 7.4.1.) This survey has enabled us to measure changes in the perceptions of staff across time. In FY 06-07, however, we learned that the price of using this survey had increased significantly. As a result, we did not administer a survey last year. In FY 07-08, we will select another survey instrument and, afterward, will meet as an organization to discuss its results and determine priorities for improvement.

To better ensure retention of non-supervisory staff, we established a goal in FY 06-07 of increasing the wage levels for these positions in FY 07-08.

8. 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.

## Category 6 — Process Management

1. How do you determine, and what are your key processes that produce, create, or add value for your customers and your organization? How do you ensure that these processes are used?

The LAC's single program is conducting performance audits of state agencies and programs. The key processes that add value for our customers and our organization include (1) learning and meeting the needs of legislative customers; and (2) adhering to Government Auditing Standards such as independence, thoroughness, and accuracy. We determined that these were our key processes by reviewing state law, communicating with legislators, and assessing performance auditing standards used throughout the United States.

To ensure that we use these key processes:

- At the beginning of each audit, the LAC director reviews a “planning file” developed by the audit manager, to ensure that the legislators who requested the audit have been contacted regarding their concerns. At end of each audit, the director reviews the results of an LAC survey of the same legislators regarding their satisfaction with the audit.
  - Every three years, we contract with an external peer review team to review the LAC's compliance with Government Auditing Standards. Also, before each audit is published, each statement in the audit is documented by a staff member whose work is then checked by another staff member.
2. How do you incorporate organizational knowledge, new technology, changing customer and mission-related requirements, cost controls, and other efficiency and effectiveness factors, such as cycle time, 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. They include:

- 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.
- Satisfaction surveys of LAC staff.
- Employee committees to improve LAC processes.
- Detailed written policies and procedures.
- Active membership in the National Legislative Program Evaluation Society.

We have incorporated new technology into design and delivery processes and systems in several ways. We use desktop publishing techniques for in-house publication of audit report summaries. In addition, all recent LAC publications and our strategic plan are available on our website at [LAC.SC.GOV](http://LAC.SC.GOV).

In addition, we have incorporated cycle time into the design of our audit process. At the beginning of each audit, we send a letter to the audit requesters, informing them of the projected audit completion date. To meet the needs of legislators who have said they want audits to be completed in a predictable and timely manner, we have a performance target of publishing 80% of audits within 30 days of the date projected (see page 26). The LAC's director and audit managers use monthly time sheets and management reports to help ensure that audits are completed in a timely manner.

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 06-07, for example:

- The LAC's director and audit managers used monthly time sheets to help 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 implemented.
- 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 current with developments in performance evaluation and auditing throughout the nation.

4. How do you systematically evaluate and improve your key product and service related processes?

As noted above, the design and delivery processes that add value for our customers and our organization include (1) learning and meeting the needs of legislative customers; and (2) adhering to Government Auditing Standards, such as independence, thoroughness, and accuracy.

At the beginning of each audit, we meet with the legislative requesters to ensure that we understand their concerns and that our audit plan reflects those concerns. After each audit has been published, we conduct written surveys of legislators to determine their levels of satisfaction.

Every three years, a peer review team, comprised of auditors from throughout the country, reviews the LAC's compliance with Government Auditing Standards established by the Comptroller General of the United States. After each peer review, we establish a temporary committee to implement the recommendations of the peer review team.

5. 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 South Carolina's technical colleges, professional associations, and for-profit trainers.

## Category 7 — Results

### *Summaries of Performance Audits Published in FY 06-07*

#### **A REVIEW OF THE CHILD PROTECTIVE SERVICES AT THE DEPARTMENT OF SOCIAL SERVICES (AUGUST 2006)**

We found a number of areas where DSS was in violation of either state law or DSS policy. For example, DSS policy requires that in treatment cases the victim child and family be visited every 30 days. In our five sample counties, the percentage of cases where at least one visit was not made in accordance with policy ranged from 38% in Kershaw County to 83% in Marlboro County. We also found that DSS had not always entered individuals into the Central Registry of Abuse and Neglect as required by law. We reviewed 77 cases of sexual abuse in 5 counties and found that in 30 (39%) of the cases, DSS had not followed the process for entering individuals into the central registry. We also examined worker caseloads, DSS's process for disciplining employees, and DSS's quality control process for CPS. We found that DSS did not meet national caseload standards for treatment workers. We also found examples where DDS did not discipline employees for violations of DSS policy. We reviewed DSS's quality control process and found instances where the process had not been effective in improving underperforming counties.

*Contact: Perry Simpson, Audit Manager*

#### **A MANAGEMENT REVIEW OF THE SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION (NOVEMBER 2006)**

This review of SCDOT identified many areas in which the agency did not appropriately control expenditures, particularly in the area of consultant contracts. We reviewed two ongoing contracts with private firms for construction and resource management for which the department had spent \$253 million at the time of the audit. These contracts did not adequately protect the state's interest and resulted in wasted funds. The department paid the contractors approximately \$8.7 million for projects that were not completed. SCDOT had not implemented adequate controls to ensure that preconstruction contracts are obtained at a reasonable price, and the

department's contractual history with one engineering firm raised questions of favoritism and ineffective management of resources. We also found evidence to support allegations that SCDOT attempted to lower SCDOT cash balances during the legislative session by delaying billings for reimbursements from the Federal Highway Administration (FHWA). The audit also identified issues with SCDOT's environmental compliance and administrative actions, such as management of temporary employees. In some areas, we found that SCDOT had taken appropriate action to control costs. We did not identify significant problems with the department's management of construction contracts and found that the department had taken steps to reduce administrative costs in fleet management and conference and travel expenditures.

*Contact: Jane Thesing, Deputy Director*

#### **A REVIEW OF THE FAMILY INDEPENDENCE ACT 2004 – 2006 (JANUARY 2007)**

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. We found that the number of welfare clients has decreased over the past two years. We also found that, from January 1, 2004 through December 31, 2005, there were 16,333 FI cases closed due to earned income. In 2003, DSS implemented the Participation and Tracking System (PATS) which is used to meet reporting requirements required under the federal Temporary Assistance to Needy Families (TANF) law. We reviewed a sample of client case files and concluded that the information in PATS was not sufficiently reliable to be used to report on clients' education and training, or on their employment. In a review of a sample of client files, we found that DSS has allowed clients to use activities such as raising their own children to count towards meeting work requirements. TANF was reauthorized by congress in February 2006. New provisions in the law will result in significant changes to DSS's family independence program. These changes include narrower definitions of work activities, an improved system for verifying clients' work activities, and changes to the caseload reduction credit.

*Contact: Perry Simpson, Audit Manager*

#### **A REVIEW OF WATER QUALITY PERMITS AND CERTIFICATIONS ISSUED BY THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL (DHEC) (FEBRUARY 2007)**

We reviewed DHEC's processes for issuing water quality permits and certifications for construction and development projects. Our findings included the following:

- Property owners did not have the option of submitting applications through the Internet.
- Data regarding the timeliness of permitting and certification processes was inconsistent.
- The department did not have adequate written policies and procedures for its processes.
- The training of permitting and certification staff was inconsistent.
- The department reported that it did not have legal authority to enforce Section 401 certifications or construction in navigable waters permits.
- South Carolina law did not require buffers of vegetation and forestland along the banks of rivers, streams, and lakes. Buffers are required by state law in Georgia and North Carolina.
- South Carolina law did not adequately restrict former DHEC employees from representing clients seeking regulatory decisions from DHEC.

*Contact: Andrew Young, Audit Manager*

### **A REVIEW OF THE SOUTH CAROLINA SECOND INJURY FUND (MARCH 2007)**

This audit examined whether the Second Injury Fund (SIF) was reaching its goals of advancing the hiring and retention of disabled employees and protecting employers from increased workers' compensation costs. The audit found that the SIF is not needed and should be phased out. We found no evidence that the SIF has an effect on promoting the hiring of the disabled. Most claims to the SIF have been based on "unknown conditions," in which the injured employee did not know that he had a previous disability. Unknown conditions cannot have an effect on hiring decisions. Also, since 1990 the Americans with Disabilities Act has protected potential employees and prohibits employers from questioning potential employees about their disabilities or previous injuries. The SIF primarily redistributes or shifts costs within the workers' compensation system and does not lower the overall costs of workers' compensation. Because of the SIF, the overall costs of workers' compensation are somewhat higher than if there were no SIF. If the SIF were phased out, there would be a short-term increase in workers' compensation costs and long-term savings. We also reviewed the SIF's claims management and did not identify problems. Evidence indicated that, compared to states with similar funds, the SIF is efficient in claims handling.

*Contact: Jane Thesing, Deputy Director*

### **AN OVERVIEW OF VICTIM SERVICES IN SOUTH CAROLINA (MARCH 2007)**

Proviso 72.107 of the FY 06-07 appropriations act required the Legislative Audit Council to "...research all victims assistance programs in the state and determine the best method for delivery of services and allocation of resources for these programs." We identified agencies that were involved in providing victim services and determined how those services are funded. We also examined the administrative structure for the provision of victim services and how it compared to the structure in other states. We identified improvements needed to ensure that the statutorily-mandated victim services are provided in a more efficient manner. We also reviewed several areas of internal controls over the collection and expenditure of victim services funds. We found examples of problems which may indicate a need for greater oversight.

*Contact: Perry Simpson, Audit Manager*

### ***Summaries of Follow-Up Reviews Published in FY 06-07***

#### **A FOLLOW-UP REVIEW OF: (1) THE STATE DEPARTMENT OF EDUCATION AND ISSUES OF EFFICIENCY AND ACCOUNTABILITY IN K-12 EDUCATION; AND (2) ISSUES OF EFFICIENCY AND ACCOUNTABILITY RELATING TO SCHOOL DISTRICTS (NOVEMBER 2006)**

In 2004, the LAC conducted a broad review of the State Department of Education (SDE) which resulted in the two audit reports listed above. Our 2006 follow-up review confirmed that the General Assembly enacted legislation to implement our recommendations to eliminate duplication and improve efficiency in the state's testing system. The estimated savings in testing costs were approximately \$3.8 million in one-time and \$4.75 million in annual operating expenditures. The department also implemented many of our recommendations for administrative savings, realizing \$1.7 million in annual savings. Overall, the agency implemented 18 of 28 recommendations and the General Assembly implemented 3 of 13 recommendations for legislative change. The General Assembly did not implement our recommendations regarding limiting or changing the state salary supplements for national-board-certified teachers or our recommendation to implement a process for individual school districts



to be reviewed for efficient financial management. SDE did not implement our recommendations to improve its reporting of measures for student learning, to appropriately procure contractual services for leadership training, or to consolidate its cell phone billing.

*Contact: Jane Thesing, Deputy Director*

#### **A FOLLOW-UP REVIEW OF SELECTED OPERATIONS OF THE STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY (FEBRUARY 2007)**

In our December 2003 audit of the State Housing Finance and Development Authority, we made recommendations regarding inspections, disbursements of funds, timeliness in completing housing trust fund projects, and funding for special projects. We also recommended that the housing trust fund advisory committee should follow its legal mandate and a private corporation, the State Housing Corporation, which was affiliated with the agency, be disbanded. Lastly, we recommended that the agency determine the state's housing needs and consolidate its marketing functions. In our 2007 follow-up review, we found that the agency had substantially complied with all of these recommendations.

*Contact: Marcia Lindsay, Senior Auditor II*

#### **A FOLLOW-UP REVIEW OF REGULATORY ISSUES AT THE DEPARTMENT OF NATURAL RESOURCES (APRIL 2007)**

Our July 2004 audit focused on DNR's promulgation of regulations for efficiency and compliance with the Administrative Procedures Act. We also reviewed DNR's enforcement of state laws and regulations and the communication of changes in the law to DNR officers and the public. We made eight recommendations and, during our follow-up review, found that the agency has substantially complied with seven of these recommendations.

*Contact: Perry Simpson, Audit Manager*

#### **A FOLLOW-UP REVIEW OF PURCHASING OVERSEEN BY THE BUDGET AND CONTROL BOARD (MAY 2007)**

In January 2005, we published an audit of two state government purchasing methods – best value bidding and request for proposals. These methods are used as alternatives to competitive sealed bidding, which requires state agencies to award contracts based on the lowest price. When using these alternative methods, state agencies are allowed to consider factors that offset higher prices, such as higher quality or lower long-term cost. We found, however, that the Budget and Control Board did not adequately document the reasons for awarding contracts to specific vendors, as required by state law. Conflict of interest statements were not consistently completed, and summary data was not reliable. We also found that it was questionable whether in-state purchasing preferences, required by state law, provide net-benefits to South Carolina's economy. In our May 2007 follow-up review, we concluded that the Budget and Control Board had implemented none of our five recommendations.

*Contact: Andrew Young, Audit Manager*

### A FOLLOW-UP REVIEW OF THE SOUTH CAROLINA UNIVERSAL SERVICE FUND (JUNE 2007)

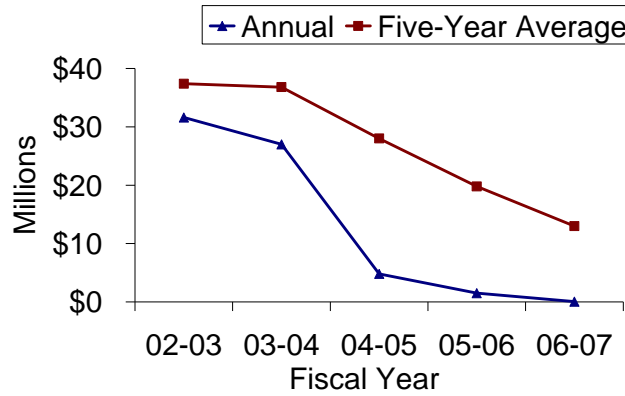
The goal of universal service is to ensure the widespread availability of affordable local telephone service. The S.C. universal service fund (USF) establishes a complex system by which consumers pay a surcharge on their telephone bills to support local telephone companies. In our February 2005 audit, we found several reasons why the state USF is not needed in its present form and should be scaled down. In our follow-up we found that the General Assembly had not implemented our recommendations to scale down the universal service fund and eliminate the related Interim LEC fund. In our 2005 audit, we also found many deficiencies in the Public Service Commission's administration of the USF. The newly-created Office of Regulatory Staff (ORS) assumed responsibility for administering the fund in 2005. We found in our follow-up that the ORS had implemented all of our recommendations to improve fund administration. These included establishing a system of audits of self-reported data from participant telephone companies, an improved billing system, and improved administration of the low-income assistance component of the USF.

*Contact: Jane Thesing, Deputy Director*

*Performance Measures*

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

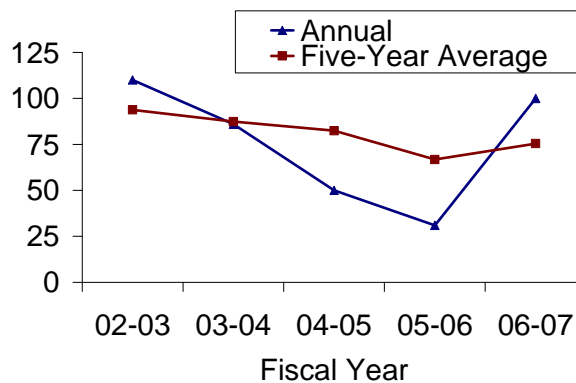
**CHART 7.1.1 POTENTIAL FINANCIAL BENEFITS IDENTIFIED\***



	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Annual	\$31.6 million	\$27 million	\$4.8 million	\$1.5 million	\$50,000
Five-Year Average	\$37.4 million	\$36.8 million	\$28 million	\$19.8 million	\$12.9 million

\* For POTENTIAL FINANCIAL BENEFITS IDENTIFIED, we have included five-year averages to account for year-to-year volatility in the data. We have not included performance targets for the reasons discussed on page 12. Prior to FY 04-05, this statistic included misspent funds from prior years as well as potential financial benefits identified for future years. Beginning in FY 04-05, this statistic has only included potential financial benefits identified for future years.

**CHART 7.1.2 NUMBER OF RECOMMENDATIONS\***



	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Annual	110	86	50	31	100
Five-Year Average	93.8	87.4	82.4	66.8	75.4

\* For NUMBER OF RECOMMENDATIONS, we have included five-year averages to account for year-to-year volatility in the data. We have not included performance targets for the reasons discussed on page 12.

**TABLE 7.1.3 FINANCIAL BENEFITS REALIZED\***

	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Results	N/A	N/A	\$29.8 million	\$0	\$11.4 million

\* FINANCIAL BENEFITS REALIZED was initiated in FY 04-05 and is based on the financial benefits realized from implementing our audit recommendations, as identified in our follow-up reviews. In FY 05-06, we conducted follow-up reviews of four audits published in prior years. In only one of those audits published in prior years had we identified potential financial benefits.

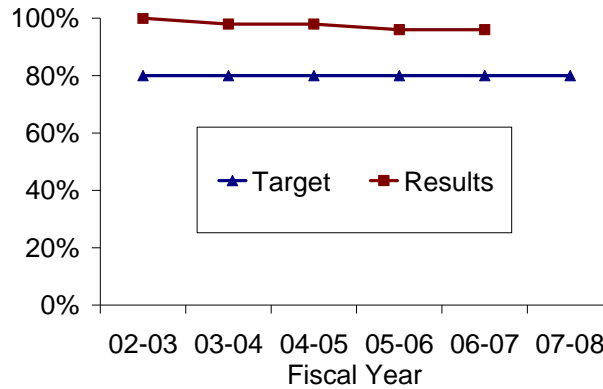
**TABLE 7.1.4 PERCENT OF AUDIT RECOMMENDATIONS IMPLEMENTED\***

	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Results	N/A	69%	58%	70%	58%

\* PERCENT OF AUDIT RECOMMENDATIONS IMPLEMENTED, as identified in our follow-up reviews, was initiated in FY 03-04.

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

**CHART 7.2.1 LEGISLATORS SATISFIED WITH QUALITY OF AUDITS**



	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
Target	80%	80%	80%	80%	80%	80%
Results	100%	98%	98%	96%	96%	

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

**TABLE 7.3.1 COST PER DIRECT AUDIT HOUR**

	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
Target	\$55	\$57	\$66	\$65	\$65	\$65
Results	\$55.21	\$66.34	\$66.02	\$65.98	\$58.93	

**TABLE 7.3.2 AUDITS PUBLISHED ON TIME \***

	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
Target	80%	80%	80%	80%	80%	80%
Results	67%	40%	50%	67%	0%	

\* We define "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 NATIONWIDE\***

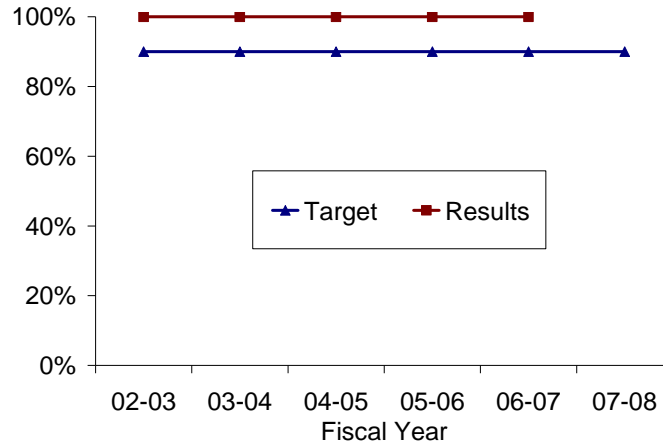
	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
Target			55 <sup>th</sup> Percentile			
Results			50 <sup>th</sup> Percentile			

\* We generally administer an employee satisfaction survey every other year but did not in FY 03-04 and FY 06-07 due to financial limitations. Due to a significant increase in the price of the survey instrument we have historically used, we will be selecting a new instrument and relevant benchmark in FY 07-08.

**TABLE 7.4.2 AUDITORS WITH MINIMUM TRAINING HOURS**

	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
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 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
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 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
Target		Pass			Pass	
Results		Passed			Passed	