South Carolina General Assembly

LEGISLATIVE AUDIT COUNCIL

ANNUAL ACCOUNTABILITY REPORT

FY 03-04

LAC
Legislative Audit Council

September 15, 2004

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, 2004. 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, assistant director, at (803) 253-7612 with questions or
comments.

Respectfully submitted,

George L. Schroeder
Director

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Section I — Executive Summary

1. Mission and Values

The LAC's mission is to conduct performance audits of state agencies and programs to help ensure that their operations are efficient, they maximize performance, and they follow the law. In conducting audits, the LAC seeks to uphold the values of responsiveness, fairness, independence, thoroughness, and accuracy.

2. Major Achievements in FY 03-04

In FY 03-04, the Legislative Audit Council published five performance audits and two follow-up reports of state government programs. We made 86 recommendations and identified potential financial benefits of about $27 million. In addition, we identified many ways to improve the performance of state government that are not financial. Summaries of the audits and follow-up reports we published in FY 03-04 are on pages 19–21.

3. Key Strategic Goals

The LAC has had two strategic goals since its inception:

1. Identify specific ways to reduce the cost of state government.
2. Identify specific ways to improve the performance of state government.

4. Opportunities and Barriers

In an environment of limited funding, as state government experienced in FY 03-04, the LAC's role of recommending ways to reduce costs and streamline operations is particularly important.

A decrease in agency funding has negatively affected our operations:

- We did not administer an LAC employee satisfaction survey this year, as we had planned.
- Due to an inadequate number of staff, legislators must often wait six to nine months before we can begin work on an audit request.

5. Use of the Accountability Report

The process of developing annual accountability reports has resulted in our use of formal strategic planning to identify and address areas in need of improvement. It has also resulted in our development of outcome measures, through which we will monitor the percentage of our recommendations that have been implemented as well as financial benefits realized.

Section II — Business Overview

1. Number of Employees   The LAC had 14 employees at the end of FY 03-04.

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

1331 Elmwood Avenue
Suite 315
Columbia, SC 29201

3. Expenditures and Appropriations

MAJOR BUDGET CATEGORIES	FY 02-03 ACTUAL EXPENDITURES		FY 03-04 ACTUAL EXPENDITURES		FY 04-05 APPROPRIATIONS ACT	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	$709,094	$709,094	$621,871	$621,871	$621,162	$621,162
Other Operating	110,200	110,200	96,143	96,143	107,767	107,767
Special Items						
Permanent Improvements						
Case Services						
Distribution to Subdivisions						
Fringe Benefits	187,629	187,629	163,607	163,607	166,114	166,114
Non-recurring						
TOTAL	**$1,006,923**	**$1,006,923**	**$881,621**	**$881,621**	**$895,043**	**$895,043**

Other Expenditures

Sources of Funds	ACTUAL EXPENDITURES	
	FY 02-03	FY 03-04
Supplemental Bills	$0	$0
Capital Reserve Funds	$0	$0
Bonds	$0	$0

Interim Budget Reductions

	FY 02-03	FY 03-04
Total	$94,466	$9,780

4. Major Program Areas

PROGRAM NUMBER AND TITLE	MAJOR PROGRAM AREA PURPOSE	FY 02-03 BUDGET EXPENDITURES	FY 03-04 BUDGET EXPENDITURES	KEY CROSS REFERENCES FOR FINANCIAL RESULTS
I - II	The work of the Legislative Audit Council is authorized by S.C. Code §2-15-10 *et seq*. Our sole program is to conduct performance audits of state agencies and programs to find ways to save money and improve the performance of state agencies. We help ensure that operations are efficient and that agencies follow the law and achieve the desired results.	$1,006,923	$881,621	See Chart 7.2.1 Chart 7.2.2 Table 7.2.3

5. Key Customers

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

6. Key Stakeholders

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

7. Key Suppliers

The primary inputs used by the LAC to produce audits are labor and information. Below we describe the key suppliers of these inputs:

- LAC employees conduct almost all of the information collection, analysis, and writing required to prepare an audit. Infrequently, we obtain the services of an outside entity to conduct analysis. The key suppliers of our employees are colleges and universities in South Carolina and elsewhere, as well as other government agencies.
- Our key suppliers of information are the agencies we audit, central state government agencies in South Carolina (such as the Comptroller General, State Treasurer, and the Office of Human Resources), agencies in other states, and the federal government.

8. Organizational Structure
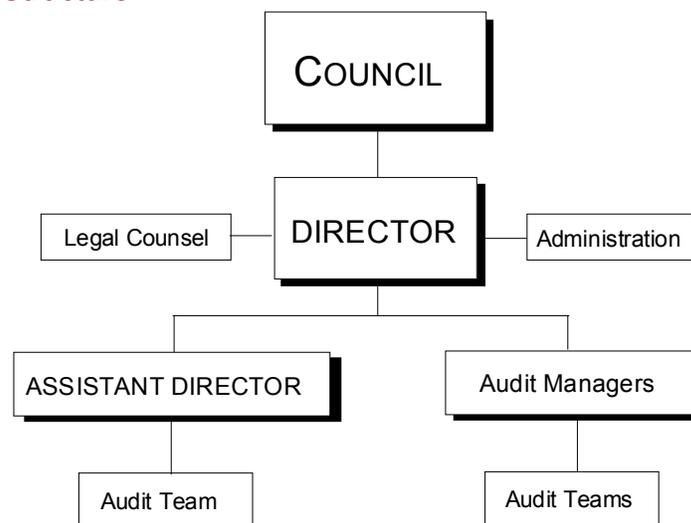
Section III — Elements of Malcolm Baldrige Award Criteria

Category 1 — Leadership

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

   a) Short- and long-term direction?

   The LAC's short-term direction is established by its senior leaders (council, director, assistant director, and audit managers) through the development of audit plans that are written and carried out with the assistance of staff. The LAC's senior leaders set the long-term direction and policy of the agency using:

   - Section 2-15-10 *et seq.* of the South Carolina Code of Laws.
   - Government Auditing Standards established by the Comptroller General of the United States.
   - Input from staff, both informally and in the form of committees.
   - Input, both informally and formally, from the General Assembly.

   Long-term direction and policy are discussed among all staff at agency and audit team meetings and further communicated through audit and policy manuals.

   b) Performance expectations?

   The LAC's senior leaders, in conjunction with state law and Government Auditing Standards, have established performance expectations for all aspects of audit work. These are discussed among all staff at audit team meetings, and further communicated through audit and policy manuals, and through a written personnel evaluation instrument.

   c) Organizational values?

   The LAC's senior leaders have established the organizational values of responsiveness, fairness, independence, thoroughness, and accuracy in a manner that is consistent with Government Auditing Standards. These are discussed and communicated among all staff at agency and audit team meetings, and further communicated through audit and policy manuals, and through a written personnel evaluation instrument.

   d) Empowerment and innovation?

   The LAC's senior leaders encourage input and innovative ideas from staff throughout the year. This organizational atmosphere is evident in the agency's informal discussions, staff meetings, and ad hoc quality teams. Senior leaders also use an independently developed and administered employee satisfaction survey to more formally measure the views of staff.

e)   Organizational and employee learning?

The LAC's senior leaders establish organizational and employee learning objectives to coincide with the strategic goals of the LAC, which are identifying ways to reduce the cost and improve the performance of state government. These objectives are consistent with the training required by Government Auditing Standards. Learning objectives are discussed and communicated among all staff at audit team meetings, and are further communicated through audit and policy manuals, and during employee performance evaluations.

f)   Ethical behavior?

The expectation of ethical behavior at the LAC has been established by senior leaders and staff in a manner consistent with Government Auditing Standards. Behavioral expectations, including independence, thoroughness, accuracy, and compliance with state law, are discussed and communicated among all staff at agency and audit team meetings, and further communicated through audit and policy manuals, and through a written personnel evaluation instrument.

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

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

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

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

4.   What key performance measures are regularly reviewed by your senior leaders?

Key performance measures that senior leaders regularly review include compliance with Government Auditing Standards, legislator satisfaction, employee satisfaction, cost per audit hour, product timeliness, and the number and dollar value of findings and recommendations. We recently developed outcome measures through which we will monitor the percentage of our recommendations that have been implemented as well as the resulting financial benefits.

5.   How do senior leaders use organizational performance review findings and employee feedback to improve their own leadership effectiveness and the effectiveness of management throughout the organization?

In response to an external quality review of LAC compliance with Government Auditing Standards, in FY 03-04, senior leaders established an ad hoc committee comprised of employees of various rank. This committee improved our audit planning process as well as our procedures for documenting audit findings. Also in FY 03-04, at the suggestion of employees at a monthly staff meeting, senior leaders established various employee recognition awards.

6.   How does the organization address the current and potential impact on the public of its products, programs, services, facilities, and operations, including associated risks?

In accordance with Government Auditing Standards, the LAC considers the effects of all findings we report; these effects may involve all taxpayers or citizens. During audits, the LAC seeks the input and advice of citizen and business groups. We use the information from these sources to ensure that our recommendations result in lower costs and/or improved services without negative consequences that outweigh the benefits.

7.   How does senior leadership set and communicate key organizational priorities for improvement?

Key organizational priorities for improvement are set by senior leadership in conjunction with staff. Sources of ideas for improvement come from leadership, staff, members of the General Assembly, National Legislative Program Evaluation Society (NLPES) member states, and Government Auditing Standards. The forums for developing ideas, which are usually communicated by written policy, include staff meetings, management meetings, quality teams, and informal discussions.

8.   How does senior leadership actively support and strengthen the community?

The LAC supports and strengthens South Carolina primarily by being a source of information about the workings of state government. To this end, the director speaks to community organizations throughout the year. Senior leadership answers questions from the media, which are the primary means by which most citizens learn of our audits. On a continual basis, we answer questions from citizens who need direction on how to obtain help from state government. Areas of emphasis usually follow the topics of recent audits, which are determined by the General Assembly. Also, our employees support and strengthen the community through participation in efforts such as Habitat for Humanity and Red Cross blood donations.

Category 2 — Strategic Planning

PROGRAM NUMBER AND TITLE	SUPPORTED AGENCY STRATEGIC PLANNING GOAL/OBJECTIVE	RELATED FY 03-04 KEY AGENCY ACTION PLAN/INITIATIVE(S)	KEY CROSS REFERENCES FOR PERFORMANCE MEASURES
I - II	Identify specific ways to reduce the cost and improve the performance of state government.	Employ a qualified staff.	See Table 7.4.2 Chart 7.4.3
		Conduct performance audits of state agency programs in compliance with Government Auditing Standards established by the federal Government Accountability Office.	See Table 7.5.1
		Make and determine compliance with recommendations for reducing the cost of state government and improving its performance.	See Chart 7.2.1 Chart 7.2.2 Table 7.2.3
		Ensure that the performance audits are published in a timely manner.	See Table 7.3.2
		Ensure that the performance audits meet the needs of the legislators who request them.	See Chart 7.1.1

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

The process of developing the LAC's strategic plan includes meetings and formal discussions of a strategic planning committee, comprised of senior leaders, auditors, and administrative staff.

How does your Strategic Planning process account for:

a)   Customer needs and expectations?

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

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

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

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

c)   Human resource capabilities and needs?

To ensure that the LAC attracts and retains qualified staff, our strategic plan requires that we establish employee recognition opportunities, review the employees' salary structure, ensure that employees undergo continuing education in accordance with Government Auditing Standards, and conduct regular surveys of LAC employee satisfaction.

d)   Operational capabilities and needs?

The strategic plan focuses on two operational capabilities that are in need of improvement: monitoring the implementation of prior LAC recommendations and ensuring that audits are finished on time.

e)   Supplies/contractor/partner capabilities and needs?

The LAC is a small organization that operates with standard office equipment and supplies, such as personal computers, printers, a copier, paper, etc. The LAC has no contractors or partners who assist in conducting audits. As a result, supplies/contractor/partner capabilities and needs are not part of the strategic plan.

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

Our key strategic objectives are:
- Identify specific ways to reduce the cost of state government.
- Identify specific ways to improve the performance of state government.

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

The process of developing the LAC's action plans includes meetings and formal discussions of senior leaders, auditors, and administrative staff. The process of tracking the implementation of these action plans is the responsibility of multiple committees, formed specifically for the task, who make recommendations to senior leaders. Senior leaders then approve and finalize new agency policies and procedures.

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

Our key strategic action plans/initiatives are:
- Employ a qualified staff.
- Conduct performance audits of state agency programs in compliance with Government Auditing Standards as established by the federal Government Accountability Office.
- Make and determine compliance with recommendations for reducing the cost of state government and for improving its performance.
- Ensure that the performance audits are published in a timely manner.
- Ensure that the performance audits meet the needs of the legislators who request them.

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

        The LAC communicates its strategic objectives, action plans, and performance measures through discussions among all staff at agency and audit team meetings. They are further communicated through audit and policy manuals. Multiple LAC committees, formed specifically for the various tasks, deploy strategic objectives, action plans, and performance measures, with oversight from senior leaders.

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

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

Category 3 — Customer Focus

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

        The LAC determines who its customers are by reviewing state law. We determine their key requirements as follows:

        - All audits must be requested by five or more legislators or be mandated specifically by state law. At the beginning of each audit, we meet with the legislative requesters to ensure that we understand their concerns. We then send a letter confirming audit objectives to the requesters. After each audit has been published, we conduct written satisfaction surveys of legislators.
        - Determining the key requirements of the citizens is a complex task. Citizens will often contact us about an agency that is alleged to be performing in a substandard manner. We give instructions to such callers regarding how audits can be requested through their local legislators. Upon request, we also meet with members of the public to discuss their concerns.
        - The news media are crucial to communication between the LAC and the General Assembly and the LAC and the public. A news story will often highlight a concern of members of the General Assembly or the public that is relevant to an upcoming or ongoing audit. For most of the public, news stories are the only source of information regarding LAC audits. We therefore provide copies of our reports to news media and answer their questions.

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

        In recent years, the LAC has expanded the methods by which it listens to and learns the needs of legislators, including post-audit surveys and face-to-face conversations.

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

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

4.   How do you measure customer/stakeholder satisfaction?

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

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

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

Category 4 — Measurement, Analysis, and Knowledge Management

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

We have four key performance measures which quantify the LAC's strategic goals / objectives of identifying ways to reduce the cost and improve the performance of state government. 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

The key measures of our audit results include the recommendations we make and the extent to which they have been implemented. Each year we measure the following key *outputs*:

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

In this FY 03-04 accountability report, we are initiating the following annual *outcome* measure:

- The percentage of recommendations *implemented* from LAC audits.

In next year's FY 04-05 accountability report, we will initiate an additional annual *outcome* measure:

- The financial benefits *realized* from LAC audits.

The type of auditing the LAC does and the way it gets assignments make it difficult to quantify *targets* or *benchmark from other organizations* 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

The key measures of the LAC's internal operations include management objectives that we associate with audit quality and efficiency. Below is a list of internal management targets established for FY 04-05.

- 90% of auditors will have graduate degrees or professional licenses.
- 100% of auditors will have a minimum of 20 training hours in the past year and 80 hours in the relevant two-year training period in accordance with Government Auditing Standards.
- The LAC will comply with Government Auditing Standards, as determined by peer reviews conducted by teams of auditors from throughout the United States.
- 80% of South Carolina legislators will be satisfied with the quality of our audits.
- The LAC will score at or above the 55th percentile of organizations nationwide on the Campbell Organizational Survey, a nationally recognized employee satisfaction instrument.
- The LAC will publish 80% of audits within 30 days of their projected dates of publication.
- The LAC's costs will be limited to $66 per audit hour.

2.   What are your key measures?

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

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

    The LAC ensures the soundness of data through various means. The soundness of data regarding LAC professional qualifications, training hours, legislator satisfaction, employee satisfaction, audit results, cost, and audit timeliness is ensured through direct inspection by senior leaders and documentation from independent outside entities. The soundness of data regarding LAC compliance with audit standards is ensured by peer review teams from other states assigned to review the LAC. The soundness of data provided by other organizations is ensured by LAC staff who make comparisons with other sources of data and review internal controls of the agencies being audited. In addition, during our exit process, agencies are allowed to review and comment on our reports prior to publication to help ensure accuracy.

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

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

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

    The LAC has chosen to follow Government Auditing Standards because they are recognized as a national benchmark for government performance auditing. These standards are detailed in their requirements. They relate to issues including independence, objectivity, thoroughness, and accuracy. The multi-state peer review teams, who help interpret and apply these standards, provide the LAC with information that is used to assess our organization in relation to those in other states.

    Because the federal Government Accountability Office is the lead agency in the United States for the type of auditing we conduct, we compared its performance measures with ours. We determined that we needed to add measures regarding the implementation of our audit recommendations.

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

    The LAC manages organizational knowledge through several mechanisms. First, for new auditors, we have a detailed orientation and training program conducted by experienced auditors. Not only does this practice transfer organizational knowledge to new auditors, it gives our experienced auditors the opportunity to rethink LAC audit practices. Second,

we have developed and continuously update policy and procedure manuals for auditing and administrative activities. Amendments to these manuals are developed and analyzed by staff committees. Third, we are members of the National Legislative Program Evaluation Society, through which we share with staff in other states accumulated knowledge and best practices.

Category 5 — Human Resources

1. How do you and your managers/supervisors encourage and motivate employees (formally and/or informally) to develop and utilize their full potential?

    New LAC employees are selected carefully based on attributes that match with the technical and personal skills needed. Employees work in audit teams to promote cooperation and to provide a support framework for the sharing of ideas. High performance is rewarded through formal and informal recognition from senior leaders, promotion within the organization, and formal programs of recognition among co-workers.

2. How do you identify and address key developmental and training needs, including job skills training, performance excellence training, diversity training, management/ leadership development, new employee orientation, and safety training?

    As part of the planning process for each audit, managers must assess training needs of the staff who will be participating in the audit. Also, as part of employee performance evaluations, individual training needs are assessed. The LAC provides the quantity and types of training that are required by Government Auditing Standards. Courses are provided to new and experienced LAC staff relating to their specific job skill needs, performance excellence, and management/leadership development. These courses are identified keeping in mind the LAC's two strategic goals of identifying ways to reduce the cost and improve the performance of state government.

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

    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.

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

    The LAC periodically uses the "Campbell Organizational Survey" to formally measure the views of staff. This survey enables us to measure changes in the perceptions of staff

across time. However, due to financial limitations, we were unable to administer the Campbell survey, as planned, in FY 03-04. Informally, we assess employee well being, satisfaction, and motivation at regular agency and audit team meetings.

5.   How do you maintain a safe, secure, and healthy work environment?

The LAC maintains regular communication regarding exit signs, lighting, fire extinguishers, etc. with its office space landlord. In addition, the LAC distributes literature on healthy lifestyles, including the topics of diet and exercise.

6.   What activities are employees involved with that make a positive contribution to the community?

The LAC is actively involved in the community of South Carolina. The director and other senior staff speak to community organizations throughout the year. On a continual basis, we receive visits and telephone calls from citizens who need direction on how to obtain help from state government. Also, our employees participate in efforts such as Habitat for Humanity and Red Cross blood donations.

Category 6 — Process Management

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

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

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

The LAC uses multiple methods for incorporating organizational knowledge, new technology, changing customer and mission-related requirements, cost controls, and other efficiency and effectiveness factors into process design and delivery. We utilize frequent communication with legislators, at various stages of each audit, to help ensure that we answer fully their questions and keep up with their evolving requirements as customers. We conduct employee satisfaction surveys of LAC staff and form ad hoc quality teams to ensure their involvement. We establish detailed policies, review the accuracy and completeness of working papers, and maintain active membership in the National Legislative Program Evaluation Society to help ensure that we comply with and remain up-to-date with Government Auditing Standards.

We have incorporated new technology into design and delivery processes and systems in several ways. We use desktop publishing technology for in-house publication of audit report summaries. In addition, all LAC publications are available on the Internet at www.state.sc.us/sclac. In FY 03-04, we added our strategic plan to this website.

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 03-04, for example:

    •   The LAC director and audit managers used monthly time sheets to ensure that audits were completed in a timely manner.
    •   The LAC director and 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 director tabulated the financial benefits identified in audits as well as the number of recommendations.
    •   The LAC 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 staff participated in ongoing communication with organizations in other states to keep abreast of developments in performance evaluation and auditing throughout the nation.

4. What are your key support processes, and how do you improve and update these processes to achieve better performance?

    The key support processes of the LAC include data analysis, report production, personnel, and purchasing. The primary means by which the LAC improves and updates these processes is ongoing training in current technology. Such training is provided primarily by technical colleges and private trainers. The format of our reports is modeled after those published by the federal Government Accountability Office.

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

    Because the LAC employs only 11 auditors, we have limited influence over the education and training processes used by our key suppliers of labor — colleges and universities and other government agencies. Nonetheless, the LAC director has informal, occasional communication with colleges and universities regarding their educational programs.

Regarding the suppliers of the information with which audits are conducted, the LAC regularly issues recommendations for improving the data reported by South Carolina state agencies. We have given particular emphasis toward the accuracy of information and its consistency across time, geography, and organizations. Outside of making recommendations, we regularly work with other state agencies to ensure that information is reliable.

Category 7 — Business Results

Summaries of Performance Audits Published in FY 03-04

EDUCATION AND SAFETY ISSUES AT THE SOUTH CAROLINA SCHOOL FOR THE DEAF AND BLIND (SEPTEMBER 2003)

This audit was concerned primarily with students' educational outcomes and issues of student safety. We conducted a sample of 105 individualized education programs (IEPs) and found no significant non-compliance with the requirements of federal or state law. Although many graduates of the School for the Deaf and the Blind (SCSDB) do not attain high school diplomas, we found that SCSDB has improved its process for helping students make the transition from school to work or further education. SCSDB had also made progress in addressing safety issues in recent years, although problems still exist with its facilities. The estimated cost to renovate or replace six buildings that had problems meeting safety or ADA requirements was $23 million. The audit also noted that the average per pupil cost for the school's residential students was $57,000 for FY 01-02. The instructional cost per student was more than the per student instructional cost for students educated in their own school districts.
Contact: Jane Thesing, Assistant Director

A REVIEW OF THE DEPARTMENT OF CORRECTIONS' PRISON INDUSTRIES PROGRAM (OCTOBER 2003)

Our review found that the prison industries program did not have adequate goals or performance measures to effectively assess the program's performance. We also found that the employment of prisoners may create a competitive advantage over private sector workers because companies that employ inmates pay low wages, do not pay fringe benefits, and receive subsidized rent and utilities. Whether this competitive advantage results in the displacement of private sector workers by prisoners also depends on whether a company would transfer its operations out-of-state or to a foreign country if it were not employing prisoners. South Carolina's Employment Security Commission, which is responsible for ensuring that private sector workers are not displaced by prisoners, does not have an adequate methodology for making such a determination. In addition, we found that, contrary to state law, SCDC has not consistently made deductions from the wages of prisoners in its prison industries who work for private organizations. As a result, funding has been reduced for items such as child support, victim restitution, and inmate room and board.
Contact: Perry Simpson, Audit Manager

A REVIEW OF THE SC EDUCATION LOTTERY AND THE STATE'S USE OF LOTTERY PROCEEDS (DECEMBER 2003)

We found that overall the SC Education Lottery (SCEL) had instituted adequate management controls and had taken steps to limit administrative costs. The lottery could further cut costs by reducing the number of cell phones and re-evaluating its use of vehicles. Also, the SCEL did not have a formal system of measuring results throughout the organization. In reviewing lottery operations, we found that compared to other states, South Carolina's 7% retailer commission is higher than average, ranking 7th out of 39 lotteries. We also reviewed the use of lottery funds by various state agencies and found that higher education has been the primary recipient of lottery funds. Generally the funds were used as required by law. However, controls over the use of lottery funds were uneven and still being established. We also found that some lottery funds had not been used in a timely manner. For example, although funds were available since November 2002 to contract for services assisting in the prevention and treatment of gambling disorders, as of August 2003, no contracts had been awarded.
Contact: Jane Thesing, Assistant Director

A REVIEW OF SELECTED OPERATIONS OF THE STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY (DECEMBER 2003)

We reviewed the adequacy of program oversight. We found that the authority had not ensured adequate oversight of the Housing Trust Fund Program, a state program created in 1992 to provide financial assistance for affordable housing. Also, authority officials allowed the use of more than $2.6 million in housing trust funds for special projects which did not meet criteria for funding.

In addition, in June 2002, authority personnel created the State Housing Corporation (a private non-profit corporation) exclusively for the benefit of the authority. We found several conflicts of interest involving the authority and the corporation. Further, state resources had been used to subsidize the corporation. We could find no reason that the corporation should continue to operate and recommended that the corporation be disbanded.
Contact: Priscilla Anderson, Audit Manager

A REVIEW OF THE STATE DEPARTMENT OF EDUCATION AND ISSUES OF EFFICIENCY AND ACCOUNTABILITY IN K-12 EDUCATION (MAY 2004)

We reviewed the State Department of Education's (SDE) expenditures for operations and identified several areas where the SDE could obtain savings. The department could realize savings in its expenditures for lodging and meals, particularly catered meals for training sessions and meetings, for which it spent $677,000 in FY 02-03. Postage, cell phones, and dues and memberships are other operational areas where SDE has not taken advantage of opportunities to save. We did not find evidence that the department's salaries were inappropriately high. We found that the state does not have adequate controls over funds used for salary supplements to teachers who achieve national board certification. These supplements could be more than $50 million annually by FY 08-09. We also found that the state could obtain cost savings and other benefits from reducing the number of mandatory tests and student remediation plans. Also, SDE's accreditation function duplicates the work of other entities and should be reduced in scope. In FY 02-03, the state spent more than $46 million for programs that provide assistance to low performing schools. The department has not implemented adequate measures to determine

the results of these programs, and we did not find clear evidence that they have improved student achievement.

Contact: Jane Thesing, Assistant Director

Summaries of Follow-Up Reviews Published in FY 03-04

FOLLOW-UP REVIEW OF THE MEDICAL MALPRACTICE PATIENT'S COMPENSATION FUND (JANUARY 2004)

After our January 2000 review of the Patients' Compensation Fund (PCF), the General Assembly enacted changes to increase the PCF's accountability and lessen its future liability. These changes included making the PCF subject to the oversight of the Department of Insurance and requiring the PCF to develop a plan of operations approved by the department. The General Assembly also reduced the PCF's liability by increasing the minimum limits of coverage for a physician's primary insurance. State law also was amended to specify that the state is not liable for claims against the PCF. The PCF also made significant operational changes in response to our audit. These included implementing a plan of operations, a manual of rules and rates, and a claims manual.

The follow-up also addressed questions relating to the operations of the PCF and medical malpractice insurance in S.C. We found that the membership of the PCF has decreased slightly since 1999. In addition claims payouts have increased annually over the last five years, as have premiums. The PCF has not increased its reserves since our audit and its unpaid claims liability has increased significantly since 2000. According to PCF officials, an increase in the size of malpractice awards (severity) and an increase in the total number of claims (frequency) have been major factors in the increase in premiums. We noted that the PCF's decision to operate on a pay-as-you-go basis during the 1990's also contributed to the premium increase.

Contact: Jane Thesing, Assistant Director

FOLLOW-UP REVIEW OF AN ADMINISTRATIVE REVIEW OF THE DEPARTMENT OF COMMERCE (FEBRUARY 2004)

Our 2002 audit found that Commerce had not emphasized cost-effectiveness in its operations, and some expenditures of public funds were not authorized by law. The audit criticized the agency's $1.9 million presentation center as being excessive. In the follow-up we found the agency did consider costs in more recent renovations made to consolidate its office operations into fewer square feet. The 2002 audit found that the agency's special events fund created a conflict of interest, and some of its expenditures for lunches, dinners, and gifts for department employees were inappropriate uses of public funds and violated state law. The follow-up found that, while the General Assembly had not amended state law to prohibit the solicitation of contributions, the department had stopped this practice. The follow-up included a limited review of special events fund expenditures which did not reveal problems. Commerce had also improved its controls over expenses for entertaining economic development prospects, although the General Assembly did not implement recommendations for state employee lodging limits or a statewide airfare contract. The department had not improved its methods of calculating the cost of using the state-owed aircraft. The General Assembly did amend the Freedom of Information Act to provide increased disclosure of economic development incentives.

Contact: Jane Thesing, Assistant Director

Performance Measures

7.1 What are your performance levels and trends for the key measures of customer satisfaction?
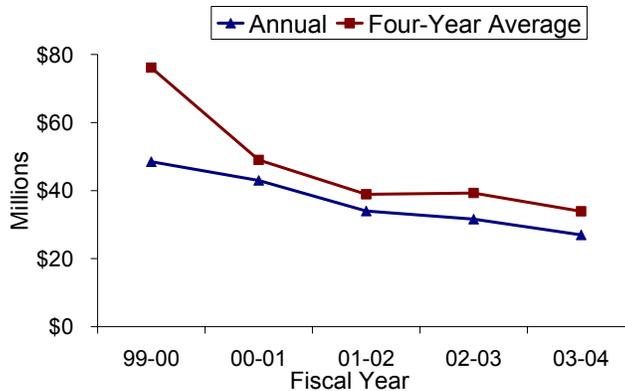
CHART 7.1.1
LEGISLATORS SATISFIED WITH QUALITY OF AUDITS
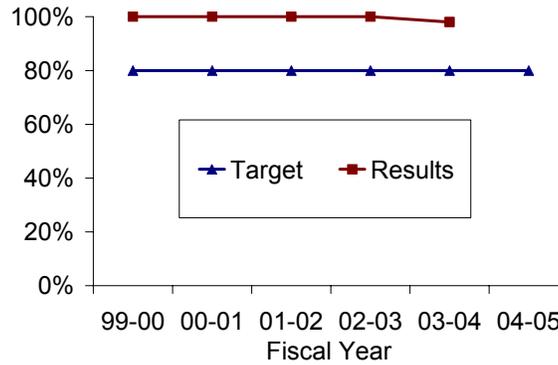
	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Target	80%	80%	80%	80%	80%	80%
Results	100%	100%	100%	100%	98%	

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

CHART 7.2.1
POTENTIAL FINANCIAL BENEFITS IDENTIFIED*

	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Annual	$48.5 million	$43 million	$34 million	$31.6 million	$27 million	
Four-Year Average	$76.1 million	$49 million	$38.9 million	$39.3 million	$33.9 million	

* For FINANCIAL BENEFITS IDENTIFIED, we include four-year averages to account for year-to-year volatility in the data. We do not have targets for this item for the reasons discussed on pages 13-14.

CHART 7.2.2
NUMBER OF RECOMMENDATIONS*
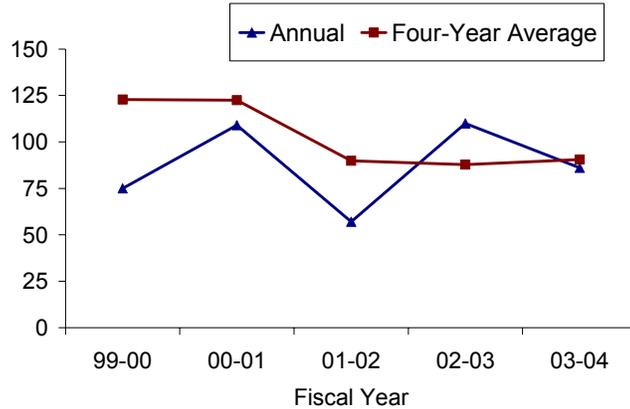
	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Annual	75	109	57	110	86	
Four-Year Average	122.8	122.5	89.8	87.8	90.5	

* For NUMBER OF RECOMMENDATIONS, we include four-year averages to account for year-to-year volatility in the data. We do not have targets for this item for the reasons discussed on pages 13-14.

TABLE 7.2.3
PERCENT OF AUDIT RECOMMENDATIONS IMPLEMENTED*

	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Results	N/A	N/A	N/A	N/A	69%	

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

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

TABLE 7.3.1
COST PER DIRECT AUDIT HOUR *

	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Target	N/A	N/A	$55	$55	$57	$66
Results	N/A	N/A	$53.56	$55.21	$66.34	

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

<p style="text-align:center">TABLE 7.3.2
AUDITS PUBLISHED ON TIME *</p>

	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Target	N/A	N/A	80%	80%	80%	80%
Results	N/A	N/A	0%	67%	40%	

* This performance measure was initiated in FY 01-02. In FY 01-02, we defined "on time" as publishing an audit on or before its projected date of publication. We found, however, that uncertainties pertaining to editing and reviewing audits made it difficult to be precise when projecting a publication date. Beginning in FY 02-03, we defined "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?

<p style="text-align:center">TABLE 7.4.1
LAC EMPLOYEE SATISFACTION SURVEY COMPARED WITH ORGANIZATIONS NATIONWIDE*</p>
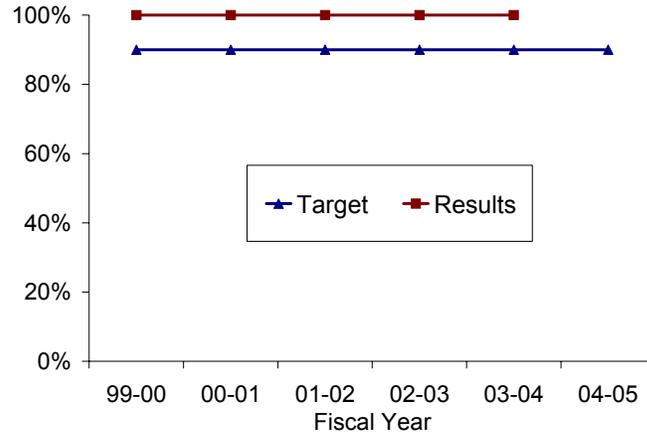
	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Target			55th Percentile		55th Percentile	55th Percentile
Results			48th Percentile		N/A	

* This performance measure was initiated in FY 01-02. We attempt to administer an employee satisfaction survey every other year but did not in FY 03-04 due to financial limitations.

<p style="text-align:center">TABLE 7.4.2
AUDITORS WITH MINIMUM TRAINING HOURS</p>

	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
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 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
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 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05
Target	Pass			Pass	Pass	
Results	Passed			N/A	Passed	

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