

AGENCY NAME:	Budget and Control Board – Auditor, Office of the State		
AGENCY CODE:	F270	SECTION:	102



Fiscal Year 2013-14 Accountability Report

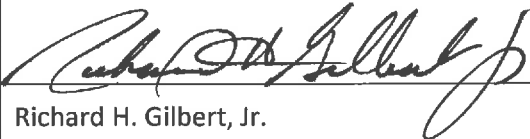
SUBMISSION FORM

AGENCY MISSION	The mission of the Office of the State Auditor is to serve as a deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies and providers of Medicaid services and to provide audit coverage of those entities as required by law or regulation.
-----------------------	---

Please identify your agency's preferred contacts for this year's accountability report.

	<u>Name</u>	<u>Phone</u>	<u>Email</u>
PRIMARY CONTACT:	Richard H. Gilbert, Jr.	(803) 253-4160	rgilbert@osa.sc.gov
SECONDARY CONTACT:	R. Kenneth Harrill	(803) 253-4160	kharrill@osa.sc.gov

I have reviewed and approved the enclosed FY 2013-14 Accountability Report, which is complete and accurate to the extent of my knowledge.

AGENCY DIRECTOR (SIGN/DATE):	
(TYPE/PRINT NAME):	Richard H. Gilbert, Jr.

BOARD/CMSN CHAIR (SIGN/DATE):	
(TYPE/PRINT NAME):	

AGENCY NAME:	Budget and Control Board – Auditor, Office of the State		
AGENCY CODE:	F270	SECTION:	102

AGENCY’S DISCUSSION AND ANALYSIS

The Office of the State Auditor performs the audits of the State’s Basic Financial Statements and the Single Audit of the State’s Schedule of Expenditures of Federal Awards, jointly with a nationally recognized accounting firm. In addition, it conducts or contracts with independent certified public accounting firms to perform audit and attestation engagements of State agencies; it performs periodic engagements of the financial records of county treasurers, municipal treasurers, county clerks of courts, magistrates, and municipal courts, and it performs audits of Medicaid service providers in accordance with the terms and conditions of our contract with the South Carolina Department of Health and Human Services (SCDHHS). The results of the audits of the State’s Basic Financial Statements and the Single Audit, and State agency engagements are communicated to the Governor, members of the Budget and Control Board, and the General Assembly upon issuance. In addition, the results of Medicaid service provider engagements are communicated to the SCDHHS and Medicaid service providers and the results of the Court engagements are communicated to the Judicial Department and State Office for Victims Assistance. All engagements are available to the general public via the agency’s webpage.

The activities of the Office of the State Auditor are directed by the State Auditor. The State Auditor is selected by the members of the State Budget and Control Board. The State Auditor is responsible for selecting and hiring personnel in conformity with the Appropriations Act to carry out the duties and responsibilities of the Office.

The responsibilities of the Office of the State Auditor can be found in Permanent Law, General Appropriation Act general provision and contractual agreements with state agencies. The following describes the duties and responsibilities of the Office of the State Auditor as follows:

Permanent Law:

- All State agencies and entities supported partially or entirely by public funds are subject to audit by or under the oversight of the State Auditor, except as otherwise specifically provided by law. The State Auditor, to the extent practicable and consistent with his overall responsibility, shall audit or cause to be audited each State agency and entity annually.
- Annually the State Auditor shall audit or cause to be audited the State’s Basic Financial Statements prepared by the Comptroller General of the State of South Carolina.
- Annually the State Auditor shall audit or cause to be audited the compliance of the State of South Carolina with the U.S. Office of Management and Budget (OMB) Circular A-133 as applicable to major Federal programs.
- To the extent practicable and consistent with his overall responsibility, the State Auditor periodically shall audit or cause to be audited the financial records of the county treasurers, municipal treasurers, county clerks of courts, magistrates, and municipal courts to report if fines and assessments imposed pursuant to Sections 14-1-205 through 14-1-208 are collected properly and remitted to the State Treasurer.

General Appropriations Act:

- The Office of the State Auditor shall ensure that state agencies receiving lottery funds have procedures in place to monitor expenditures of lottery funds and that monitoring procedures are effective.
- The Office of the State Auditor shall refer instances of fraud, waste, and abuse identified during any state agency audit to the State Inspector General. The State Auditor shall prepare and submit an annual report to the Chairmen of the House Ways and Means Committee and the Senate Finance Committee and the Governor detailing all written referrals of fraud, waste and abuse submitted to the State Inspector General.

AGENCY NAME:	Budget and Control Board – Auditor, Office of the State		
AGENCY CODE:	F270	SECTION:	102

- The State Auditor shall review and audit, if necessary, the financial structure and activities of each organization receiving contributions in this Act and make a report to the General Assembly of such review and/or audit, when requested to do so by the Budget and Control Board.
- The Office of the State Auditor must include agency accounts subject to Section 117.91 (GP: Bank Account Transparency and Accountability) as part of the review of engagements conducted or contracted by the Office of the State Auditor.
- The State Auditor is required to perform a minimum of fifteen (15) audits annually of county treasurers, municipal treasurers, county clerks of courts, magistrates and/or municipal courts as required by Section 14-1-210 of the 1976 Code and allowed by Proviso 118.5 of this Act. The State Auditor shall annually report by October 1 its findings of the jurisdictions audited to the Senate Finance Committee and the House Ways and Means Committee.

Contractual Agreement:

- The South Carolina Department of Health and Human Services (SCDHHS) contracts with the Office of the State Auditor to conduct Agreed-Upon Procedures engagements of Medicaid service providers to determine if the rate or amount of reimbursement to the provider complies with the South Carolina State Plan for Medical assistance; the applicable contract between SCDHHS and the Medicaid provider; and all applicable state and federal laws and regulations.

The Office of the State Auditor is limited in its ability to complete all legislative duties because of funding and staffing constraints. As a result, the Office of the State Auditor has prioritized its work as follows:

- **Priority 1 – Conduct the audit of the State’s Basic Financial Statements.** Section 96.2 of the Appropriation Act states, “It is the intent of the General Assembly that the State of South Carolina issue financial statements in conformance with Generally Accepted Accounting Principles (GAAP).” As the State Accounting Officer, the Comptroller General prepares the State’s Basic Financial Statements and submits the basic financial statements as part of the State’s Comprehensive Annual Financial Report (CAFR) to the Government Financial Officers Association’s (GFOA) Certificate of Achievement Program. It is important that the audit be completed timely because the CAFR provides both internal and external customers information about the State’s operations. The audit of the State’s Basic Financial Statements provides the Governor, General Assembly, management and governing bodies of State agencies, the financial community, and the general public a high level overview of the financial performance of the State for the fiscal year then ended.
- **Priority 2 – Conduct the audit of the State’s federal grant programs compliance of the State of South Carolina with the U.S. Office of Management and Budget (OMB) Circular A-133 as applicable to major Federal programs.** OMB Circular A-133 requires recipients of Federal funding to submit copies of the audit report within nine months after the end of the audit period. Circular A-133 provides the granting agency the following possibilities for sanctions when acceptable audits are not submitted in a timely manner: 1) withholding a percentage of awards until the audit is completed satisfactorily, 2) withholding or disallowing overhead costs, and 3) suspending the Federal assistance agreement until the audit is performed and submitted to the Federal Audit Clearinghouse. It is important that this engagement be completed timely to meet Federal reporting requirements.
- **Priority 3 – Conduct audits or Agreed-Upon Procedures engagements of State agencies.** Permanent Law states that the State Auditor, to the extent practicable and consistent with his overall responsibility, shall audit or cause to be audited each State agency and entity annually. The Office of the State Auditor considers the State agency engagements (Priority 3) and Medicaid provider engagements (Priority 4) of equal importance.

AGENCY NAME:	Budget and Control Board – Auditor, Office of the State		
AGENCY CODE:	F270	SECTION:	102

- Priority 4 – Conduct Agreed-Upon Procedures engagements of Medicaid cost reports filed by institutional providers of Medicaid services. Our contract with SCDHHS requires the Office of the State Auditor to perform an Agreed-Upon Procedures engagement of each nursing facility at least once out of every four consecutive cost reporting periods. The Office of the State Auditor considers the State agency engagements (Priority 3) and Medicaid provider engagements (Priority 4) of equal importance.
- Priority 5 – Conduct audits or cause to be audited the financial records of the county treasurers, municipal treasurers, county clerks of court, magistrates, and municipal courts to report if fines and assessments imposed pursuant to Sections 14-1-205 through 14-1-208 are collected properly and remitted to the State Treasurer. The Office of the State Auditor recognizes that the revenues generated from the remittance of court fines, fees and assessments is critical to funding the operations of several state agencies. The court engagements provide limited oversight because of funding limitations. However, engagements are selected based on (1) special requests made by the Office of the State Treasurer and (2) random selection. Therefore, the method of selection may be an incentive to county and municipal governments because they never know when they will be selected for audit.

Over the past two budget cycles the General Assembly has restored most if not all of the funding we lost during the economic downturn. This was accomplished in part by allowing the Office of the State Auditor to contract with an independent certified public accounting firm to conduct a joint audit of the State’s federal programs and bill State agencies their proportional share of the cost of the engagement. In addition the General Assembly allowed the Office of the State Auditor to bill SCDHHS and retain fifty percent of the costs incurred by the Office in conducting the medical assistance audit. These two changes have provided the Office additional resources to hire additional staff. During the past fiscal year we accomplished the following:

- The Office of the State Auditor and CliftonLarsonAllen, LLP completed the audit of the State of South Carolina in February 2014. While this was an improvement over the prior year the audit was still not completed on schedule, because the Office of the Comptroller was unable to provide the audit team with a final draft report until February. Delays in completing the audit of the State’s Basic Financial Statements affected our ability to complete the State’s Single Audit. Section 11-7-60 allows the Office of the State Auditor to bill State agencies the cost of contracting with a certified public accounting firm. The audit contract for fiscal year 2013 was \$353,000 which was allocated to and reimbursed by State agencies.
- The Office of the State Auditor and CliftonLarsonAllen, LLP completed the audit of the State of South Carolina federal programs in August 2014. The engagement was completed significantly sooner than the prior year engagement, but it was still submitted more than four months after the due date. To address the delays we have reassigned staff resources. In addition, we have hired eight new employees that have been assigned to State engagements. The reassignment of staff to state engagements and the additional staffing will allow the Office to begin the Single Audit sooner because we will not have to wait until the State’s CAFR engagement is completed before beginning this engagement. Section 102.1 of the fiscal year 2014 Appropriation Act allows the Office of the State Auditor to bill State agencies receiving federal funds subject to the audit requirements the cost of contracting with a certified public accounting firm. The audit contract for fiscal year 2013 was \$840,000 which was allocated to and reimbursed by State agencies.
- During the period October 1, 2013 through September 30, 2014, the Office of the State Auditor expects to conduct or contract with certified public accounting firms to conduct audit and Agreed-Upon Procedure engagements of the financial records of all but two state agencies for the fiscal year ended June 30, 2013. As of August 31, 2014, 72 engagements have been issued final or draft; 8 were

AGENCY NAME:	Budget and Control Board – Auditor, Office of the State		
AGENCY CODE:	F270	SECTION:	102

completed by Office staff and 64 engagements were completed by certified public accounting firms. In addition, staff completed nine fiscal year 2012 Agreed-Upon Procedures engagements that were started after and/or in-progress at September 30, 2013. The total cost of the contracted engagements was \$1,266,626 of which \$878,161 was paid by State agencies.

- The Office of the State Auditor issued 69 reports during the period July 1, 2013 to June 30, 2014 which covered 33 Medicaid Nursing Home providers. The reports identified adjustments to providers' interim reimbursement rate which resulted in net receivables due to the State and Federal government of \$5,109,052.
- The Office of the State Auditor reassigned staff from court engagements to assist with State agency engagements. Before reassignment, in-house staff completed seven court engagements. The Office contracted with a certified public accounting firm to conduct 14 court engagements. Seven reports were completed and issued by the certified public accounting firm by June 30; fieldwork was completed on four additional engagements before June 30, 2014, but reports were not issued until July 2014; the remaining three engagements were completed after June 30 and issued in August. Three of the eighteen engagements identified net underreported costs totaling \$363,622.

Agency Name: B&C - AUDITOR'S OFFICE

Agency Code: F27 Section: 102



Fiscal Year 2013-14
Accountability Report

Program

Program/Title	Purpose	FY 2012-13 Expenditures				FY 2013-14 Expenditures				Associated Objective(s)
		General	Other	Federal	TOTAL	General	Other	Federal	TOTAL	
I. Administration	Administrative support for audit programs, including accounting, budgeting, procurement, information technology, human resources, and other general administrative functions.	\$ 155,057			\$ 155,057	\$ 156,058			\$ 156,058	
II. Audits	The Office of the State Auditor performs the audits of the State's Basic Financial Statements and the Single Audit of the State's Schedule of Expenditures of Federal Awards. It conducts or contracts with independent certified public accounting firms to perform audit and attestation engagements of State agencies; it performs periodic engagements of the financial records of county treasurers, municipal treasurers, county clerks of courts, magistrates, and municipal court, and it performs audits of Medicaid service providers	\$ 1,744,293	\$ 1,605,599		\$ 3,349,892	\$ 1,999,783	\$ 2,331,282		\$ 4,331,065	All Goal 1-5 Objectives
III. Employee Benefits	Provides employee benefits for the staff of the State Auditor's Office	\$ 427,145	\$ 176,640		\$ 603,785	\$ 538,122	\$ 184,718		\$ 722,840	

Agency Name:

B & C - AUDITOR'S OFFICE

Fiscal Year 2013-14
Accountability Report

Agency Code:

F27

Section:

102

Strategic Planning

Type	Goal	Item # Strat	Object	Description
G	1			Audit the State of South Carolina's basic financial statements prepared by the Comptroller General. (11-7-20.b.)
S		1.1		Using internal staff and staff from an independent Certified Public Accounting (CPA) firm plan, conduct, and issue an opinion on the State's basic financial statements.
O			1.1.1	<i>Contract with an independent CPA firm to conduct a joint audit of the State's basic financial statement. The contract is generally rebid every five years. The contract is due to be rebid after the completion of the FY 2014 engagement.</i>
O			1.1.2	<i>Allocate internal and external staff resources to ensure that staffing is adequate and equitable.</i>
O			1.1.3	<i>Audit is completed In accordance with applicable auditing standards.</i>
S		1.2		Ensure the joint audit team is responsive to the needs of the staff of the Comptroller General's Office and management of other state agencies.
O			1.2.1	<i>Joint audit staff is readily available and responsive to Comptroller General staff.</i>
O			1.2.2	<i>Complete the audit and issue the report by Comptroller General's reporting deadline.</i>
O			1.2.3	<i>Complete the audit within the budgeted audit hours.</i>
G	2			Audit the State of South Carolina's Schedule of Expenditures of Federal Awards (SEFA) as mandated by the Single Audit Act Amendments of 1996. (11-7-20.c.)
S		2.1		Using internal staff and staff from an independent Certified Public Accounting (CPA) firm plan, conduct, and issue an opinion on the State's SEFA.
O			2.1.1	<i>Contract with an independent CPA firm to conduct a joint audit of the State's basic financial statement. The contract is generally rebid every five years. The contract is due to be rebid after the completion of the FY 2014 engagement.</i>
O			2.1.2	<i>Allocate internal and external staff resources to ensure that staffing is adequate and equitable.</i>
O			2.1.3	<i>Audit is completed In accordance with applicable auditing standards.</i>
S		2.2		Ensure the joint audit team is responsive to the needs of the staff of the management of state agencies that comprise the reporting entity.
O			2.2.1	<i>Joint audit staff is readily available and responsive to State agency staff.</i>
O			2.2.2	<i>Complete the audit and issue the Statewide Single Audit by March 31st.</i>
O			2.2.3	<i>Complete the audit within the budgeted audit hours.</i>
G	3			Perform audit and agreed-upon procedures engagements of the financial records of state agencies. (11-7-20.a)
S		3.1		Identify the State agencies that require audits for inclusion in the State's CAFR or other legislative requirements.

Agency Name:

B & C - AUDITOR'S OFFICE



Fiscal Year 2013-14
Accountability Report

Agency Code:

F27

Section:

102

Strategic Planning

Type	Goal	Item # Strat	Object	Description
O			3.1.1	Contract with an independent CPA firm to conduct audit of agency financial statement. Working with agency management rebid engagements every five years.
O			3.1.2	Perform limited reviews of agency engagements to ensure audits are completed timely and in accordance with auditing standards
S		3.2		Identify the State agencies that must be contracted because the agencies lack independence (State Auditor's Office, Budget and Control Board, Comptroller General's Office, Governor's Office, and State Treasurer's Office)
O			3.2.1	Contract with an independent CPA firm to conduct audit of agency financial statement. Working with agency management rebid engagements every five years.
O			3.2.2	Perform limited reviews of agency engagements to ensure audits are completed timely and in accordance with auditing standards
S		3.3		Identify the remaining State agencies; conduct attestation engagement.
O			3.3.1	Allocate available staff resources to maximize coverage of State agencies. If internal staff resources are not sufficient, use available budgetary resources to contract with independent CPA firms to conduct attestation engagements.
O			3.3.2	Ensure that engagements are conducted in accordance with attestation standards.
O			3.3.3	Complete engagements within budgeted hours
G	4			Perform agreed-upon procedures engagements of Medicaid cost reports filed by institutional providers of Medicaid services.
S		4.1		Allocate internal resources to plan and conduct agreed-upon procedure engagements to meet DHHS expectations.
O			4.1.1	Perform an agreed-upon procedure engagement of each Medicaid provider at least once every four years.
O			4.1.2	Ensure that engagements are conducted in accordance with attestation standards.
O			4.1.3	Engagements are completed within budgeted audit hours
O			4.1.4	Medicaid audit staff is readily available and responsive to the needs of DHHS staff.
G	5			Perform agreed-upon procedures engagements of the financial records of general sessions, municipal, and magistrate courts. (11-7-25)
S		5.1		Using resources provided by the General Assembly perform agreed-upon procedure engagements of general sessions, municipal and magistrate courts.
O			5.1.1	In consultation with the Office of the State Treasurer determine which engagements to schedule. (Proviso 118.B) If the Office of State Treasurer has no special requests randomly select which engagements to conduct.
O			5.1.2	Contract with an independent CPA firm to conduct agreed-upon procedures

Agency Name:

B & C - AUDITOR'S OFFICE



Fiscal Year 2013-14
Accountability Report

Agency Code:

F27

Section:

102

Strategic Planning

Type	Goal	<u>Item #</u> Strat	Object	Description
O		5.1.3	(Proviso 102.4)	Conduct agreed-upon procedures engagements of 15 court jurisdictions each year.
O		5.1.3		Ensure that engagements are conducted in accordance with attestation standards.

Agency Name: B & C - AUDITOR'S OFFICE

Agency Code: F27 Section: 102



Fiscal Year 2013-14
Accountability Report

Performance Measurement Template

Item	Performance Measure	Last Value	Current Value	Target Value	Time Applicable	Data Source and Availability	Reporting Freq.	Calculation Method	Associated Objective(s)
1	Completion of the Audit of South Carolina's Basic Financial Statements on time - number of days passed due date	0	0	0	July 1 - June 30	Internal Management Records - Available Continuously	Annual	Manual Count	1.1.1., 1.1.2.
2	Budgeted/Actual hours required to complete the Audit of South Carolina's Basic Financial Statements - percentage over/under budget	Budget - 4,848 Actual - 7,628 57.3% overbudget	Budget -5,582 Actual - 5,734 2.7% overbudget	0% overbudget	July 1 - June 30	Internal Management Records - Available Continuously	Annual	Calculated using Staff Time Reporting System and Budgeted Audit Hours	1.2.3.
3	Completion of the Audit of South Carolina's Schedule of Expenditures of Federal Awards on time - number of days past due date	339 days past due	The audit will be issued by September 30 - 183 days past due	0	March 31	Internal Management Records - Available Continuously	Annual	Manual Count	2.1.1., 2.1.2.
4	Budgeted/Actual hours required to complete the Audit of South Carolina's Schedule of Expenditures of Federal Awards - percentage over/under budget	Budget - 12,000 Actual - 12,525 4.4% overbudget	Budget -13,500 Actual - 11,700 13.4% underbudget	0% overbudget	March 31	Internal Management Records - Available Continuously	Annual	Calculated using Staff Time Reporting System and Budgeted Audit Hours	2.2.3.
5	State Agencies receiving agreed-upon procedures engagements - contracted or conducted with internal staff	33	61	63	July 1 - June 30	Internal Management Records - Available Continuously	Annual	Manual Count	3.3.1.
6	Budgeted/Actual hours of State agency engagements performed by internal staff - percent over/under budget	Budget -2,675 Actual - 3,533 32.1% overbudget	Budget -9,085 Actual - Not Available because engagements are still in progress	0% over budget	October 1 - September 30	Internal Management Records - Available Continuously	Annual	Manual Count	3.3.3.
7	State Agencies agreed-upon procedures engagements that were skipped and associated budget hours	29 (Budget Hours - 10,410)	2 (Budget Hours - 325)	0	July 1 - June 30	Internal Management Records - Available Continuously	Annual	Manual Count	3.3.1.
8	Percentage of Medicaid Providers examined and upon which a report was issued	2%	23%	25%	July 1 - June 30	Internal Management Records - Available Continuously	Annual	Manual Count	4.1.1.
9	Budget/Actual hours required to complete Medicaid provider engagements	Budget - 1,340 Actual - 1,539 14.8% overbudget	Budget -15,755 Actual - 16,278 3.3% overbudget	0% over budget	July 1 - June 30	Internal Management Records - Available Continuously	Annual	Manual Count	4.1.3.
10	Number of completed agreed-upon procedures engagements of the financial records of general sessions, municipal, and magistrate courts.	11	14	15	July 1 - June 30	Internal Management Records - Available Continuously	Annual	Manual Count	5.1.3.