

Agency Name	Office of the State Auditor
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Agency Director	Richard H. Gilbert, Jr., CPA Interim State Auditor
Agency Director's email	rgilbert@osa.sc.gov
Agency Contact Person	R. Kenneth Harrill
Agency Contact Person's email	kharrill@osa.sc.gov
Agency Contact's Telephone Number	803-253-4160

Office of the State Auditor

FY 2012-13 Accountability Report

Section I – Executive Summary

1. Mission and Values:

The mission of the Office of the State Auditor is to bolster public confidence in state government finance by serving as a deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies, providers of Medicaid services, General Sessions Courts, Magistrate Courts and Municipal Courts. We value professionalism in our staff and completion of our audit work in accordance with established professional standards.

2. Major Achievements

The following highlights the accomplishments of the Office of the State Auditor during fiscal year 2012-13.

- The audit of the State of South Carolina's basic financial statements was completed on June 7, 2013. The Comptroller General Office has submitted the Comprehensive Annual Financial Report (CAFR) to the Government Finance Officers Association's Certificate of Achievement Program and anticipates receiving the Certificate of Achievement for Excellence in Financial Reporting.
- Reports of sixty-two State agency engagements were issued by the Office of the State Auditor or by independent certified public accounting firms under contract with the Office of the State Auditor. This represents fifty-two of the seventy-nine state agencies that the Office of the State Auditor is responsible for auditing.
- Six Medicaid reports were completed representing three providers. Approximately 2.0% of the Medicaid providers in the State were included in these engagements. The engagements identified net receivables due to the State and Federal government of \$222.6 thousand. Medicaid engagements, in total, were completed 14.9% over budget. As of August 31, 2013 twenty-nine additional reports, representing nineteen Medicaid providers were issued draft.

- Medicaid auditors identified fraudulent transactions while applying certain agreed-upon procedures to a nursing home provider cost report. After notifying the Department of Health and Human Services of the fraudulent transactions, the matter was referred to the State Attorney General Office, Medicaid Fraud Unit.
- Eleven reports of General Sessions Courts, Magistrate Courts and Municipal Courts engagements were issued by the Office of the State Auditor during the year. The engagements identified approximately \$6.3 thousand that was over-reported to the Office of the State Treasurer. As of August 31, 2013 two additional reports were issued. Court engagements were completed 546.5 hours or 16.6% under budget. Fourteen court engagements were contracted with a Certified Public Accounting firm on June 28, 2013. These engagements are expected to be completed by September 30, 2013.
- Let and provided oversight of fifty-three audit and agreed-upon procedures contracts with CPA firms totaling approximately \$996.7 thousand.
- The Office contracted with an independent external audit firm to perform a review of the Office's system of quality control. The Office received an unmodified opinion.
- All reports were issued in compliance with applicable standards of the AICPA and Federal Regulations.

3. Key Strategic Goals

State law provides the framework for our strategic plan. Section 11-7-20 specifies that the Office of the State Auditor shall conduct an audit of the State's basic financial statements and audit the State's major Federal programs annually. It also states, to the extent practicable, that the Office of the State Auditor shall audit each state agency annually. Section 11-7-25 outlines our responsibility with respect to audits of court fines, fees and assessments. Finally, our contract with the South Carolina Department of Health and Human Services describes our responsibilities for auditing Medicaid providers. Conducting audit and agreed-upon procedures engagements act as a deterrent to organization and employee fraud, waste and mismanagement of State resources. We use State laws and contractual agreements as the basis for developing our annual audit plan. The main objective of the annual audit plan is to provide adequate coverage of

State agencies, Medicaid providers and court fines, fees and assessments thereby providing the Governor, general assembly and citizens of the State with an independent oversight of financial transactions. All audit and agreed-upon procedure engagements are conducted in accordance with professional standards.

4. Strategic Challenges

The Office of the State Auditor currently employs 35 auditors and is authorized to hire seven additional auditors. It has been the Office's practice to hire entry-level staff and develop their skills internally. The General Assembly has provided funding to fill vacant auditor positions, however, because we compete with CPA firms that are able to offer significantly higher salaries it has been difficult to find qualified applicants to fill the vacant positions. The lack of an experienced audit staff will continue to affect our ability to complete State agency, Medicaid and court engagements and to meet the agency's legislative mandate.

5. Use of the Accountability Report

The accountability report is used by the management team for strategic planning. We analyze the information relative to previous years as well as our objectives for the coming years and balance the assignment of available resources to the major agency objectives.

Section II – Organizational Profile

1. Main Products and Services

The Office of the State Auditor conducts audit and agreed-upon procedures engagements of state government agencies, providers of Medicaid services, and general sessions, municipal and magistrate courts. The State Audits section performs the annual financial audit of the State's basic financial statements, the annual Single Audit of the State's Schedule of Expenditures of Federal Awards and agreed-upon procedures engagements of State agencies. These engagements cover all state agencies with total funds of over \$22.98 billion and general funds of over \$6.09 billion. The Medicaid Audits section conducts agreed-upon procedures engagements of cost reports filed by institutional providers of Medicaid services. These cost reports are used by the Department of Health

and Human Services to establish reimbursements rates paid to these providers for services provided to qualified Medicaid recipients. The Office of the State Auditor also conducts agreed-upon procedure engagements of the financial records of the general sessions, municipal and magistrate courts; and provides technical assistance to other governmental entities by conducting reviews of financial records and record keeping systems.

2. Customers

Our customers include the citizens of the state, the members of the Budget and Control Board, members of the General Assembly, members of agency boards and commissions, and the management of State agencies. Copies of all agency audit and agreed-upon procedures engagement reports are provided to the Governor's Office, Comptroller General, State Treasurer, Senate Finance Committee, House Ways and Means Committee, the Board's Budget Division, Legislative Audit Council, and State Library. Reports are also posted on our internet website (osa.sc.gov) to enable citizens of South Carolina easy access to our reports. These reports are particularly important because the reports may disclose weaknesses in an agency's accounting system or procedures and violations of State laws, rules and regulations. A key element in accomplishing the mission of the Office of the State Auditor is to provide sufficient audit coverage of state agencies, Medicaid providers, and general sessions, municipal and magistrate courts.

3. Key Stakeholders

Key stakeholders include the citizens of the State, the Governor, members of the General Assembly, members of the Budget and Control Board, members of boards and commissions of State agencies and management of State agencies.

4. Key Suppliers

The Office of the State Auditor contracts with independent certified public accountants to provide some audit and attestation services. In FY 2012-13 our Office let contracts totaling approximately \$996.7 thousand; of which \$690.0 thousand was paid by other State agencies. The Office of the State Auditor also contracted with an independent certified public accountant to conduct a joint audit of the State's CAFR and the State's federal programs. The fee for the two engagements was \$346.5 thousand and \$810.0

thousand, respectively. The cost of the engagements was reimbursed by the State agencies that comprise the reporting entity.

5. Location

The Office of the State Auditor is located at 1401 Main Street, Suite 1200, Columbia, South Carolina. Administrative, managerial and audit functions are carried out at this location; a significant portion of the audit work is conducted on-site at state agencies and Medicaid provider facilities.

6. Employees

The FY 2012-13 Appropriations Act authorized fifty-nine (59) FTE positions for the Office of the State Auditor. At June 30, 2013 the audit staff was comprised of forty-three (43) FTE, seventeen of which have less than two-years of experience. All positions are classified except for the agency head and one deputy position. The Deputy State Auditor has functioned as the Interim State Auditor since June 2006.

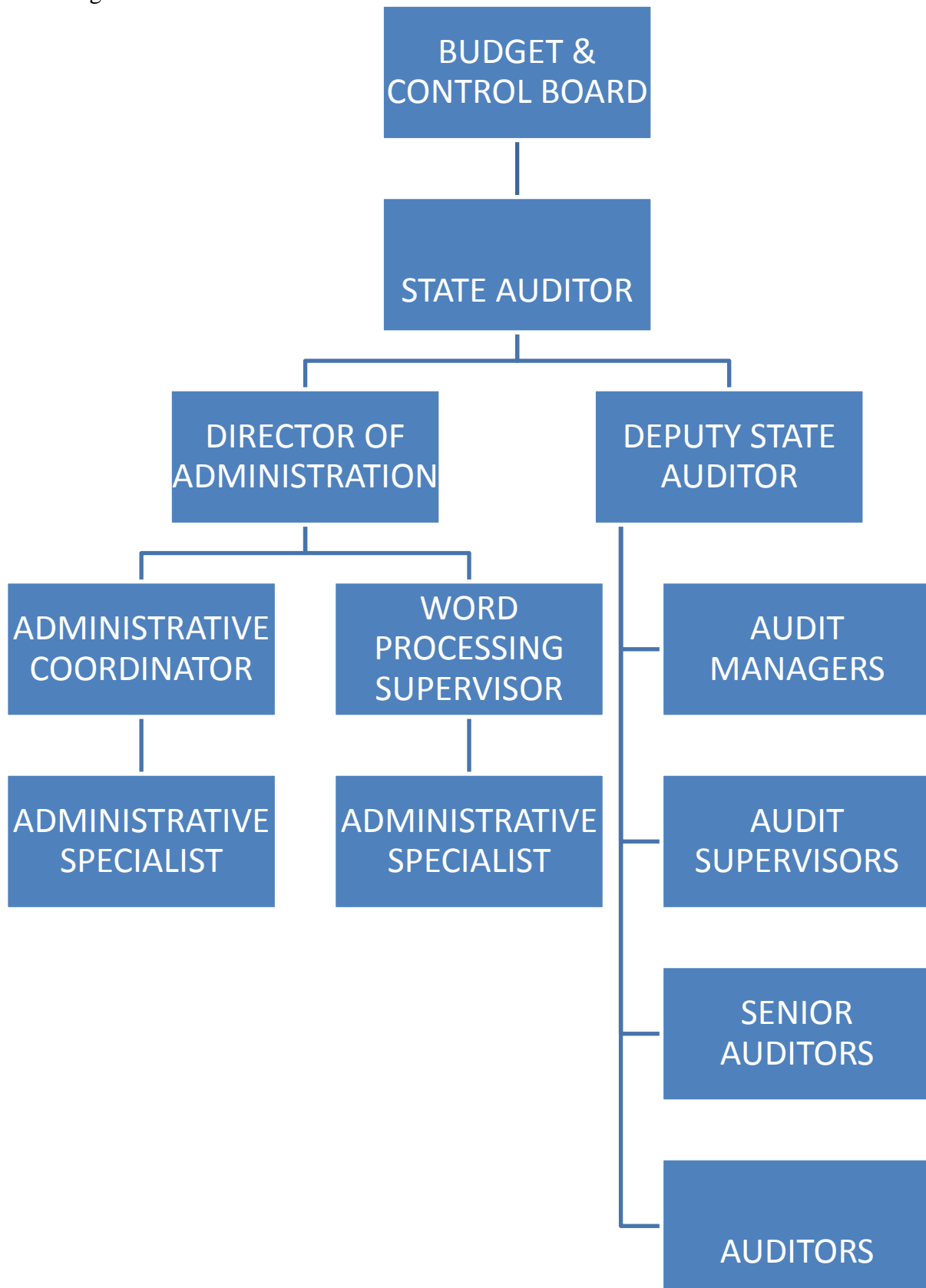
7. Regulatory Environment

The Office of the State Auditor conducts all engagements in accordance with professional standards. All engagements comply with applicable auditing and attestation standards of the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. Agreed-upon procedures engagements of Medicaid providers and court systems also comply with applicable attestation standards.

8. Performance Improvement System

The Office of the State Auditor uses an interim evaluation system and an audit status information system to track our efforts on performance improvement. The auditor-in-charge of each engagement completes an interim evaluation of each staff member at the conclusion of the engagement. These interim evaluations are used in completing the annual Employee Performance Management System evaluation. This system provides immediate feedback to the staff about their performance and opportunities for improvement. Audit managers maintain a system that tracks the status of each engagement and provides feedback regarding performance improvements.

9. Organizational Structure



10. Expenditures/Appropriations Chart

Base Budget Expenditures and Appropriations

Major Budget Categories	FY 11-12 Actual Expenditures		FY 12-13 Actual Expenditures		FY 13-14 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$1,545,952	\$1,273,896	\$1,921,598	\$1,337,805	\$2,560,907	\$1,745,026
Other Operating	\$ 837,671	\$ 493,187	\$1,583,352	\$ 561,545	\$1,845,205	\$ 488,857
Special Items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Permanent Improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Case Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Distributions to Subdivisions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fringe Benefits	\$ 468,840	\$ 446,119	\$ 603,785	\$ 427,145	\$ 869,951	\$ 571,102
Non-recurring	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$2,852,463	\$2,213,202	\$4,108,734	\$2,326,495	\$5,276,063	\$2,804,985

Expenditures/Appropriations Chart - Continued

Other Expenditures

Sources of Funds	FY 11-12 Actual Expenditures	FY 12-13 Actual Expenditures
Supplemental Bills	\$ -0-	\$ -0-
Capital Reserve Funds	\$ -0-	\$ -0-
Bonds	\$ -0-	\$ -0-

11. Major Program Areas Chart

Major Program Areas

Program Number and Title	Major Program Area Purpose (Brief)	FY 11-12 Budget Expenditures	FY 12-13 Budget Expenditures
II. AUDITS	Financial audits of state agencies, providers of Medicaid services, the State's Basic Financial Statements, the State's Schedule of Federal Financial Assistance, and agreed-upon procedures audits of General Sessions, Magistrate, and Municipal Courts.	State: 1,619,333.00 Federal: 0.00 Other: 616,539.00 Total: 2,235,872.00 % of Total Budget: 78%	State: 1,744,292.90 Federal: 0 Other: 1,605,599.12 Total: 3,349,892.02 % of Total Budget: 82%

Below: List any programs not included above and show the remainder of expenditures by source of funds.

I. ADMINISTRATION and III. EMPLOYEE BENEFITS

Remainder of Expenditures:	State: 593,870.00 Federal: Other: 22,721.00 Total: 616,591.00 % of Total Budget: 22%	State: 582,202.38 Federal: Other: 176,639.50 Total: 758,841.88 % of Total Budget: 18%
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Section III – Elements of Malcolm Baldrige

Category 1 – Senior Leadership, Governance, and Social Responsibility

1. The Deputy State Auditor, in conjunction with the audit managers and Director of Administration, defines and communicates the values of the organization to the staff. The Deputy State Auditor meets with this management team at least quarterly to discuss organizational priorities, problems and progress. This senior management team works collectively with the Deputy State Auditor to define the organizational values and priorities. This team is primarily responsible for communicating the direction and priorities of the agency to the staff.
2. The General Assembly, the public through its elected officials, and state agency directors are the customers of the Office of the State Auditor. The General Assembly has clearly communicated their focus by passing statutes defining our programs and responsibilities. Statutes require the State Auditor, to the extent practicable, to audit or cause to be audited each State agency and entity annually. To meet this legislative mandate we conduct an audit of the State's basic financial statements prepared by the staff of the Comptroller General's Office, conduct an audit of the State's Schedule of Expenditures of Federal Awards prepared from State agency submitted information, and apply agreed-upon procedures to the accounting records and internal controls of State agencies. Being responsive to our customers means conducting these engagements in a timely manner and according to professional standards.
3. The Office of the State Auditor addresses the impact of its operation on the public by adhering to professional auditing and attestation standards and encouraging professional staff to obtain their CPA certification.
4. The Office of the State Auditor relegates the primary responsibility for fiscal, legal, and regulatory accountability to the Administration Section of the agency. This assignment of responsibility is more efficient and effective since it allows program staff to focus on its responsibilities without unnecessary distraction and the administrative staff to concentrate on the fiscal, legal and regulatory issues.

5. Audit managers maintain an audit status information system to track progress on each engagement. The managers monitor performance by comparing budgeted hours to actual hours. Interim evaluations are used to monitor staff performance and development.
6. The Office of the State Auditor uses exit interviews to obtain objective employee feedback regarding organizational performance and leadership effectiveness. When an employee leaves the agency, the Director of Administration conducts an exit interview with the individual on his/her last day. The purpose of the exit interview is to obtain valid, honest information about staff perceptions, morale, and suggestions for improving the employment experience at the Office of the State Auditor. The information is shared with and analyzed by the Deputy State Auditor. The information is also communicated in general terms with the audit managers. This process has proven to be a very effective way to identify improvements to the office policies and procedures.
7. The Office of the State Auditor has historically promoted into supervisory and management positions from within the organization. During a new auditor's orientation the Deputy State Auditor explains the advancement opportunities available to the new employee and the requirements for promotion. Staff members are encouraged to obtain the CPA certification. CPA certification is required for promotion to the audit supervisor level.
8. The auditor-in-charge of each engagement completes an interim evaluation of each staff member at the conclusion of the engagement. These interim evaluations are later used in completing the annual Employee Performance Management System evaluation. This system provides immediate feedback to staff members about their performance and opportunities for improvement.
9. Senior leaders create an environment for organizational and workforce development by encouraging staff members to become certified public accountants. Promotion to the audit supervisor level requires certification. Tuition assistance is provided, when funds are available, to encourage staff members to continue their education. *Government Auditing Standards* require auditors receive 80 hours of continuing professional education bi-annually. The Office of the State Auditor generally provides 40 hours of training each year for audit staff members.

10. Senior leaders communicate and motivate the workforce through the interim evaluation and annual EPMS systems, as well as published notes from the managers' meetings. Reward and recognition is achieved through the annual holiday luncheon, employee recognition luncheon, and team birthday luncheons.

11. The Office of the State Auditor is instrumental in supporting and strengthening the financial community within state government. The standards of financial responsibility in state government are, to a large degree, defined by the engagements conducted by the Office of the State Auditor. Our emphasis on professional standards and the importance communicated to staff about becoming a CPA are examples of the efforts of the Office of the State Auditor to support and strengthen the community's perception of State government. The Office of the State Auditor also works with the Office of the Comptroller General by reviewing its Comprehensive Annual Financial Report to ensure that it meets the requirement of the Governmental Finance Officers Association Certificate of Excellence in Financial Reporting program.

Category 2 - Strategic Planning

1. Statutes and regulations define the responsibilities of the Office of the State Auditor and drive the strategic planning process. It is a process of developing and allocating resources to accomplish each of these responsibilities. Because of deadlines for much of our work, the planning requires careful coordination and timing of the allocation of resources. The Deputy State Auditor, in conjunction with the audit managers and the Director of Administration, are involved in strategic planning on a continual basis.

2. The strategic planning process in this Office consists of several steps; each one analyzed on short and long term bases:
 - a. Identify the engagements that must be done to satisfy our statutory and regulatory mandates.
 - b. Analyze the time required (based on historical data).
 - c. Analyze the time frames (deadlines) for each of the audit and agreed-upon procedures engagements.
 - d. Identify the resources available and timing of availability.
 - e. Determine the priority of the engagements and the ramifications of not completing all the requirements.
 - f. Identify strategies for development of the resources needed to meet all requirements within the time frames.
3. The strategic objectives and action plans are communicated to the audit managers through periodic management meetings and to the entire staff directly by the managers and through the agency intranet.
4. Progress on our objectives and action plans is monitored through our audit status information system that details the progress and resources used on each engagement.
5. The Deputy State Auditor and Director of Administration constantly review our planning processes for improvement.

Program Number and Title	Supported Agency Strategic Planning Goal/Objective	Related FY 12-13 and beyond Key Agency Action Plan/Initiative(s)
II. AUDITS	Audit the State of South Carolina's Basic Financial Statements prepared by the Comptroller General.	Contract with a private CPA firm for one-half of the 4,850 audit hours budgeted to complete the audit by the Comptroller General's Office deadline.
II. AUDITS	Audit the State of South Carolina's Schedule of Expenditures of Federal Awards as mandated by the Single Audit Act Amendments of 1996.	Contract with a private CPA firm for one-half of the 12,000 audit hours budgeted to ensure completion of the audit engagement by the March 31 st deadline.
II. AUDITS	Perform audit and agreed-upon procedures engagements of the financial records of state agencies.	Conduct as many engagements as possible with available staff and available funds for contracts with private CPA firms. The objective is to conduct audit or agreed-upon procedures engagements of each state agency each year.
II. AUDITS	Perform agreed-upon procedures engagements of cost reports filed by institutional providers of Medicaid services.	Conduct agreed-upon procedures engagements of 25% of the Medicaid providers each year.
II. AUDITS	Perform agreed-upon procedures engagements of the financial records of general sessions, municipal, and magistrate courts.	Conduct at least fifteen agreed-upon procedures engagements of general sessions, municipal or magistrate courts annually using existing staff or by contracting with a private CPA firm.

Category 3 - Customer Focus

The General Assembly, the public through its elected officials, and state agency directors are the customers of the Office of the State Auditor. The General Assembly has clearly communicated their focus by passing the statutes defining our programs and audit responsibilities. The statutes and regulations require an annual audit of state government entities and Medicaid providers. Being responsive to our customers means conducting audit and agreed-upon procedures engagements in a timely manner and according to professional standards.

To more effectively and efficiently communicate the results of our engagements to our customers, the Office of the State Auditor now publishes reports on our internet website. Clients are notified of the report by email or letter. Hard copies of reports are provided upon request or when required by law or regulation. This approach not only saves the cost of printing and postage, it also makes the reports more readily available to the public and other public officials. Engagement results are communicated to our customers more effectively and at a lower cost to the State.

Category 4 - Measurement, Analysis, and Knowledge Management

Since the statutes and regulations define the programs of the Office of the State Auditor, the performance measures are logically defined as efficiency and effectiveness. We measure efficiency by determining how well our staff completes each engagement within the assigned budget hours and within the required time frames. We measure effectiveness by our degree of compliance with professional auditing standards. All work is subject to an internal compliance (quality control review). Additionally, we undergo an external review every three years. An independent auditor, usually a private CPA firm under contract, conducts the peer review. The standards and time frames for the peer review are established by *Government Auditing Standards* and by professional entities such as the American Institute of Certified Public Accountants.

Category 5 - Workforce Focus

A crucial element in the development and motivation of our employees is the interim evaluation that each auditor receives at the conclusion of the engagement. The auditor-in-charge of each engagement completes the interim evaluation of each member of the team. This system provides immediate feedback to the staff about their performance and opportunities for improvement. The interim evaluations are used in completing the annual Employee Performance Management System evaluation and in identifying staff training needs.

One of the important ways that the Office of the State Auditor encourages employees to develop their full potential is the emphasis on achieving certification as a CPA. The State Auditor's Office supports and encourages staff members in this effort by providing qualifying experience and the in-house training required to meet the continuing education requirements of maintaining a CPA certificate. When funds are available, tuition assistance is also offered to encourage auditors to acquire the necessary academic requirements to apply for the CPA. Upon completion of the CPA examination a salary adjustment may be awarded if funds are available. One factor considered when evaluating a candidate for employment is his/her interest in pursuing certification as a CPA. In addition, promotion policies require staff members to achieve certification as a CPA in order to progress to Audit Supervisor.

The Office of the State Auditor has adopted a variable work schedule policy that has helped with employee morale and retention.

Category 6 - Process Management

The production process used by the Office of the State Auditor is one of service delivery. It consists of conducting audits and agreed-upon procedures engagements and reporting the results of the engagements to our customers. The process of conducting an audit or agreed-upon procedures engagements and reporting the results are well defined by professional standards. Our efforts in this area are largely directed at developing the competencies and expertise of our staff to conduct the engagement and report results in accordance with the professional standards. Our continuous

professional training, in-house training, tuition assistance, emphasis on certification, performance review system, and quality control processes are all components of our focus on ensuring that the engagements conform to established professional standards.

Developments in information technology have allowed us to improve the efficiency of our processes and to make our reports more accessible to our customers. The Office of the State Auditor now publishes reports on its internet website. This has reduced the printing and postage cost of our reports. Engagement results are communicated to our customers more effectively and at a lower cost to the State.

Category 7 – Results

The mission of the Office of the State Auditor is to bolster public confidence in state government finance by serving as a deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies, providers of Medicaid services, general sessions, magistrate and municipal courts. The mission is accomplished by providing adequate coverage of state agencies, providers of Medicaid services, General Sessions Courts, Magistrate Courts and Municipal Courts, as required by statutes, regulations and contractual agreements.

Category 7.1 - Mission Accomplishment

- The Office of the State Auditor and a nationally recognized accounting firm jointly audited the State of South Carolina's basic financial statements, which were prepared by the Office of the Comptroller General. The basic financial statements are an integral part of the State's Comprehensive Annual Financial Report (CAFR). The Office of the Comptroller General submits the CAFR to the Government Finance Officers Association (GFOA) to be considered for the GFOA Certificate of Achievement for Excellence in Financial Reporting program. The Office of the State Auditor completed the engagement on June 7, 2013. The engagement was completed in 7,628.5 hours.

- The Single Audit Act Amendments of 1996 requires an annual audit of the State of South Carolina's federal programs. State agencies submit federal financial data which is consolidated to generate the Schedule of Expenditures of Federal Awards. OMB Circular A-133 requires governments to submit its report on the schedule within nine months of the governments fiscal year end. The scope of the engagement includes approximately \$6.918 billion in federal program expenditures and twenty major federal programs. The audit of the State's Schedule of Expenditures of Federal Awards (Single Audit Report) is currently in progress and to date has consumed 10,365 audit hours in FY13.

- The General Assembly appropriated state agencies total funds in excess of \$22.976 billion and state general funds of \$6.087 billion. State law requires the Office of the State Auditor to audit annually each State agency. To accomplish its legislative mandate the Office of the State Auditor conducts the audit engagements using its staff or by contracting with independent certified public accounting firms. During fiscal year 2012-13 sixty-two reports were issued by the Office of the State Auditor or by independent certified public accounting firms under contract with the Office of the State Auditor. This represents fifty-two of the seventy-eight state agencies that the Office of the State Auditor is responsible for performing audit or agreed-upon procedures engagements. As of August 31, 2013 ten engagements were either in-progress or in the planning stage. This does not include the audits of ten universities that are contracted by the respective universities. Overall the agency engagements completed by the Office of the State Auditor were completed approximately 570 hours under budget. Because of staffing shortages, the Office of the State Auditor was unable to conduct agreed-upon procedures engagements of twenty-nine agencies for the fiscal year ended June 30, 2012.

- The South Carolina Department of Health and Human Services contracts with the Office of the State Auditor to conduct agreed-upon procedures engagements of Medicaid providers. The contract requires that we perform agreed-upon procedures engagements of each Medicaid provider once every four years. During fiscal year 2012-13 the Office of the State Auditor issued six agreed-upon procedures engagements reports representing three Medicaid providers. This represents approximately 2.0% of the Medicaid providers. As of August 31, 2013 twenty-nine additional reports, representing nineteen Medicaid providers were issued

- draft. Overall the completed engagements were completed within 14.9% of the budget. The engagements identified net receivables due to the State and Federal government of \$222.6 thousand.
- The Office of the State Auditor uses public accounting firms to provide audit and agreed-upon procedures engagements of State agencies and departments. State regulations require the State Auditor approve all accounting and auditing contracts. The Office of the State Auditor issues a request for proposal (RFP), conducts bid conferences and awards contracts. This process ensures open and fair competition and competitive fees. In FY 2012-13 the Office of the State Auditor was responsible for letting and overseeing fifty-three audit and agreed-upon procedures contracts totaling approximately \$996.7 thousand.
- The Office of the State Auditor used in-house staff to conduct agreed-upon procedures engagements of General Sessions Courts, Magistrate Courts and Municipal Courts. During fiscal year 2012-13 eleven reports were issued and approximately \$6.3 thousand in over reported costs were identified. As of August 31, 2013 two additional reports were issued final and three engagements are currently in progress. In addition, fourteen court engagements have been contracted with a Certified Public Accounting firm.
- The Office of the State Auditor also provides expert technical assistance to other State government entities in the areas of finance and accounting. During the year the Office of the State Auditor assisted State agencies in procuring audit and accounting services.
- The Administration Section continued with the implementation of enhancements and revisions to the South Carolina Enterprise Information System (SCEIS).

Category 7.2 - Customer Satisfaction

The customers of the Office of the State Auditor are the citizens of South Carolina and the elected officials representing them. These customers expect and demand compliance with professional auditing standards. To insure customer satisfaction, we conduct all of our engagements in accordance with applicable standards of the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Every three years the Office of the State Auditor is required by *Government Auditing Standards* to undergo a peer review by an independent external auditor. A peer review was conducted on the Office of the State Auditor's system of quality control for the fiscal year ended June 30, 2012. The Office of the State Auditor received an unmodified opinion.

Category 7.3 – Financial

The Office of the State Auditor contracts with an independent certified public accounting firm to apply certain agreed-upon procedures to its accounting records and internal controls. The report for FY 2011-12 found “no exceptions.”

Category 7.4 - Workforce

Recruiting and retaining qualified audit staff are two of the primary workforce measures for the Office of the State Auditor. During FY 2012-13 we hired 12 new auditors and had 5 resignations. We continue to actively recruit at in-state colleges and universities and by using e-recruiting we are able to attract applicants beyond those in-state institutions.

The Office of the State Auditor promotes professional staff development; the majority of the audit staff are either certified public accountants or are working towards obtaining their certification.

Category 7.5 - Organizational Effectiveness/Operational Efficiency

For the Office of the State Auditor a key measure of organizational effectiveness is adherence to professional standards. All engagements performed by the Office of the State Auditor comply with applicable standards of the American Institute of Certified Public Accountants and *Government Auditing Standards*.

A second measure of effectiveness is engagement coverage. We did not have sufficient staff to perform audit or agreed-upon procedures engagements of each State agency for fiscal year ending June 30, 2012. Staffing deficiencies also affected our ability to provide sufficient coverage of Medicaid engagements. To address these shortfalls we requested and received authority from the General

Assembly to contract with an independent CPA to perform a joint audit of the State's federal programs (State Single Audit). This will enable the Medicaid audit staff to devote 100% of their effort to Medicaid engagements and will allow the state audit staff to devote more time to state agency engagements. It will also allow for a more timely completion of the State Single Audit.

Category 7.6 - Regulatory/Legal Compliance

Regulatory and legal compliance is addressed in the annual agreed-upon procedures engagement of the Office of the State Auditor by a private CPA firm. The latest completed engagement (fiscal year ended June 30, 2012) reported no violations of State Laws, Rules, or Regulations.