

Agency Name	<b>Office of the State Auditor</b>
Date of Submission	September 15, 2008
Agency Director	Richard H. Gilbert, Jr., CPA Deputy State Auditor
Agency Contact Person	R. Kenneth Harrill
Agency Contact's Telephone Number	803 253-4160 Ext. 211

# **Office of the State Auditor**

## **FY 2007-08 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 and providers of Medicaid services. We value professionalism in our staff and completion of our audit work in accordance with established professional standards.

2. Major Achievements

The Office of the State Auditor succeeded in maintaining audit coverage of State government agencies and Medicaid providers. Our major achievements are as follows:

- The audit of the State of South Carolina's Basic Financial Statements was completed ahead of schedule on November 15, 2007, allowing the Comptroller General to submit the CAFR to the Government Finance Officers Association's Certificate of Achievement Program. The Comptroller General was awarded the Certificate of Achievement for Excellence in Financial Reporting for the State's FY 2006-07 CAFR.
- The audit of the State's Schedule of Expenditures of Federal Awards (Single Audit Report) was completed 3% under budget and submitted to the Federal Clearinghouse on March 7, 2008, several weeks ahead of the March 31<sup>st</sup> deadline. Approximately \$5.4 billion in federal dollars were included in the scope of the engagement. Twenty-seven major programs were audited. The audit was conducted in accordance with all applicable standards of the American Institute of Certified Public Accountants and Government Auditing Standards and accepted by the U.S. Department of Health and Human Services without revision.
- Sixty (60) Medicaid audit reports were completed representing thirty-six (36) providers. Approximately 24% of the Medicaid providers in the State were subject to audit during the fiscal year. All reports were issued in compliance with applicable standards of the AICPA and Federal Regulations and were completed at or under budget. Audits of Medicaid providers identified net receivables due to the State and Federal government of \$3,300,277.

- Ninety-four (94) audit engagements representing fifty-five (55) of the ninety-one (91) state departments, agencies and institutions were completed within thirteen months of fiscal year- end. Twenty engagements are currently in progress. All engagements, collectively, are expected to be completed within 98% of the budgeted audit hours and are conducted in accordance with all applicable AICPA standards.
- Twenty-six contract audit engagements of general sessions, municipal and county magistrate courts were issued during the fiscal year. Contracts were let for an additional twenty audit engagements.
- Oversight of approximately \$1.2 million in audit contracts with CPA firms.
- The accounting system for the Office of the State Auditor was converted from the legacy accounting systems (BARS & STARS) to the new, live online SC Enterprise Information System (SCEIS).
- The recruiting program for the agency was completely revised to incorporate the statewide web based recruiting system (NeoGov).

### 3. Key Strategic Goals

The key strategic goal to accomplishing the mission of the Office of the State Auditor is to provide adequate audit coverage of state agencies and Medicaid providers. Adequate audit coverage ensures that these organizations and their employees recognize that mismanagement, fraud, and misuse of assets will be discovered.

### 4. Strategic Challenges

The primary challenge facing the Office of the State Auditor is the shortage of qualified audit staff. Our current base budget does not provide sufficient recurring funds to fill all vacant auditor positions. This lack of funding impacts the Office of the State Auditor's ability to complete all of the audits of State agencies mandated by statute and could lead to marginal audit coverage of Medicaid providers. Exacerbating the problem is the fact that the Office of the State Auditor competes with national, regional and local accounting firms for qualified accounting graduates. State laws and budget limitations affect our ability to compete with public accounting firms. Public accounting firms are able to entertain potential recruits, and offer attractive salary packages and signing bonuses.

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.

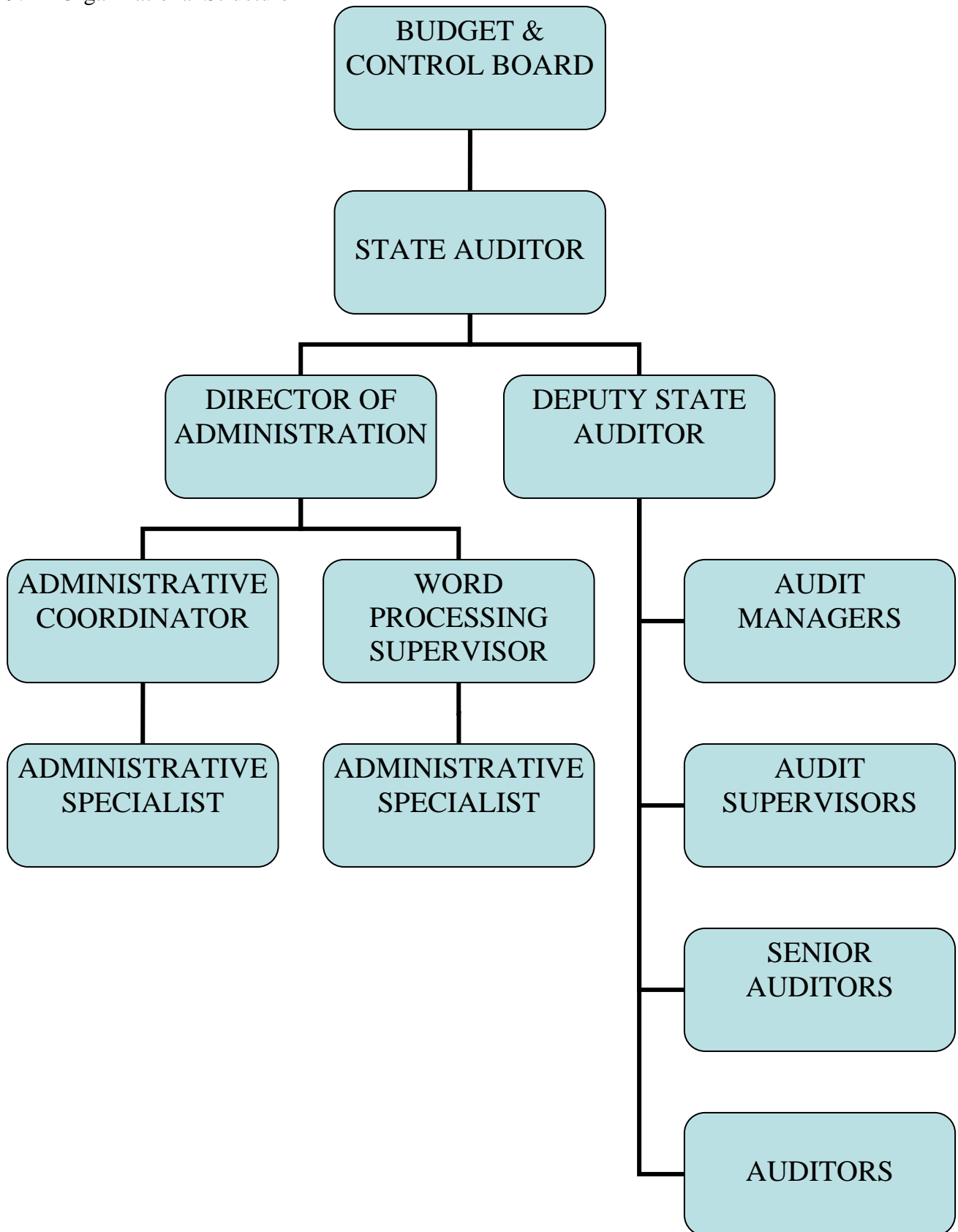
## Section II – Organizational Profile

1. Main Products and Services - The Office of the State Auditor conducts audits of state government and providers of Medicaid services. The State Audits section performs financial audits of state agencies, the annual financial audit of the State's Basic Financial Statements, and the annual Single Audit of the State's Schedule of Expenditures of Federal Awards. These audits cover all state agencies with total funds of over \$20 billion and general funds of over \$6.7 billion. The sizes of the agencies vary from an agency with annual appropriations of approximately \$127 thousand to an agency with appropriations of over \$5.5 billion. The Medicaid Audits section conducts audits and reviews 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 amounts to be paid to these providers for services provided to qualified Medicaid recipients. The Office of the State Auditor also examines the financial records of the general sessions, municipal and magistrate courts; and provides technical assistance to other governmental entities by either assisting with or conducting reviews of financial records and record keeping systems.

2. Customers - All financial and compliance audit reports and management letters 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. They are also published on our internet website for review by the citizens of South Carolina. These reports are particularly important because they point out weaknesses in an agency's accounting system or procedures. They also highlight instances in which regulations or laws were violated. A key element in accomplishing the mission of the Office of the State Auditor is to provide sufficient audit coverage of state agencies and Medicaid providers such that these organizations and their employees recognize that mismanagement, fraud, and misuse of assets will be detected.

3. Key Stakeholders – The citizens of the state are ultimately the key stakeholders of the Office of the State Auditor.
4. Key Suppliers – The Office of the State Auditor contracts with private CPA firms to provide some audit services. In FY 2007-08 audit contracts totaled approximately \$1.2 million.
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 2007-08 Appropriations Act authorized fifty-six full time equivalent positions for the Office of the State Auditor. Because of funding and recruiting difficulties, staff size was fifty (50) on June 30, 2008. All positions are classified except the agency head and one deputy position.
7. Regulatory Environment – The Office of the State Auditor conducts all audit work in accordance with professional auditing standards. Therefore, all of our audit work complies 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. Audits of Medicaid providers also comply with applicable Federal Regulations.
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 audit completes an interim evaluation of each member of the audit team at the conclusion of the audit. These interim evaluations are later used in completing the annual Employee Performance Management System evaluation. This system provides immediate feedback to the staff auditors about their performance and opportunities for improvement. Audit managers maintain a system that tracks the status of each audit engagement and provides feedback regarding performance improvements.

9. Organizational Structure



10. Expenditures/Appropriations Chart

**Accountability Report Appropriations/Expenditures Chart**

**Base Budget Expenditures and Appropriations**

Major Budget Categories	FY 06-07 Actual Expenditures		FY 07-08 Actual Expenditures		FY 08-09 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	1,939,044	1,939,044	2,275,703	2,275,703	\$ 2,553,665	\$ 2,553,665
Other Operating	1,260,958	507,122	1,350,598	728,446	\$ 1,007,905	\$ 427,905
Special Items						
Permanent Improvements						
Case Services						
Distributions to Subdivisions						
Fringe Benefits	525,542	525,542	643,176	643,176	\$ 693,099	\$ 693,099
Non-recurring	39,550	39,550				
<b>Total</b>	<b>\$ 3,765,094</b>	<b>\$ 3,011,258</b>	<b>\$ 4,269,477</b>	<b>\$ 3,647,325</b>	<b>\$ 4,254,669</b>	<b>\$ 3,674,669</b>



Expenditures/Appropriations Chart - continued

**Other Expenditures**

<b>Sources of Funds</b>	<b>FY 06-07 Actual Expenditures</b>	<b>FY 07-08 Actual Expenditures</b>
Supplemental Bills	\$ 316,654	\$ 0
Capital Reserve Funds	\$ 0	\$ 0
Bonds	\$ 0	\$ 0

11. Major Program Areas Chart

**Major Program Areas**

<b>Program Number and Title</b>	<b>Major Program Area Purpose (Brief)</b>	<b>FY 06-07 Budget Expenditures</b>	<b>FY 07-08 Budget Expenditures</b>
II. AUDITS	Financial audits of state agencies, providers of Medicaid services, the State's Basic Financial Statements, and the State's Schedule of Federal Financial Assistance.	<b>State:</b> 2,640,667 <b>Federal:</b> 0.00 <b>Other:</b> 735,838 <b>Total:</b> 3,376,506 <b>% of Total Budget:</b> 83%	<b>State:</b> 2,826,534 <b>Federal:</b> 0.00 <b>Other:</b> 604,154 <b>Total:</b> 3,430,688 <b>% of Total Budget:</b> 80%

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

I. ADMINISTRATION and III. EMPLOYEE BENEFITS

<b>Remainder of Expenditures:</b>	<b>State:</b> 705,244 <b>Federal:</b> <b>Other:</b> <b>Total:</b> 705,244 <b>% of Total Budget:</b> 17%	<b>State:</b> 838,788 <b>Federal:</b> <b>Other:</b> <b>Total:</b> 838,788 <b>% of Total Budget:</b> 20%
-----------------------------------	---	---

### **Section III – Elements of Malcolm Baldrige**

#### Category 1 – Senior Leadership, Governance, and Social Responsibility

1. The State Auditor, in conjunction with the Deputy State Auditor, Director of Administration and audit managers, defines and communicates the values of the organization to the staff. The State Auditor meets with this management team monthly to discuss organizational priorities, problems and progress. This senior management team works collectively with the 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 audit responsibilities. The statutes and regulations require an annual audit of state government entities and Medicaid providers. Being responsive to our customers means conducting audits 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 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 auditing functions 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 audit engagement. The managers monitor performance by comparing budgeted audit hours to actual audit 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 get 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 State Auditor and the Deputy State Auditor. The information is also shared 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 become CPA certified, which is required for promotion to the audit supervisor level.
8. The auditor-in-charge of each audit completes an interim evaluation of each member of the audit team at the conclusion of the audit. These interim evaluations are later used in completing the annual Employee Performance Management System evaluation. This system provides immediate feedback to the staff auditors about their performance and opportunities for improvement.
9. Senior leaders create an environment for organizational and workforce learning 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. The Office of the State Auditor provides 40 hours of training each year for audit staff members (audit staff members are required to complete 40 hours of training each year).

10. Senior leaders communicate and motivate the workforce through the interim evaluation and annual EPMS systems, as well as published notes from the monthly managers' meetings, staff breakfast meetings and luncheon 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 audits conducted by the Office of the State Auditor. Our emphasis on professional standards and the importance placed on becoming CPA certified 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 audit work, the planning requires careful coordination and timing of the allocation of resources. The State Auditor and Deputy State Auditor, in conjunction with the Director of Administration and audit managers, are involved in strategic planning on a continual basis.
2. The primary strategic challenge facing the Office of the State Auditor is the shortage of qualified audit staff. Our strategic objectives are to request increased funding for our vacant auditor positions and to continue to refine our recruiting program for new auditors.

3. The strategic planning process in this Office consists of several steps; each one analyzed on short and long term bases:
  - a. Identify the audit work that must be done to satisfy our statutory and regulatory mandates.
  - b. Analyze the audit time required (based on historical data).
  - c. Analyze the time frames (deadlines) for each of the audit programs.
  - d. Identify the resources available and timing of availability.
  - e. Determine the priority of the audits 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.
4. The strategic objectives and action plans are communicated to the audit managers in the monthly management meeting and to the entire staff directly by the managers and through the agency intranet.
5. Progress on our objectives and action plans is monitored through our audit status information system that details the progress and resources used on each audit engagement.
6. The State Auditor, Deputy State Auditor and Director of Administration constantly review our planning processes for improvement.

<b>Program Number and Title</b>	<b>Supported Agency Strategic Planning Goal/Objective</b>	<b>Related FY 06-07 Key Agency Action Plan/Initiative(s)</b>
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 4000 audit hours budgeted to complete the audit by the December 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.	Reassign staff auditors from Medicaid audits as needed to supplement state agency audit staff and ensure completion of the engagement by the March 31 <sup>st</sup> deadline.
II. AUDITS	Audit cost reports filed by institutional providers of Medicaid services.	Conduct as many audits as possible with available staff toward the objective of auditing 25% of the Medicaid providers this year.
II. AUDITS	Audit the financial records of state agencies.	Conduct as many audits as possible with available staff toward the objective of auditing each state agency each year.
II. AUDITS	Audit the financial records of general sessions, municipal, and magistrate courts.	Contract with private CPA firms to audit as many randomly selected courts as the funding allows.

### 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 audits in a timely manner and according to professional standards.

To more effectively and efficiently communicate the results of our audits to our customers, the Office of the State Auditor now publishes audit reports on our internet website. Auditees 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. Audit 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 audit within the assigned budget of audit hours and within the required time frames. We measure effectiveness by our degree of compliance with professional auditing standards. All audit 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 are established by the federal government and by professional entities such as the Government Finance Officers Association and 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 an audit. The auditor-in-charge of each audit completes the interim evaluation of each member of the audit team. This system provides immediate feedback to the staff auditors about their performance and opportunities for improvement. The interim evaluations are also 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. 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 or above.

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 reporting the results of the audit to our customers. The process of conducting an audit 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 audits 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 audit quality control processes are all components of our focus on ensuring that our audit processes conform to established professional standards.

Developments in information technology have allowed us to improve the efficiency of our audit processes and to make our audit reports more accessible to our customers. The Office of the State Auditor now publishes audit reports on its internet website. This eliminated the printing and postage cost of our reports. Audit 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 and providers of Medicaid services. The mission is accomplished by providing adequate audit coverage of State agencies and Medicaid providers as required by statutes, regulations and contractual agreements.

### Category 7.1 - Mission Accomplishment

Each year the Office of the State Auditor and a nationally recognized accounting firm jointly audit the State of South Carolina's Basic Financial Statements, which are prepared by the Comptroller General. The credibility of the State's Basic Financial Statements is very important in the financial community and can affect the State's bond rating. This year the Office of the State Auditor completed the audit on schedule on November 15, 2007, allowing the Comptroller General to submit the State's Comprehensive Annual Financial Report to the Government Finance Officers Association Certificate of Excellence in Financial Reporting program. The engagement was completed 3% under the budgeted audit hours.

The Single Audit Act Amendments of 1996 requires an annual audit of the State of South Carolina's Schedule of Expenditures of Federal Awards. The audit was completed 3% under budget and submitted to the Federal Clearinghouse on March 7, 2008, several weeks ahead of the March 31st deadline. Approximately \$5.4 billion in federal dollars were included in the scope of the engagement. Twenty-seven major programs were audited. The audit was conducted in accordance with all applicable standards of the American Institute of Certified Public Accountants and accepted by the U.S. Department of Health and Human Services without revision.

The Office of the State Auditor is required by statute to audit each State agency annually. These audit engagements cover all State agencies with total funds of over \$20 billion and general funds of over \$6.7 billion. The Office of the State Auditor was responsible for issuing ninety-four (94) audit engagements representing fifty-five (55) of the ninety-one (91) state departments, agencies and institutions. Twenty (20) engagements are currently in progress. All engagements, collectively, are expected to be completed within 98% of the budgeted audit hours. Each State agency has been audited at least once during the past three years. All audits complied with applicable professional standards.

Our contract with the Department of Health and Human Services requires the Office of the State Auditor to audit each Medicaid provider at least once every four years. During FY 2007-08 the Office of the State Auditor issued sixty (60) audits reports representing thirty-six (36) Medicaid providers. Approximately 24% of the Medicaid providers in the State were subject to audit during the fiscal year. All reports were issued in compliance with Federal Regulations and applicable AICPA standards. All audits were completed at or under budget. Audits of Medicaid providers identified net receivables due to the State and Federal government of \$3,300,277.

Private sector CPA firms are important suppliers of audit services to State government. Institutions of higher learning and a number of other state government entities pay these firms to conduct the annual audit of their agencies. Statutes require that the State Auditor approve all such audit contracts. The Office of the State Auditor issues the RFP's, conducts the bid conferences and awards the contracts. This procedure insures competitive fees, responsive contractors, and professional standards of audit work. In FY 2007-08 the Office of the State Auditor was responsible for letting and overseeing seventy audit contracts totaling over \$1.2 million.

The Office of the State Auditor provides expert technical assistance to other State government entities in the areas of finance and accounting. During the year the State Auditor's Office assisted State agencies in procuring auditing and accounting services; and the Office of the State Auditor continued to serve on various State committees (e.g., SCEIS Oversight Committee and the Government Records Advisory Council).

The Administration Section accomplished two significant program changes this year. The accounting system for the Office of the State Auditor was converted from the legacy accounting systems (BARS & STARS) to the new, live online SC Enterprise Information System (SCEIS). The recruiting program for the agency was completely revised to incorporate the statewide web based recruiting system (NeoGov).

#### 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 audit work 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 State Auditor's Office is required by Government Auditing Standards to undergo a peer review by an independent external auditor. The last peer review was completed in September 2006 and resulted in an unqualified opinion.

#### Category 7.3 – Financial

Each year the Office of the State Auditor is audited by a private CPA firm. The latest audit (of the Fiscal Year 2006-07) reported no material weaknesses or violations of State Laws, Rules, or Regulations. Also, our cost containment efforts have resulted in a relatively low cost per hour of audit services as described below in Section 7.5.

#### Category 7.4 - Workforce

Recruiting and retaining qualified audit staff are two of the primary workforce measures for the Office of the State Auditor. Retention has improved slightly as evidenced by the decline in terminations during the last three fiscal years: 11, 8, & 7 respectively. Our recruiting performance has improved significantly as evidenced by the increase in number of applications received for vacant auditor positions: 54 in FY06 to 244 in FY08. Also indicative of the high level of professionalism at the Office of the State Auditor is the fact that the majority of our audit staff members are either certified public accountants or working toward obtaining their certification.

#### Category 7.5 - Organizational Effectiveness/Operational Efficiency

A key measure of organizational efficiency is the cost to produce an hour of audit service. In FY08 the average cost for audit services from contracts with CPA firms was \$67 per hour and the cost of audit services performed by our Office was under \$60 per hour

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

A second measure of effectiveness is audit coverage. For audits of Medicaid providers the objective is to audit every provider at least every four years. This year we audited 24% of the providers. For audits of State agencies the objective is to audit each agency every year. This year we will have audited sixty-eight (68) of the ninety-one (91) state agencies. All State agencies have been audited within the last three years.

#### Category 7.6 - Regulatory/Legal Compliance

Regulatory and legal compliance is addressed in the annual audit of the Office of the State Auditor by a private CPA firm. The latest audit (of the Fiscal Year 2006-07) reported no violations of State Laws, Rules, or Regulations.