



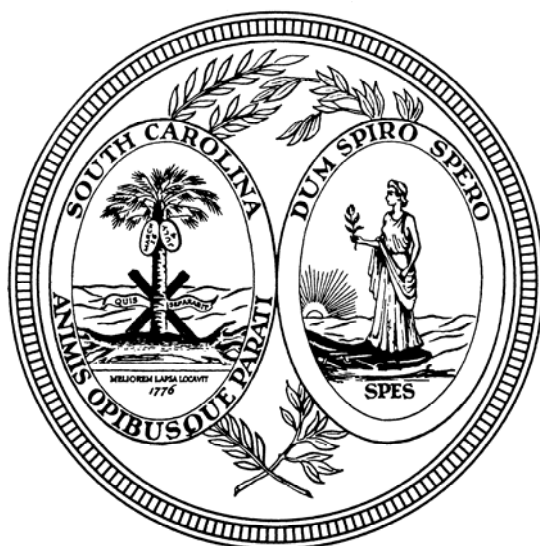
SOUTH CAROLINA GENERAL ASSEMBLY

# Legislative Audit Council

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## ANNUAL ACCOUNTABILITY REPORT FY 11-12

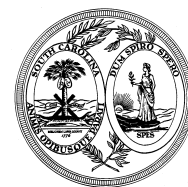




SOUTH CAROLINA GENERAL ASSEMBLY

# Legislative Audit Council

Independence, Reliability, Integrity



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September 17, 2012

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and Members of the General Assembly:

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This is the annual accountability report of the South Carolina  
Legislative Audit Council for the fiscal year ended June 30, 2012.  
The LAC encourages legislative requests for performance audits and  
is committed to audit work that will be responsive to legislative  
needs. Please call (803) 253-7612 with questions or comments.

Respectfully submitted,

Perry K. Simpson  
Director

Perry K. Simpson  
*Director*

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## Table of Contents

I.	Executive Summary	
1.	Mission, Vision, and Values .....	1
2.	Major Achievements in FY 11-12 .....	1
3.	Key Strategic Goals .....	1
4.	Key Strategic Challenges .....	1
5.	Use of the Accountability Report .....	1
II.	Organizational Profile	
1.	Main Products and Services.....	2
2.	Key Customer Groups and Their Key Expectations.....	2
3.	Key Stakeholder Groups .....	2
4.	Key Suppliers and Partners .....	2
5.	Office Location .....	3
6.	Number of Employees .....	3
7.	Regulatory Environment.....	3
8.	Performance Improvement Systems .....	3
9.	Organizational Structure .....	3
10.	Expenditures and Appropriations .....	4
11.	Major Program Areas.....	4
III.	Elements of Malcolm Baldrige Criteria	
	Category 1 — Senior Leadership, Governance, and Social Responsibility .....	5
	Category 2 — Strategic Planning .....	8
	Category 3 — Customer Focus.....	11
	Category 4 — Measurement, Analysis, and Knowledge Management .....	12
	Category 5 — Workforce Focus .....	15
	Category 6 — Process Management.....	19
	Category 7 — Results .....	22

## **Section I — Executive Summary**

### **1. Mission, Vision, and Values**

The LAC's mission is to conduct performance audits of state agencies and programs to help ensure that their operations are efficient and that they 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.

### **2. Major Achievements in FY 11-12**

In FY 11-12, the Legislative Audit Council published seven performance audit reports. We made 99 recommendations and identified potential financial benefits to the state government of approximately \$5.4 million. In addition, we identified ways to reduce by at least \$15 million annually the unemployment insurance payments made by South Carolina employers. In each of our audits, we made non-financial recommendations to improve the performance of state government.

### **3. Key Strategic Goals**

The LAC has three strategic goals:

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

### **4. Key Strategic Challenges**

A key strategic challenge to our organization has been a reduction in state general funds of approximately 20% from FY 07-08 to FY 12-13. As a result, only 73% of the agency's authorized staff positions are filled.

### **5. Use of the Accountability Report**

The process of developing annual accountability reports has resulted in our use of formal strategic planning. It has also resulted in our development of outcome measures, including "Percent of Audit Recommendations Implemented" and "Financial Benefits Realized." Due to funding limitations, we were unable to calculate these two statistics with an audit follow-up process in FY 11-12.

## **Section II — Organizational Profile**

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

The LAC's main products are performance audits of state agencies and programs, in which we identify ways to reduce the cost and improve the performance of state agencies, and provide information to the General Assembly and the public. We help ensure that operations are efficient and that agencies follow the law to achieve the desired results. We deliver the results of these audits in published reports.

### **2. Key Customer Groups and Their Key Expectations**

The LAC's key customer groups are the General Assembly and the citizens of South Carolina. We provide information, analysis, and recommendations to help the General Assembly improve state agencies and to help the citizens of South Carolina oversee state government. Our key customer groups' key expectations include independence, reliability, accuracy, and thoroughness.

### **3. Key Stakeholder Groups**

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

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

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

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

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

## 5. Office Location

The LAC operates out of a single location at:

1331 Elmwood Avenue  
Suite 315  
Columbia, SC 29201

## 6. Number of Employees

The LAC had 19 employees, all unclassified, at the end of FY 11-12.

## 7. Regulatory Environment

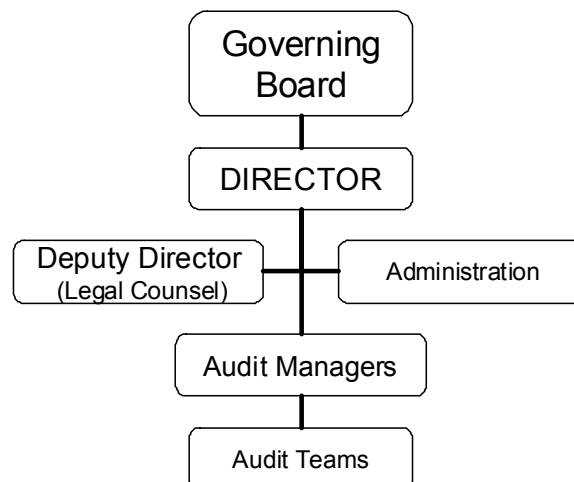
The LAC operates under the requirements of Government Auditing Standards established by the Comptroller General of the United States.

## 8. Performance Improvement Systems

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

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

## 9. Organizational Structure



## 10. Expenditures and Appropriations

MAJOR BUDGET CATEGORIES	FY 10-11 ACTUAL EXPENDITURES		FY 11-12 ACTUAL EXPENDITURES		FY 12-13 APPROPRIATIONS ACT	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service		\$636,069	\$825,049	\$634,066	\$1,043,748	\$823,748
Other Operating		87,689	104,626	104,626	95,000	95,000
Special Items						
Permanent Improvements						
Case Services						
Distribution to Subdivisions						
Fringe Benefits		157,868	252,990	132,263	265,130	185,130
Non-recurring						
<b>TOTAL</b>	<b>\$881,626</b>	<b>\$881,626</b>	<b>\$1,182,665</b>	<b>\$870,955</b>	<b>\$1,403,878</b>	<b>\$1,103,878</b>

### Other Expenditures

Sources of Funds	ACTUAL EXPENDITURES	
	FY 10-11	FY 11-12
Supplemental Bills	\$0	\$0
Capital Reserve Funds	\$0	\$0
Bonds	\$0	\$0

## 11. Major Program Areas

PROGRAM NUMBER AND TITLE	MAJOR PROGRAM AREA AND PURPOSE	FY 10-11 ACTUAL EXPENDITURES	FY 11-12 ACTUAL EXPENDITURES	KEY CROSS REFERENCES FOR FINANCIAL RESULTS
I – II	The work of the Legislative Audit Council is authorized by S.C. Code §2-15-10 <i>et seq.</i> Our sole program is conducting performance audits to find ways to reduce the cost and improve the performance of state agencies and programs, and to provide information to the General Assembly and the public.	State: \$881,626 Federal: 0 Other: 0 Total: \$881,626  % of Total Budget: 100%	State: \$870,955 Federal: 0 Other: \$311,710 Total: \$1,182,665  % of Total Budget: 100%	See Chart 7.1.1 Table 7.1.3

## Section III — Elements of Malcolm Baldrige Criteria

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

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

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

The LAC's short-term direction and organizational priorities are established by its senior leaders (governing board, director, deputy director, and audit managers) through the development of audit plans that are written and carried out with the assistance of staff. The LAC's senior leaders set long-term direction and organizational priorities using:

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

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

b) Performance expectations?

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

c) Organizational values?

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



d) Ethical behavior?

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

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

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

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

The LAC considers the effects of our recommendations on the public. During our audits, we seek the input and advice of citizen and business groups. We use the information from these sources to ensure that our recommendations result in lower costs and/or improved services without negative consequences that outweigh the benefits.

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

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

5. What performance measures do senior leaders regularly review to inform them of needed actions?

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

6. How do senior leaders use organizational performance review findings and employee feedback to improve their own leadership effectiveness, the effectiveness of management throughout the organization including the head of the organization, and the governance board/policy making body? How do their personal actions reflect a commitment to the organizational values?

Our governing board, director, deputy director, and other senior leaders seek to uphold the values of independence, reliability, accuracy, and thoroughness by openly responding to shortcomings highlighted by performance measurements, disinterested peer review teams, and LAC staff. In response to feedback from our performance measures, senior leaders have charged staff committees with amending our policies and practices.

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

Our senior leaders identify potential future management staff and ensure that they are given supervisory assignments in anticipation of promotional opportunities. In addition, these staff are given responsibility for managing follow-up audits under the direction of our senior leaders.

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

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

9. How do senior leaders create an environment for organizational and workforce learning?

At the beginning and end of each audit assignment, staff meet with their supervisors to determine the skills that they and the organization need to develop. Staff attend organizational and staff training and classes to develop the needed skills. Government Auditing Standards established by the Comptroller General of the United States require that each of our auditors completes at least 80 hours of training every two years.

10. How do senior leaders engage, empower, and motivate the entire workforce throughout the organization? How do senior leaders take an active role in reward and recognition processes to reinforce high performance throughout the organization?

Ours is a small organization, with fewer than 20 employees, all working at a single location. Most engagement, communication, empowerment, and motivation occurs informally through daily interaction and face-to-face conversation. Appointments are not required for any employee to meet with any senior leader. We have regular meetings of audit teams, chaired by audit managers, and regular agency-wide meetings, chaired by the director. We also have an employee-of-the-quarter program and a program in which

any employee can formally recognize the accomplishment of any other employee at any time.

11. How do senior leaders actively support and strengthen the communities in which your organization operates? Include how senior leaders determine areas of emphasis for organizational involvement and support, and how senior leaders, the workforce, and the organization contribute to improving these communities.

The LAC supports and strengthens South Carolina primarily by being a source of information about the workings of state government. The director speaks to community and professional organizations throughout the year. Senior leadership answers questions from the media, which are the primary means by which most citizens learn of our audits. On a continual basis, we answer questions from citizens who need information on how to obtain help from state government. Citizens are usually interested in topics from recent audits, which have been requested by the General Assembly. In addition, our employees donate funds to the United Way and blood to the American Red Cross.

## Category 2 — Strategic Planning for FY 12-13

PROGRAM NUMBER AND TITLE	KEY STRATEGIC GOALS / OBJECTIVES	RELATED ACTION PLANS / INITIATIVES	KEY CROSS REFERENCES FOR QUANTITATIVE MEASURES
I - II	Reduce the cost of state government.	Employ qualified staff by developing their knowledge, skills, and abilities and by providing a positive work environment.	See Chart 7.4.1 Table 7.4.2
		Conduct performance audits of state agency programs in compliance with Government Auditing Standards.	See Table 7.6.1
	Improve the performance of state government.	Make and determine compliance with recommendations for reducing the cost of state government and improving its performance.	See Chart 7.1.1 Chart 7.1.2 Table 7.1.3 Table 7.1.4
		Ensure that audits are published in a timely manner.	See Table 7.5.1
	Provide information to the General Assembly and the public.	Ensure that audits are conducted in an efficient manner.	See Table 7.3.1
		Ensure that audits meet the needs of the legislators who request them.	See Table 7.2.1

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 senior leaders.

How does your Strategic Planning process address:

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

The LAC's strategic plan identifies "organizational integrity" and "professional independence" as our "distinctive competencies." Our strategic objectives include quantified performance targets for areas in which we have identified opportunities

and threats. One performance target which we have not met is the publishing of audits in a “punctual manner.”

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

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

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

(c) Shifts in technology and customer preferences?

In our FY 11-12 strategic planning process regarding these areas, we identified no shifts that would have a material impact on our operations.

(d) Workforce capabilities and needs?

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. At the beginning of each audit assignment, staff meet with their supervisors to determine the skills that they and the organization need to develop. In addition, we conduct satisfaction surveys of our employees every other year.

(e) Organizational continuity in emergencies?

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

(f) Your ability to execute the strategic plan.

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

2. How do your strategic objectives address the strategic challenges you identified in your Executive Summary?

Our ability to achieve the strategic objectives of identifying ways to reduce the cost of state government, improve the performance of state government, and provide information to the General Assembly and the public have been impacted by a significant reduction in state appropriations in recent years. Nonetheless, we have not altered these strategic objectives, which we believe we can continue to meet, in the short term, through the use of audits that are more focused and narrow in scope.

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

The process of developing LAC action plans that address key strategic objectives and tracking their implementation includes communication among various senior leaders, auditors, and administrative staff and reviewing statistics calculated by audit teams. Senior leaders allocate resources (which, for our agency means personnel, primarily) through a series of meetings throughout the year, in which projects are matched with the skills of our staff and the necessary number of staff required to accomplish our objectives.

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

The LAC communicates its strategic objectives, action plans and related performance measures through discussions among all staff at agency and audit team meetings. They are further communicated through audit and policy manuals. The deployment of strategic objectives, action plans and performance measures is conducted by senior leaders, audit teams, and administrative staff.

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

Each action plan is linked with 1 or more of our 11 performance measures. (See the strategic planning chart on page 8.) We have established year-end performance targets for six of these measures (see page 26). All of these measures are monitored annually, and some are monitored monthly.

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

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

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

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

### 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 and informing them of the estimated audit completion date.
- 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, notify news media of our publications and provide a link to our website where our reports are located and answer their questions.

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

The LAC listens to and learns the needs of legislators through face-to-face conversations.

3. What are your key customer access mechanisms, and how do these access mechanisms enable customers to seek information, conduct business, and make complaints?

Each of our publications is available on our website ([LAC.SC.GOV](http://LAC.SC.GOV)). Citizens may contact us by telephone at (803) 253-7612 or by e-mail. Citizens may also visit our office at 1331 Elmwood Avenue, Suite 315 in Columbia. To ensure ease of access, parking is convenient and free.

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

The LAC informally measures the satisfaction of legislators through face-to-face conversations.

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

Because many legislators and citizens do not have time to read an entire report, we publish summaries of each report. We also meet regularly with legislators on an informal basis to ensure that the independent information we provide is useful.

6. How do you build positive relationships with customers and stakeholders to meet and exceed their expectations? Indicate any key distinctions between different customer and stakeholder groups.

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

#### Category 4 — Measurement, Analysis, and Knowledge Management

1. How do you decide which operations, processes, and systems to measure for tracking financial and operational performance, including progress relative to strategic objectives and action plans?

We have developed performance measures that address audit results as well as the quality and efficiency of internal operations. These measures were selected by LAC senior leaders, in conjunction with staff, based on similar measures used by the federal Government Accountability Office.

##### *Audit Results*

Each year we measure the following key *outputs*:

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

Each year we also measure the following key *outcomes*:

- The financial benefits realized from LAC audits.
- The percentage of recommendations implemented from LAC audits.

The type of auditing the LAC does and the way it gets assignments make it difficult to quantify targets or benchmarks from other states that relate to reducing the cost and improving the performance of state government. Most LAC audits are requested on an ad hoc basis by members of the General Assembly, preventing us from knowing in the planning process what programs we will be auditing or the objectives of those audits. In addition, organizations similar to the LAC in other states do not always audit the same programs that are audited by the LAC.

### *Quality and Efficiency of Internal Operations*

Each year we measure aspects of the LAC's internal operations that we associate with quality and efficiency. Below is a list of internal performance targets established for FY 12-13.

- 100% of auditors will undergo a minimum of 20 hours of training each year and 80 hours within a specified two-year training period, in accordance with Government Auditing Standards. This training addresses topics such as fraud prevention, policy analysis, general management, and accounting.
- The LAC will comply with Government Auditing Standards, as determined by peer reviews conducted by teams of auditors from throughout the United States.
- The LAC will publish 80% of audits within two months of their projected dates of publication.
- The LAC's costs will be limited to \$65 per audit hour.

2. How do you select, collect, align, and integrate data/information for analysis to provide effective support for decision making and innovation throughout your organization?

We use data/information analysis to provide effective support for decisions in multiple areas. For example, before determining the appropriate staff to assign to an audit, senior leaders conduct a preliminary assessment of the potential issues and the expertise the project will require. When deciding whether to make a recommendation in an audit report, auditors at all levels assess the potential costs and benefits of the recommendation. Auditors at all levels are provided data to help them match their training needs with agency resources.

3. What are your key measures, how do you review them, and how do you keep them current with organizational service needs and directions?

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

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



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

The LAC has chosen to follow Government Auditing Standards established by the Comptroller General of the United States because they are recognized as a national benchmark for government performance auditing. These standards are detailed in their requirements and are reflected in our strategic plan and performance measures. Multi-state peer review teams, which review our compliance with the standards every three years, provide us with information that we use to compare the LAC with audit organizations in other states. In FY 11-12, due to funding limitations, we were unable to contract for a peer review.

5. How do you ensure data integrity, reliability, timeliness, accuracy, security and availability for decision making?

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

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

Every three years, a peer review team, comprised of auditors from throughout the country, reviews the LAC's compliance with Government Auditing Standards. After each peer review, we establish a temporary committee to implement the recommendations of the peer review team. In FY 11-12, due to funding limitations, we were unable to contract for a peer review.

7. How do you collect, transfer, and maintain organizational and workforce knowledge? How do you identify, share and implement best practices, as appropriate?

The LAC collects, transfers, and maintains organizational and workforce knowledge through several mechanisms. First, for new auditors, we have a detailed orientation and training program conducted by experienced auditors. Not only does this practice transfer organizational knowledge to new auditors, it gives our experienced auditors the opportunity to rethink LAC audit practices. Second, we have developed and continuously update policy and procedure manuals for auditing and administrative activities. Amendments to these manuals are developed and analyzed by staff committees. Third, we are members of the National Legislative Program Evaluation Society, through which we share with staff in other states accumulated knowledge and best practices.

## Category 5 — Workforce Focus

1. How does management organize and measure work to enable your workforce to: (1) develop to its full potential, aligned with the organization's objectives, strategies, and action plans; and (2) promote cooperation, initiative, empowerment, teamwork, innovation, and your organizational culture?

The LAC organizes the work of its auditors in teams. At the beginning of each audit assignment, team members work together to develop an audit plan. Audit plans are reviewed by the agency director to ensure that they are consistent with the audit request made by legislators as well as the LAC's strategic objectives and action plans.

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

2. How do you achieve effective communication and knowledge/skill/best practice sharing across department, jobs, and locations? Give examples.

Because the LAC has fewer than 20 employees and operates at a single location, effective communication and collaboration occur primarily on an informal basis. In addition, staff periodically conduct formal in-house training of colleagues on various audit-related topics.

3. How does management recruit, hire, place, and retain new employees? Describe any barriers that you may encounter.

The LAC hires primarily at the entry level, with promotions being made from current staff. Using written minimum job qualifications and descriptions, we usually advertise in area newspapers and on the Internet. Each hiring is preceded by an onsite interview with LAC senior leaders. We retain new employees by providing them with challenging and interesting work assignments, work day flexibility, and reasonable wages.

4. How do you assess your workforce capability and capacity needs, including skills, competencies, and staffing levels?

The LAC assesses its workforce skills and competencies when establishing minimum job qualifications and when conducting post-audit performance reviews. Before audits begin, senior leaders meet to match auditor skills with audit assignments. The determination of staffing levels for specific audits is dependent on audit scope and the time available for audit completion.

5. How does your workforce performance management system, including feedback to and from individual members of the workforce, support high performance work and contribute to the achievement of your action plans?

The LAC's employee performance management system supports high performance by providing an assessment of each auditor's work on an audit-by-audit basis. The components of the evaluation instrument are tied directly to the skills needed to conduct performance auditing. All performance evaluations are discussed in private meetings, during which the views of the employee and his or her supervisor are exchanged.

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

6. How does your development and learning system for leaders address the following:

- a. Development of personal leadership attributes.

The LAC ensures that potential future leaders receive ongoing leadership-related training.

- b. Development of organizational knowledge.

Organizational knowledge at the LAC is developed by giving potential leaders increasing responsibilities, including planning audits, overseeing staff audit work, editing reports, and making presentations to other staff and our governing board.

- c. Ethical practices.

The LAC's ethical practices, which include the assurance of independence, reliability, accuracy, and thoroughness, are integrated with our structured system of conducting audits, as directed by Government Auditing Standards. Each auditor, therefore, receives development and learning in these areas.

- d. Core competencies, strategic challenges, and accomplishment of action plans?

The LAC's core competencies of ensuring organizational integrity and professional independence coincide with the accomplishment of our strategic challenges and action plans, and are integrated with our structured system of conducting audits, as directed by Government Auditing Standards. Each auditor, therefore, receives development and learning in these areas.

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

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

8. How do you encourage on-the-job use of the new knowledge and skills?

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

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

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

10. How do you evaluate the effectiveness of your workforce and leader training and development systems?

We do not have a formal process for evaluating the effectiveness of our training and development systems.

11. How do you motivate your workforce 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.

12. What formal and/or informal assessment methods and measures do you use to obtain information on workforce well-being, satisfaction, and motivation? How do you use other measures such as employee retention and grievances?

Until FY 07-08, the LAC used the privately-developed “Campbell Organizational Survey” to formally measure the views of its staff. This survey enabled us to measure changes in the views of our staff across time. A significant increase in the price of Campbell survey, however, led us to discontinue its use.

In FY 07-08, we administered a new survey to LAC staff, with questions taken verbatim from the “Federal Human Capital Survey” developed by the United States Office of Personnel Management (OPM). This instrument, now called the “Federal Employee Viewpoint Survey,” is administered to more than 200,000 employees of agencies throughout the federal government. After we administered this survey to the LAC, we compared our employees’ responses with those of federal employees using the following indices into which survey questions were grouped by the OPM (see also page 29):

*Leadership Index* - Composite score of 12 questions indicating the extent to which employees hold agency leadership in high regard.

*Results-Oriented Performance 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.

*Staff Skills 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.

After administering the survey, we met as an organization to discuss its results and areas in need of improvement. The survey was administered again in FY 09-10 and FY 11-12.

13. How do you manage effective career progression and effective succession planning for your entire workforce throughout the organization?

The LAC identifies potential future leaders and introduces them gradually to increasingly demanding audit and supervisory duties.

14. How do you maintain a safe, secure, and healthy work environment? (Include your workplace preparedness for emergencies and disasters.)

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

## Category 6 — Process Management

1. How do you determine and what are your organization's core competencies, and how do they relate to your mission, competitive environment, and action plans?

The LAC's senior leaders have determined the following two primary competencies by reviewing our statutorily-required mission and Government Auditing Standards:

*Organizational Integrity* - Because the LAC is part of the legislative branch of state government, it is organizationally independent of the executive branch agencies it audits. The LAC is administered by a director who is appointed to four-year terms by a board whose voting members are not state legislators. Our voting board members are elected from the public at-large by the General Assembly to six-year terms. The LAC also adheres to Government Auditing Standards established by the Comptroller General of the United States.

*Professional Independence* – LAC auditors are required to be independent, appear independent, and to sign statements of independence at the beginning of each audit engagement. As part of this independence requirement, LAC staff are prohibited from involvement in state government-related political activity.

These core competencies are integrated with our structured system of conducting audits, as directed by Government Auditing Standards.

2. How do you determine and what are your key work processes that produce, create or add value for your customers and your organization and how do they relate to your core competencies? How do you ensure that these processes are used?

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

To ensure that we use these key work processes:

- At the beginning of each audit, the LAC director reviews a “planning file” developed by the audit manager, to ensure that the legislators who requested the audit have been contacted regarding their concerns.
- Every three years, we contract with an external peer review team to review the LAC’s compliance with Government Auditing Standards. In FY11-12, due to funding limitations, we were unable to contract for a peer review.
- Before each audit is published, each statement in the audit is documented by a staff member whose work is then checked by another staff member.

3. How do you incorporate organizational knowledge, new technology, cost controls, and other efficiency and effectiveness factors, such as cycle time, into process design and delivery?

The LAC uses multiple methods for incorporating organizational knowledge, new technology, changing customer and mission-related requirements, cost controls, and other efficiency and effectiveness factors into process design and delivery. They include:

- Frequent communication with legislators, at various stages of each audit, to help ensure that we answer fully their questions and keep up with their evolving requirements as customers.
- Satisfaction surveys of LAC staff.
- Employee committees to improve LAC processes.
- Detailed written policies and procedures.
- Active membership in the National Legislative Program Evaluation Society.

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

4. 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 11-12, for example:

- The LAC’s director and audit managers used monthly time reports to help ensure that audits were completed in a punctual manner.
- The LAC’s audit managers reviewed working papers and carried out quality review processes for each report published to ensure that the LAC passes its peer review process.

- The LAC's audit teams tabulated the potential financial benefits identified in audits, the number of recommendations made, the financial benefits realized, and the percent of recommendations implemented.
- The LAC's training coordinator used a database to ensure that auditors obtain training that has been approved by management and meets the requirements of Government Auditing Standards.
- The LAC's staff participated in ongoing communication with organizations in other states to keep current with developments in performance evaluation and auditing throughout the nation.

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

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

At the beginning of each audit, we meet with the primary legislators who requested the audit to ensure that we understand their concerns and that our audit plan reflects those concerns.

Every three years, a peer review team, comprised of auditors from throughout the country, reviews the LAC's compliance with Government Auditing Standards established by the Comptroller General of the United States. After each peer review, we establish a temporary committee to implement the recommendations of the peer review team. In FY 11-12, due to funding limitations, we were unable to contract for a peer review.

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

The key support processes of the LAC include data analysis, report production, personnel, and purchasing. The primary means by which the LAC improves and updates these processes are staff input and analysis, ongoing training, and up-to-date information technology. The format of our reports and our audit methods are modeled after those used by the federal Government Accountability Office. Staff training is provided primarily by South Carolina's technical colleges, professional associations, and for-profit trainers. Management evaluates outside financial audit reports and incorporates recommendations to improve processes.



7. How does your organization determine the resources needed to meet current and projected budget and financial obligations?

Our management team meets regularly throughout the year to analyze the revenues we need in order to conduct the audits that have been requested by the General Assembly. Approximately once a month our entire staff meets to discuss our operations, our anticipated workload, and our financial obligations. Management has explored other alternative revenue resources, and legislation was enacted to allow the agency to charge certain agencies for services.

## Category 7 — Results

### A REVIEW OF THE PROFESSIONAL AND OCCUPATIONAL LICENSING DIVISION AT THE DEPARTMENT OF LABOR, LICENSING AND REGULATION (JULY 2011)

We reviewed the operations of the professional and occupational licensing division and the financial status of the boards within the division. We found that LLR has paid about \$2 million for a new licensing management system and has not received a fully-operational system for any board or program. LLR is not using the full capacity of its board meeting system to record and archive board meeting information. Board administrators do not approve all expenditures made from their board's revenues. The boards had a collective year-end balance of over \$20 million for FY 09-10 and should consider reducing licensing fees. The boards were also not ensuring that licensees were earning their required continuing education.

*Contact: Andrea Derrick Truitt, Deputy Director*

### BABYNET PROGRAM: A REVIEW OF EARLY INTERVENTION SERVICES FOR INFANTS AND TODDLERS WITH DEVELOPMENTAL DELAYS (AUGUST 2011)

South Carolina has a decentralized funding structure through which state agencies receive appropriations used for the BabyNet program. This structure has not allowed for adequate oversight and control by South Carolina First Steps to School Readiness. Most of the appropriated funds spent by S.C. state agencies on the BabyNet program have not been appropriated specifically by the General Assembly for the BabyNet program. BabyNet expenditures have not been adequately tracked or reported. First Steps has not implemented a comprehensive system to measure provider performance or to ensure that invoices accurately reflect the services provided. BabyNet has not improved sufficiently in the timely provision of services, transition to post-BabyNet services, implementing a system of general supervision, or finding children in need of early intervention services.

*Contact: Andrew M. Young, Audit Manager*

### A REVIEW OF THE CLEMSON UNIVERSITY PUBLIC SERVICE ACTIVITIES (AUGUST 2011)

Members of the General Assembly asked the LAC to review the Clemson University Public Service Activities (PSA). Clemson PSA was established through Clemson's status as a land-grant institution. Programs range in scope from natural resources and environmental research to community development with a residential program for pregnant teenagers. Our review found:

- PSA funding has decreased approximately 28% in the past three years with state general funds decreasing by nearly one-half. PSA could reduce travel costs by adhering to the GSA's lodging limits and by using the contract rental fleet when it is the most economical method of travel.
- Some PSA activities do not fall under the umbrella of agriculture and natural resource education, research, or regulation. PSA should operate these programs without state funds.
- Both Clemson PSA and the USDA inspect meat and poultry facilities in South Carolina. By turning this program over to the USDA, \$949,672 in state general funds could be used for other PSA programs.
- Duplication exists between Clemson PSA programs and the Department of Agriculture and the Forestry Commission.
- Most of the 24 executive-level PSA staff in our sample had not been formally evaluated in the past five years. Also, PSA does not document, in writing, justifications for performance pay increases.

*Contact: Marcia A. Lindsay, Audit Manager*

### A REVIEW OF GRANTS RECEIVED BY THE S.C. DEPARTMENT OF INSURANCE UNDER THE AFFORDABLE CARE ACT (OCTOBER 2011)

We reviewed three grants received by the S.C. Department of Insurance (DOI) under the Affordable Care Act. We were asked to determine which grants were awarded, if expenditures were handled in compliance with laws and terms of the grants, if program activities funded achieved the goals of the grants, and what DOI's plans were for the remaining grant funds. We found that DOI had expended only a small percentage of each grant and found no issues with compliance of those expenditures. We reported that the Consumer Assistance grant had \$422,500 of \$441,000 remaining; the Health Exchange grant had expended only \$63,000 of \$1,000,000, but had another \$180,000 obligated; and the Premium Review grant had expended \$199,000 of \$1,000,000, with another \$375,000 obligated. At the time of publication of our report, October 2011, two grants had expired and DOI had been granted an extension for the Premium Review grant until March 2012.

*Contact: Marcia A. Lindsay, Audit Manager*

## A REVIEW OF FORESTRY MANAGEMENT PRACTICES ON LANDS OWNED BY THE S.C. DEPARTMENT OF NATURAL RESOURCES (JANUARY 2012)

We were asked to review the forestry management practices on land owned by the S.C. Department of Natural Resources (DNR) to determine how much land DNR owned, the fair market value of the timber on that land, the revenue realized from the sale of timber for the past 10 years, and whether certain lands were being managed for sustainable multiple-use forestry production. We found that DNR owned 280,025 acres of land, which it managed for wildlife habitat first with timber harvesting as part of that process. DNR could not provide a fair market value of its land; however, the agency realized \$4.6 million in revenue from harvesting timber from 2001-2010. We also report on how five other Southeastern states handle forestry management practices.

*Contact: Marcia A. Lindsay, Audit Manager*

## A MANAGEMENT REVIEW OF THE DEPARTMENT OF EMPLOYMENT AND WORKFORCE (MARCH 2012)

State law requires the LAC to conduct periodic management reviews of the Department of Employment and Workforce (DEW). The law requires us to examine the revenues and expenditures from the Unemployment Insurance (UI) Trust Fund, review the process for notifying state officials of the financial status of the trust fund, assess alternatives for trust fund solvency, examine the UI benefit process for efficiency and compliance with law and agency policy, and evaluate the effectiveness of DEW's programs for assisting claimants in returning to work.

Currently, the UI trust fund is insolvent, and as of December 12, 2011, the state of South Carolina owed the federal government \$782 million in loans used to pay unemployment benefits. In our report we found that:

- DEW is implementing a plan to return the Unemployment Insurance (UI) Trust Fund to solvency by 2015.
- DEW is making the required reports regarding UI trust fund solvency to the General Assembly. However, the notification process could be streamlined and reports improved to provide the General Assembly with additional information regarding the UI program in South Carolina.
- Increasing the taxable wage base has resulted in a \$2.7 million increase in administrative funding for DEW by increasing contingency assessment taxes paid by employers. The General Assembly should examine the need for the contingency assessment and the method of funding the assessment.
- DEW is not conducting claimant eligibility reviews at required intervals and does not verify claimants' job search efforts.
- The effectiveness of DEW's reemployment services is questionable and DEW is not properly recording and documenting these services.
- DEW's quarterly wage cross match, which is used to detect fraud and overpayments of UI benefits, was not operating properly.

- Some employers are not reporting new hires to the State Directory of New Hires as required by law. The Department of Social Services, which administers the directory, needs to improve its efforts to notify employers of their responsibilities under the law.
- DEW's website did not contain basic information about eligibility requirements and duration of benefits, and we had difficulty reaching DEW staff by telephone.

*Contact: Perry K. Simpson, Director*

#### **A REVIEW OF BUDGETING PRACTICES AND RECENT DEFICITS AT THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (JUNE 2012)**

We found that SCDHHS did not have a structured system of forecasting expenditures, revenues, or cash in FY 09-10 and FY 10-11. For FY 10-11, the department forecast an expenditure increase of 2.0%; the actual increase was 2.7%. For FY 10-11, the department forecast an expenditure increase of 5.0%; the actual increase was 11.1 %.

To avoid an FY 09-10 deficit, the department made timing adjustments in the payment and receipt of funds totaling \$114 million. In addition, the department made questionable use of \$5.5 million in funds from a restricted account. In FY 10-11, the department would have incurred a deficit of \$222.5 million in state funds and lost approximately \$700 million in federal matching funds without a supplement in state funds.

In FY 09-10, the department awarded a rate increase to a managed care organization six months earlier than required by the contract. This early payment cost the state \$2.3 million.

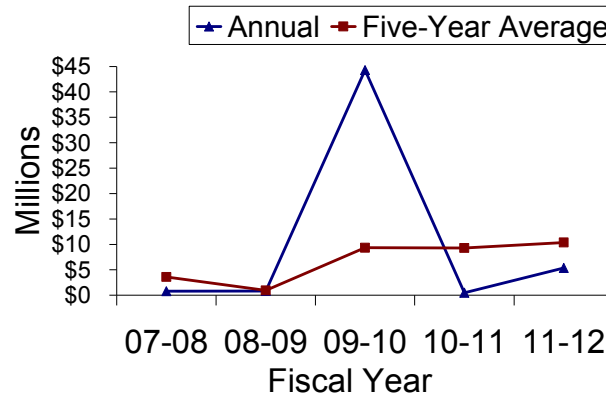
We also found that state law does not adequately limit the activities of state employees who resign to work for companies that do business with the state.

*Contact: Andrew M. Young, Audit Manager*

## Quantitative Measures

- 7.1 What are your performance levels and trends for the key measures of mission accomplishment/product and service performance that are important to your customers? How do your results compare to those of comparable organizations?

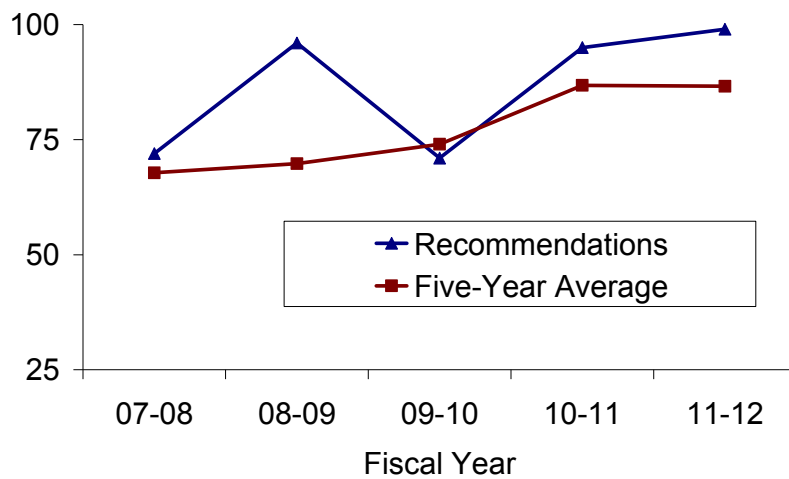
CHART 7.1.1 POTENTIAL FINANCIAL BENEFITS IDENTIFIED \*



	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
Annual	\$800,000	\$850,000	\$44.3 million	\$500,000	\$5.4 million
Five-Year Average	\$3.6 million	\$950,000	\$9.4 million	\$9.3 million	\$10.4 million

\* Potential Financial Benefits Identified includes five-year averages to account for year-to-year volatility in the data. See pages 12–13.

CHART 7.1.2 NUMBER OF RECOMMENDATIONS\*



	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
Recommendations	72	96	71	95	99
Five-Year Average	67.8	69.8	74	86.8	86.6

\* Number of Recommendations includes five-year averages to account for year-to-year volatility in the data. See pages 12–13.

TABLE 7.1.3 FINANCIAL BENEFITS REALIZED \*

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
Results	\$7.6 million	\$21,000	\$50,000	\$100,000	\$0**

\* These are the financial benefits realized from the implementation of our audit recommendations. See pages 12–13.

\*\* Due to funding limitations, we were unable to calculate this statistic with an audit follow-up process in FY 11-12.

TABLE 7.1.4 PERCENT OF AUDIT RECOMMENDATIONS IMPLEMENTED

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
Results	41%	43%	78%	53%	0%*

\* Due to funding limitations, we were unable to calculate this statistic with an audit follow-up process in FY 11-12.

- 7.2 What are your performance levels and trends for the key measures of customer satisfaction and dissatisfaction (a customer is defined as an actual or potential user of your organization's products or services)? How do your results compare to those of comparable organizations?

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

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
Target	80%	80%	80%	80%	80%	80%
Results	100%	100%	*	*	*	

\* Staff have been examining methods for improving customer satisfaction surveys and did not measure legislators' satisfaction with our services in FY 09-10, FY 10-11, or FY 11-12. However, informal feedback concerning audits conducted in FY 11-12 has been positive.

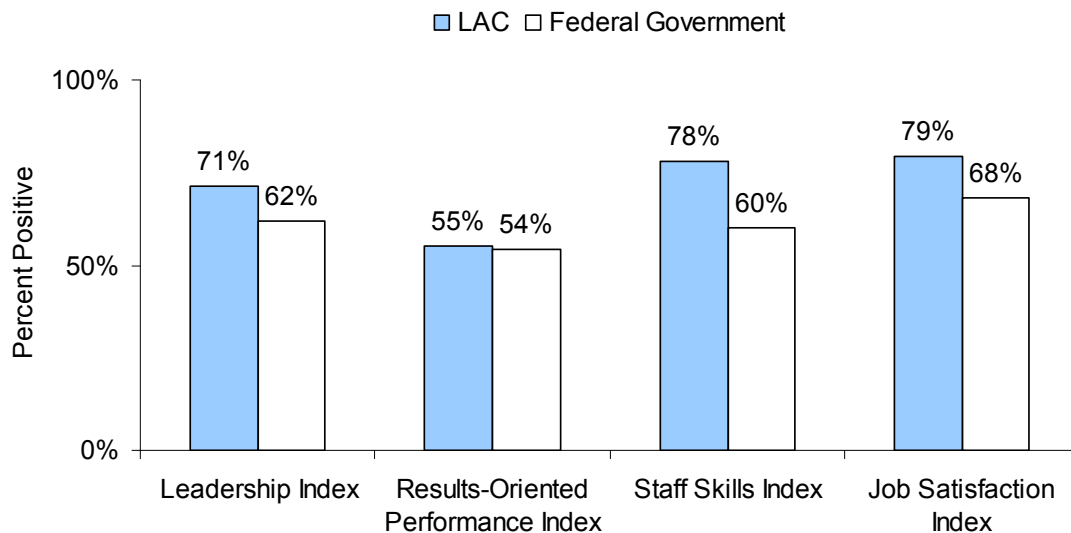
- 7.3 What are your performance levels for the key measures of financial performance, including measures of cost containment, as appropriate?

**TABLE 7.3.1 COST PER DIRECT AUDIT HOUR**

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
Target	\$65	\$65	\$65	\$65	\$65	\$65
Results	\$62.99	\$62.19	\$61.26	\$62.34	\$64.78	

- 7.4 What are your performance levels and trends for the key measures of workforce engagement, workforce satisfaction, the development of your workforce, including leaders, workforce retention, workforce climate including workplace health, safety, and security?

CHART 7.4.1 LAC BIENNIAL EMPLOYEE SURVEY RESULTS: FY 11-12 \*



\* For a more detailed explanation of the indexes, see page 18.

TABLE 7.4.2 AUDITORS WITH MINIMUM TRAINING HOURS

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
Target	100%	100%	100%	100%	100%	100%
Results	100%	100%	100%	100%	100%	



- 7.5 What are your performance levels and trends for your key measures of organizational effectiveness/operational efficiency, and work system performance (these could include measures related to the following: product, service, and work system innovation rates and improvement results; improvements to cycle time; supplier and partner performance; and results related to emergency drills or exercises)?

TABLE 7.5.1 AUDITS PUBLISHED ON TIME \*

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
Target	80%	80%	80%	80%	80%	80%
Results	0%	33%	33%	43%	0%	

\* We define "on time" as publishing an audit within 60 days of its projected date of publication.

- 7.6 What are your performance levels and trends for the key measures of regulatory/legal compliance and community support?

TABLE 7.6.1 THREE-YEAR PEER REVIEW

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
Target			Pass	Pass	Pass	Pass
Results			*	*	*	

\* In FY 09-10, FY 10-11 and FY 11-12, due to funding limitations, we were unable to contract for a peer review.