

AGENCY NAME:	Legislative Audit Council		
AGENCY CODE:	A20	SECTION:	



Fiscal Year 2014-15 Accountability Report

SUBMISSION FORM

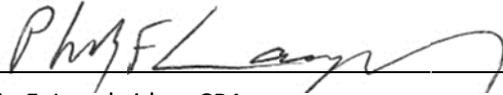
AGENCY MISSION	The LAC's mission is to conduct performance audits of state agencies and programs to help ensure that their operations are efficient and that they achieve their performance goals and comply with the law. Our vision is to become a primary source of information for legislative decision makers and the citizens of South Carolina in their efforts to improve state government. In conducting audits, the LAC seeks to uphold the values of independence, reliability, accuracy, and thoroughness.
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Please identify your agency's preferred contacts for this year's accountability report.

	<u>Name</u>	<u>Phone</u>	<u>Email</u>
PRIMARY CONTACT:	K. Earle Powell	803.253.7612	EPowell@lac.sc.gov
SECONDARY CONTACT:	Andrew M. Young	803.253.7612	AYoung@lac.sc.gov

I have reviewed and approved the enclosed FY 2014-15 Accountability Report, which is complete and accurate to the extent of my knowledge.

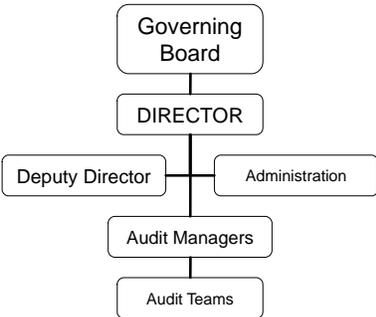
AGENCY DIRECTOR (SIGN/DATE):	 10/1/15
(TYPE/PRINT NAME):	K. Earle Powell

BOARD/CMSN CHAIR (SIGN/DATE):	 10/1/15
(TYPE/PRINT NAME):	Philip F. Laughridge, CPA

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AGENCY’S DISCUSSION AND ANALYSIS

The Legislative Audit Council performs 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 provide information, analysis, and recommendations to help the General Assembly improve state agencies and to help the citizens of South Carolina oversee state government. Because the LAC is part of the legislative branch of state government, it is organizationally independent of the executive branch agencies it audits. Our audits must be requested by the General Assembly, either by statute or on an as-needed basis, Senate Oversight Committee, or House Oversight Committee. We deliver the results of these audits in published reports.



During FY 14-15, the Legislative Audit Council published six performance audit reports with a total of 102 recommendations for improvement in state government.

A REVIEW OF THE S.C. DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL’S REGULATION OF ABORTION CLINICS (MAY 2015)

We made 30 recommendations in this audit — 29 to the agency and 1 to the General Assembly. We did not identify potential financial benefits to state government. However, we made non-financial recommendations to improve the performance of state government.

We found that DHEC has not consistently inspected abortion clinics annually and has relied on as few as three patient files during an annual inspection in order to determine compliance with state law. DHEC does not confirm that all abortions are reported as required by law.

DHEC needs to improve its complaint process and has no formal procedures for handling reports of accidents or incidents at abortion clinics; it only developed standard operating procedures for conducting annual inspections of abortion clinics during our audit.

DHEC had no policies or procedures governing the training of inspectors until our audit commenced. DHEC also needs to improve the accessibility of its website, make sure information is current and correct, and post its inspection reports in a timely manner.

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We also recommended that the General Assembly amend state law to require the use of ultrasounds to confirm the gestational age of a fetus prior to an abortion. Other Southeastern states require pre-abortion ultrasounds because of the accuracy in determining gestational age of a fetus.

**S.C. DEPARTMENT OF COMMERCE
A REVIEW OF THE ECONOMIC DEVELOPMENT BOND FOR WETLANDS MITIGATION AT THE BOEING MANUFACTURING SITE (APRIL 2015)**

We made 12 recommendations in this audit. We did not identify potential financial benefits to state government. However, we made non-financial recommendations to improve the performance of state government.

We reviewed the economic development bonds approved for \$5 million for the purpose of wetlands mitigation concerning the project to bring Vought Aircraft Industries, an aircraft manufacturer, to South Carolina — now the site of the Boeing operation in North Charleston. We found that ACRET, a nonprofit created for the purpose of mitigating the use of the wetlands, spent approximately \$4.6 million more than the Army Corps of Engineers, the regulatory body, minimum for meeting the wetlands permit requirement (just over \$743,000). The entire bond was spent, including approximately \$300,000 in interest earned on the bond, for a total of approximately \$5.3 million spent.

The state’s general fund is used to repay the bond debt service, which includes the bond principal and interest, structured to be repaid over a 15-year repayment schedule that will total approximately \$6.9 million.

A LIMITED REVIEW OF THE S.C. HUMAN AFFAIRS COMMISSION (DECEMBER 2014)

We made 9 recommendations in this audit — 7 to SCHAC, 1 to the General Assembly, and 1 to the Office of the Governor. We did not identify potential financial benefits to state government. However, we made non-financial recommendations to improve the performance of state government.

We found that SCHAC can improve by establishing a formal standard time it should take to resolve employment cases and maintaining data on the variables affecting the agency’s average case resolution time. SCHAC can also ensure that all permanent employees have signed position descriptions, require documentation such as official college transcripts during the hiring process to verify that minimum standards for the position are met, and complete annual evaluations on employees. SCHAC could track which files are reviewed by board members and update the board by-laws every two years.

We recommended that the Office of the Governor appoint citizens to serve as board members for those current board members serving expired terms and for vacancies on the board.

We also recommended that the General Assembly amend S.C. Code §1-13-40(j) to delete the requirement of filing an annual report to the Governor and the General Assembly since it duplicates the annual accountability report.

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A REVIEW OF CHILD WELFARE SERVICES AT THE DEPARTMENT OF SOCIAL SERVICES (OCTOBER 2014)

We made 44 recommendations in this audit. We did not identify potential financial benefits to state government. However, we made non-financial recommendations to improve the performance of state government.

DSS has not ensured that its workforce is well-qualified, well-trained, and compensated competitively when compared with similar positions in South Carolina and other states. The caseloads of child welfare caseworkers are excessive and are not equitable from county to county. There is not an adequate system for screening, investigation, and treatment when abuse and neglect are reported. Data on child maltreatment deaths, particularly those with prior DSS involvement, is not reliable and should not be used as a measure of agency performance. Not all violent, unexpected, and unexplained child fatalities are being reported and reviewed, as required by state law. Children removed from their homes due to imminent and substantial danger receive significantly greater oversight when they are placed in foster care than when they are placed in alternative care provided by a family member or other person known to the family.

A REVIEW OF THE SOUTH CAROLINA EDUCATION LOTTERY (OCTOBER 2014)

We made 2 recommendations in this audit. We did not identify potential financial benefits to state government. However, we made non-financial recommendations to improve the performance of state government.

We found that SCEL has amended its game closing procedures to require that tickets cannot be sold after the last top prize in a game is claimed. However, the lottery has not amended its regulations, as recommended, to reflect the change in procedure. SCEL should submit a proposed regulation to the General Assembly to amend S.C. Reg. 44-40.1 OC.(2) to state that once a retailer has been notified that the last top prize of an instant game has been claimed, sales of those game tickets must be discontinued immediately.

We reviewed SCEL's internal controls to prevent and detect retailer account fraud. This was in response to an SCEL employee embezzling \$226,439 from retailer accounts from 2010 to 2012. We found that SCEL has policies to detect and prevent this type of fraud that were not followed and has implemented additional controls to detect and prevent it in the future.

We found that SCEL and the Board of Economic Advisors could use additional methods for estimating the amount of unclaimed prizes, which are prizes on a winning ticket that have not been claimed within the applicable time period. By using additional methods to estimate unclaimed prizes, the lottery and BEA could provide the General Assembly with more accurate estimates to plan the appropriation of lottery funds.

We also followed up on 18 recommendations from previous reports on SCEL; 10 of those recommendations have been implemented. Financial benefits realized were \$1.9 million because the General Assembly repealed the prohibition against lottery ticket sales on primary and general election days. Additional financial benefits were realized because SCEL reduced the number of cell phones provided to employees. Based on cost figures since 2009 provided by SCEL, we estimate an approximate annual financial benefit of \$6,600.

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A REVIEW OF THE STATE’S USE OF SOUTH CAROLINA EDUCATION LOTTERY PROCEEDS (OCTOBER 2014)

We made 5 recommendations in this audit. We did not identify potential financial benefits to state government. However, we made non-financial recommendations to improve the performance of state government.

The Commission on Higher Education (CHE), the agency that distributes lottery funds to colleges and universities, does not currently have a regular program to verify that lottery-funded scholarships are going to students who are eligible to receive them.

The State Board for Technical and Comprehensive Education, the agency that distributes scholarships for students attending technical colleges, is in the process of implementing a program to review scholarship data for institutions that have scholarship disbursements that exceed the system average by plus or minus 10%.

We recommended that CHE and the Tech Board develop procedures for CHE to notify the Tech Board when funds are transferred to community or technical colleges for capital projects.

The State Department of Education (SDE) is not currently following state law regarding its distribution of lottery funds to school districts. We recommended that SDE distribute funds according to a grant process that includes an evaluation process pursuant to state law. Also, SDE does not have a consistent program for monitoring the spending of funds by the school districts and other recipient institutions.

During FY 14-15, the Legislative Audit Council published one follow-up review of an audit that was published in 2011. A chapter in the October 2014 SCEL report included a follow-up of previous SCEL audits. A total of 28 (67%) of the 42 recommendations made in these audits were implemented.

A FOLLOW-UP REVIEW OF SOUTH CAROLINA’S BABYNET PROGRAM (SEPTEMBER 2014)

The Legislative Audit Council published an audit of South Carolina’s BabyNet program in 2011. We made 24 recommendations for improved state government performance, of which 18 have been implemented. No financial benefits were realized.

Strategic Goal 1: Improve the performance of state government.

- 1.1 Conduct audits in compliance with Government Auditing Standards
 - 1. The type of auditing the LAC performs and the way we get assignments make it difficult to quantify targets or benchmarks to improve the performance of state government. Most of our audits are requested on an ad hoc basis by members of the General Assembly, preventing us from knowing in the planning process which programs we will be auditing or the objectives of those audits. However, the LAC operates under the requirements of Government Auditing Standards established by the Comptroller General of the United States because they are recognized as a national benchmark for government performance auditing.

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A team of out-of-state auditors sent by the National Association of State Auditors, Comptrollers, and Treasurers or the National Legislative Program Evaluation Society reviews our compliance with the standards every three years and provides us with information that we use to compare the LAC with audit organizations in other states. We passed the most recent peer review conducted in FY 12-13. We are scheduled for another peer review in FY 15-16.

1.2 Employ qualified staff

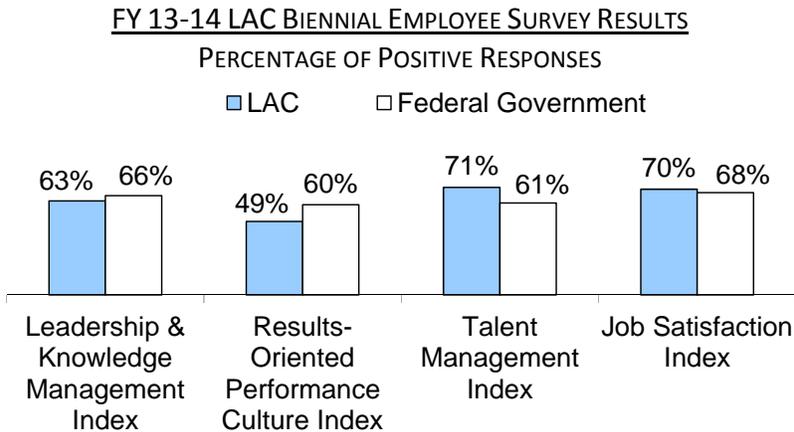
1. To ensure that the LAC attracts and retains qualified staff, the LAC’s strategic plan requires that our auditors have relevant degrees and professional licenses. It also requires that auditors undergo continuing education of 80 hours every two years in accordance with Government Auditing Standards established by the Comptroller General of the United States. Topics such as fraud prevention, policy analysis, general management, and accounting are covered. In FY 14-15, 100% of our audit staff met the training requirement.
2. We administer the “Federal Employee Viewpoint Survey” developed by the United States Office of Personnel Management (OPM) to our employees every other year. This instrument is administered to more than 200,000 employees throughout the federal government. In FY 13-14, LAC staff completed the survey and met as an organization to discuss its results and areas in need of improvement. We are scheduled for another employee survey in FY 15-16. The results of our most recent employee survey are presented below. Indices are grouped by the OPM.

Leadership & Knowledge Management Index – Composite score of 12 questions indicating the extent to which employees hold agency leadership in high regard.

Results-Oriented Performance Culture Index – Composite score of 13 questions indicating the extent to which employees believe the organizational culture promotes improvement in processes, products and services, and organizational outcomes.

Talent Management Index – Composite score of 7 questions indicating the extent to which employees think the organization has the talent necessary to achieve its organizational goals.

Job Satisfaction Index – Composite score of 7 questions indicating the extent to which employees are satisfied with their jobs.



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Strategic Goal 2: Maintain or reduce the cost of state government.

- 2.1 Determine compliance with recommendations
 - 1. Although in FY 14-15 we identified no potential financial benefits to state government, we made 102 non-financial recommendations to improve the performance of state government.
 - 2. After an audit report is published and if we have available resources, we issue a follow-up review. This provides the Legislature with information on the status of recommendations made by our audits. 67% of the 42 recommendations in the original audits that we followed up on were implemented.
 - 3. In FY 14-15, through the review of compliance with our recommendations of audited agencies, we identified \$1.9 million in financial benefits realized.

Strategic Goal 3: Provide information to the General Assembly and the public.

- 3.1 Ensure audits are published in a timely manner
 - 1. During the preliminary phase of an audit, we establish a target date for publication of the report. Our goal is to publish within 60 days of that date. Frequently, we face delays beyond our control. In FY 14-15, 57% of our reports were released within that timeframe.
- 3.2 Ensure audits are published in an efficient manner
 - 1. Over the last five fiscal years, the LAC’s target cost per audit hour has been \$65. Actual costs in each fiscal year have been less than that amount. In FY 14-15, the direct audit cost per hour was \$61.44.

COST PER DIRECT AUDIT HOUR

	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Target	\$65	\$65	\$65	\$65	\$65
Actual	\$62.34	\$64.78	\$58.25	\$61	\$61.44

- 3.3 Ensure audits meet the needs of legislators who request them
 - 1. The LAC informally measures the satisfaction of legislators through face-to-face conversations. Staff provide briefings to legislators who request audits to ensure that the independent information we provide is useful. We also make presentations to legislative committees. During these meetings, staff will often receive feedback concerning the audits and overall agency performance. Staff also receive feedback through meetings of our organizational board from LAC’s public and legislative members. In addition, staff receive and respond to inquiries from legislators, citizens, and the media. In FY 14-15, legislative requesters were briefed periodically throughout each audit, 4 board meetings were conducted, and we responded to 16 inquiries.

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Strategic Planning Template

Type	Goal	<u>Item #</u> Strat	Object	Description
G	1			Improve the performance of state government
S		1.1		Conduct audits in compliance with Government Auditing Standards
<i>O</i>			<i>1.1.1</i>	<i>Undergo a peer review by NASACT/NLPES</i>
S		1.2		Employ qualified staff
<i>O</i>			<i>1.2.1</i>	<i>Ensure auditors meet required minimum training</i>
<i>O</i>			<i>1.2.2</i>	<i>Conduct employee survey</i>
G	2			Maintain or reduce the cost of state government
S		2.1		Determine compliance with recommendations
<i>O</i>			<i>2.1.1</i>	<i>Identify potential financial benefits in relation to total number of recommendations</i>
<i>O</i>			<i>2.1.2</i>	<i>Determine percent of audit recommendations implemented</i>
<i>O</i>			<i>2.1.3</i>	<i>Identify financial benefits realized</i>
G	3			Provide information to the General Assembly and the public
S		3.1		Ensure audits are published in a timely manner
<i>O</i>			<i>3.1.1</i>	<i>Compare target publication date to actual publication date</i>
S		3.2		Ensure audits are published in an efficient manner
<i>O</i>			<i>3.2.1</i>	<i>Calculate cost per direct audit hour</i>
S		3.3		Ensure audits meet the need of legislators who request them
<i>O</i>			<i>3.3.1</i>	<i>Determine customer satisfaction</i>

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Performance Measurement Template

Item	Performance Measure	Last Value	Current Value	Target Value	Time Applicable	Data Source and Availability	Reporting Freq.	Calculation Method	Associated Objective(s)
1	Three-year peer review	Passed	0	Pass	Every 3 years	NASACT/NLPES	Annually	Result of peer review conducted	1.1.1
2	Training requirements	100%	100%	100%	7/1/13 - 6/30/15	GAO Training Requirements	Annually	Review of internal training database	1.2.1
3	Employee survey	Yes	No	Yes	Biennial	OPM; LAC employee survey	Annually	Survey conducted, Y/N	1.2.2
4	Potential financial benefits	\$0	\$0	not foreseeable	7/1/14-6/30/15	LAC reports	Annually	Dollar value of savings	2.1.1
5	Number of recommendations	82	102	not foreseeable	7/1/14-6/30/15	LAC reports	Annually	Count number of recommendations	2.1.1
6	Recommendations implemented	78%	67%	not foreseeable	7/1/14-6/30/15	LAC follow-up reviews	Annually	Dollar value of savings	2.1.2
7	Financial benefits realized	\$4,275,000	\$1,900,000	not foreseeable	7/1/14-6/30/15	LAC follow-up reviews	Annually	Dollar value of savings	2.1.3
8	Publish reports in a timely manner	0%	57%	80%	7/1/14-6/30/15	LAC internal files	Annually	Compare target dates to publish dates	3.1.1
9	Cost-per-hour	\$61	\$61.44	\$65	7/1/14-6/30/15	LAC internal reporting	Annually	Divide total expenditures by direct audit hours spent	3.2.1
10	Customer satisfaction	Yes	Yes	Yes	7/1/14-6/30/15	Staff briefings	Annually	Meetings & conversations conducted, Y/N	3.3.1

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Program Template

Program/Title	Purpose	<u>FY 2013-14 Expenditures</u>				<u>FY 2014-15 Expenditures</u>				Associated Objective(s)
		General	Other	Federal	TOTAL	General	Other	Federal	TOTAL	
Administration	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 improve the performance of state agencies and programs, reduce the cost of state government, and to provide information to the General Assembly and the public.	\$ 1,277,294	\$ 112,610	\$ -	\$ 1,389,904	\$1,212,080	\$134,260	\$ -	\$ 1,346,340	