South Carolina General Assembly

LEGISLATIVE AUDIT COUNCIL

ANNUAL ACCOUNTABILITY REPORT

FY 02-03

LAC

LEGISLATIVE AUDIT COUNCIL

South Carolina General Assembly

LEGISLATIVE AUDIT COUNCIL

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Independence
Reliability
Integrity

September 15, 2003

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, 2003. 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

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.

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.

Opportunities and Barriers

In FY 02-03, we began conducting periodic audits of the state lottery, as required by state law. These audits help ensure the integrity and efficiency that are necessary for the lottery to be successful.

Also, in FY 02-03, we began conducting follow-up reviews on the extent to which our recommendations have been implemented. We plan to continue these reviews to increase the likelihood that improvements in state government are made.

A decrease in agency funding has prevented the LAC from having an external quality control review conducted, as was planned for FY 02-03. This review will be conducted in FY 03-04.

Due to an inadequate number of staff, legislators must often wait six to nine months before we can begin work on an audit request.

Major Achievements

In FY 02-03, the Legislative Audit Council published six performance audits and five follow-up reports of state government programs. We made 110 recommendations and identified potential financial benefits of almost $32 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 02-03 are on pages 17 through 24.

Use of the Accountability Report

The process of developing annual Accountability Reports has helped us improve the LAC's operation in multiple areas. First, we developed a strategic plan, through which we have identified areas in need of improvement. Second, we initiated periodic surveys of our staff to measure their satisfaction with the organization. Third, we improved our process for recognizing employee performance. And fourth, we developed a measure of the timeliness of completing our audits.

Section II — Business Overview

Number of Employees   The LAC had 15 employees at the end of FY 02-03.

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

1331 Elmwood Avenue
Suite 315
Columbia, SC 29201

Base Budget Expenditures and Appropriations

Major Budget Categories	FY 01-02 Actual Expenditures		FY 02-03 Actual Expenditures		FY 03-04 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	$783,085	$783,085	$709,094	$709,094	$685,082	$685,082
Other Operating	120,223	120,223	110,200	110,200	110,783	110,783
Special Items						
Permanent Improvements						
Case Services						
Distribution to Subdivisions						
Fringe Benefits	197,046	197,046	187,629	187,629	182,124	182,024
Non-recurring						
TOTAL	**$1,100,354**	**$1,100,354**	**$1,006,923**	**$1,006,923**	**$977,989**	**$977,989**

Other Expenditures

Sources of Funds	Actual Expenditures	
	FY 01-02	FY 02-03
Supplemental Bills	$0	$0
Capital Reserve Funds	$0	$0
Bonds	$0	$0

Interim Budget Reductions

	FY 01-02	FY 02-03
Total	$75,942	$94,466

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.

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.

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.

Organizational Structure
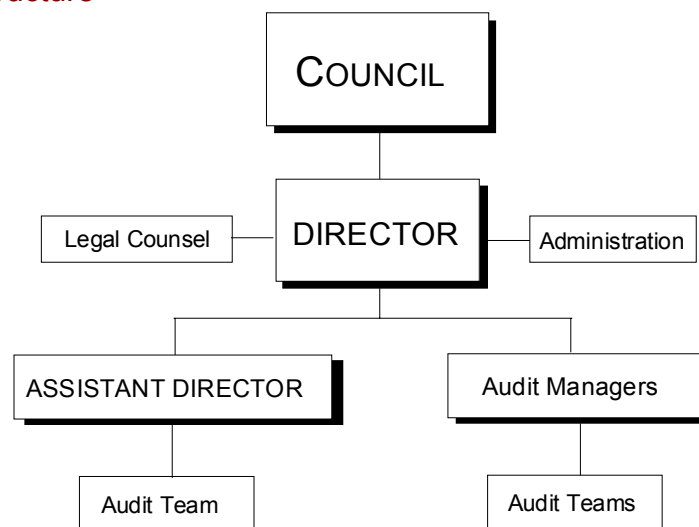
Section III — Elements of Malcolm Baldrige Award Criteria

Category 1 — Leadership

1.   How do senior leaders set, deploy, and communicate:

   a)   Short- and long-term direction?

   The LAC's short-term direction is established by the 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 2-25-10 *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 quality teams.
   - Input, both informally and formally, from the General Assembly.

   Long-term direction and policy are communicated at agency and audit team meetings and 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 communicated at agency and audit team meetings, 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 communicated at agency and audit team meetings, 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 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 communicated through audit and policy manuals, and during audit planning and 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 communicated at staff meetings, audit and policy manuals, and through a written personnel evaluation instrument.

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

Senior leaders have established a focus on customers by establishing written policies that require two-way communication with members of the General Assembly 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.   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.

4.   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 external quality reviews of LAC compliance with Government Auditing Standards, senior leaders have improved communication with audited agencies and have made the supervision of working papers a more structured process. An external quality review is scheduled for FY 03-04. Agency leaders use employee surveys as well as informal feedback to identify where organizational effectiveness can be improved. In FY 02-03, management established ad hoc staff committees which developed an employee recognition program and revised the methods by which we communicate with legislators.

5.   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.

6.   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.

7.   How do senior leadership and the agency 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

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

The process for developing the LAC's strategic plan includes meetings and informal discussions among senior leaders, auditors, and administrative staff. Also, the LAC has obtained advice from Nathan Strong, who works with the state Office of Human Resources in the Budget and Control Board.

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 the citizens of South Carolina. The plan is therefore aimed at developing systems to ensure that audit reports have accurate and unbiased information that can be used to reduce the cost and improve the performance of state government.

b)   Financial, societal, and other risks?

        The LAC's key strategic goals are to identify ways to reduce the cost and improve the performance of state government (see page 4).   State officials can reduce financial, societal, and other risks to citizens by implementing the LAC's recommendations.

c)   Human resource capabilities and needs?

        To ensure that the LAC attracts and retains qualified staff, the strategic plan requires that methods be developed to recognize employee performance. This was done in FY 02-03. The strategic plan also requires that staff compensation be reviewed, which will be done in FY 03-04. To ensure that staff skill levels are maintained after hire, the strategic plan requires ongoing training and evaluation.

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

        LAC senior leaders created an action plan and formed staff committees for accomplishing each of our organization's strategic objectives. Each committee is comprised of staff of various ranks and is chaired by a senior leader.

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

Strategic objectives, action plans, and performance measures are communicated internally through monthly status reports and at agency and team meetings.

4.	What are your key strategic objectives?

Our key strategic objective are:

- Develop a set of measures that accurately and reliably reflect the achievements of the LAC.
- Implement a "follow-up" process for determining the extent to which the LAC's recommendations have been implemented.
- Provide information to members of the General Assembly and legislative staff regarding the benefit, achievement, and value of LAC audits.
- Improve the timeliness of audit delivery.
- Retain qualified LAC staff members.
- Ensure that staff comply with continuing education requirements.
- Improve communication among LAC staff regarding job performance.

5.	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 not on our website. It will be included on our website during FY 03-04.

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.

3. 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 conversation.

4. How do you use information from customers/stakeholders to improve services or programs?

   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.

5. How do you measure customer/stakeholder satisfaction?

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

6. 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 — Information and Analysis

1. How do you decide which operations, processes, and systems to measure?

   Audit Results

   The primary process measured by the LAC is its audits and their impact on state government. To date, LAC has measured the:
   - Financial benefits *identified* in LAC audits.
   - Recommendations *made* in LAC audits.

Two additional audit results measurements will be initiated in FY 03-04:
- Financial benefits *realized* from LAC audits.
- Recommendations *implemented* from LAC audits.

These four measurements were selected to quantify the LAC's strategic goals of identifying ways to reduce the cost and improve the performance of state government. They were selected by LAC senior leaders, in conjunction with staff, based on similar measures used by the federal General Accounting Office.

The type of auditing the LAC does and the way it gets assignments make it difficult to quantify *objectives* or *benchmarks* 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. Therefore, to date we have not established targets for cost reduction or performance improvement.

Quality and Efficiency

The LAC also has quantified internal management objectives that it associates with audit quality and efficiency. These were determined by LAC senior leaders, in conjunction with staff. Below is a list of internal management objectives and targets established for FY 03-04:

- 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 30 days of their projected dates of publication.
- The LAC's costs will be limited to $57 per audit hour.

2. How do you ensure data quality, reliability, completeness, and availability for decision-making?

The LAC ensures the soundness of data (i.e. quality, reliability, completeness, and availability) 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.

3. 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. Also, in response to an employee survey of our staff, the LAC plans to initiate a study of the agency's pay levels in relation to comparable positions elsewhere.

4. 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 General Accounting 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 (see page 12).

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 coworkers.

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 uses the "Campbell Organizational Survey" to formally measure the views of staff every other year. This survey enables us to measure changes in the perceptions of staff across time. Informally, we assess employee well being, satisfaction, and motivation at regular agency and audit team meetings.

5.   How do you maintain a safe 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 is the extent of your involvement in 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 design and delivery processes (including such activities as needs assessments and efforts at continuous improvement) for products and services and how do you incorporate new technology, changing customer and mission-related requirements, into these design and delivery processes and systems?

The LAC's single program is conducting performance audits of state agencies and programs. The processes and systems that are required for us to complete audits successfully include determination of the needs of legislative customers and the views of LAC staff, and adherence to Government Auditing Standards such as independence, thoroughness, and accuracy.

The LAC uses multiple methods for ensuring that these processes and systems are carried out consistently and efficiently. 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 02-03, we updated our website by improving its design and adding a search function.

2.   How does your day-to-day operation of key production/delivery 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 02-03, 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 manager 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.

3.   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 General Accounting Office.

4.   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. Also, the LAC occasionally hires interns who are college and university students.

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. The director of the LAC is currently involved in a multi-agency effort to standardize and improve the quality of information maintained in the records archive maintained by the state.

Category 7 — Results

Summaries of Performance Audits Published in FY 02-03

AN ADMINISTRATIVE REVIEW OF THE DEPARTMENT OF COMMERCE (July 2002)
The LAC review of the department's administrative expenditures found that Commerce had not emphasized cost-effectiveness in its operations, and some expenditures of public funds were not authorized by law. The department spent $1.9 million on a lavish presentation center in a building not owned by the state, and it solicited funds for special events from organizations that might receive public subsidies from the department. The department's expenditures also highlighted the need for limits on lodging expenditures for state employees and a state contract

for airfare.   We also found that Commerce had not reported the full cost of operating and owning its aircraft. The department adequately responded to citizens' requests for public information, but there may be a need for increased disclosure.
Contact: Jane Thesing, Assistant Director

A REVIEW OF AGENCY RESTRUCTURING AND THE BUSINESS ENTERPRISE PROGRAM AT THE SOUTH CAROLINA COMMISSION FOR THE BLIND (July 2002)
We examined the issue of restructuring South Carolina Commission for the Blind (SCCB) and we reviewed the management of the commission's Business Enterprise Program (BEP). We found that there are several options for restructuring all or part of the commission's operations with the South Carolina Vocational Rehabilitation Department (SCVRD). This could lead to increased efficiency and lower cost without adversely affecting the quality of services provided to the blind and visually impaired.

There are approximately 110 blind vendors served through the BEP which gives blind vendors first priority in operating vending facilities in public buildings.   We found that the BEP program is not effective in helping blind individuals achieve self-sufficiency and that the funds spent on BEP could be better spent on general vocational rehabilitation services.
Contact: Perry Simpson, Audit Manager

FAMILY INDEPENDENCE CONTRACTS AND OUTCOMES: 2000 TO 2002 (October 2002)
We reviewed the use of welfare funds by the Department of Social Services (DSS) in contracting with outside organizations to provide services to low-income families. The department awarded 21 "sole source" contracts worth $35 million without obtaining competitive bids and without proving that the services were available from only one source. Many of these contracts did not specify the number and types of clients to be served, the desired client outcomes, or methods of payment.   In addition, we found that the number of welfare recipients in South Carolina increased 24% from January to December 2001. The department may not be allocating enough of its funding to employment support services, such as transportation and child care. DSS has also not incorporated performance measurement into the management of its welfare program.
Contact: George Schroeder, Director

SOUTH CAROLINA HEALTH AND HUMAN SERVICES AGENCIES: A REVIEW OF NON-MEDICAID ISSUES (January 2003)
We reviewed the eight health and human services agencies assigned to the health, human services, and Medicaid budget subcommittee of the House Ways and Means committee and found that similar services are often provided by multiple agencies with no central point of accountability for their performance. Senior and long term care programs, programs for emotionally disturbed children, addiction treatment services and rehabilitative services are areas where multiple agencies provide similar services. We recommend consolidating programs into fewer agencies under the authority of a single cabinet secretary. The audit also reviewed collection of revenues due from clients and found that the Department of Mental Health and the Department of Health and Environmental Control made inadequate efforts to collect. We recommended increased use of Department of Revenue debt collection programs.   The audit also found that the Department of Social Services has not always verified client assets for applicants to the family independence program. Also, although performance measures reported

were generally based on national benchmarks, performance data that agencies collected from their regional offices was not always consistent or reliable.
Contact: Jane Thesing, Assistant Director, and Priscilla Anderson, Audit Manager

OPTIONS FOR MEDICAID COST CONTAINMENT (January 2003)

We reviewed options for reducing the cost of the state's Medicaid program, which provides government-funded health insurance to low-income children and elderly adults as well as low-income disabled persons of all ages. In FY 01-02, South Carolina's total Medicaid expenditures exceeded $3.6 billion, including $1.1 billion in state funds and $2.5 billion in federal funds. We found that the state could have saved about $17.5 million by limiting the enrollment of adult clients and by limiting reimbursement for prescription drugs to those on a list developed by the state.   By increasing fees and co-payments charged to clients, the state could have increased revenues by more than $4.6 million. By improving debt collection, the state could have increased revenues by more than $300,000.
Contact: George Schroeder, Director

A REVIEW OF THE PUBLIC SERVICE COMMISSION (February 2003)

We reviewed the Public Service Commission (PSC) to determine if it was following the due process requirements in cases before the commission. We also examined the issues of commissioner qualifications and agency structure. We found several instances in which the PSC may have violated the prohibition on ex parte communications found in the Administrative Procedures Act. Ex parte occurs when one party communicates with a decision maker to the exclusion of other parties.

Also, there is a need for a separate staff for commissioners in order to provide them with sufficient expertise and to address concerns about potential ex parte communications. There are no minimum education or experience requirements to become a PSC Commissioner and commissioner terms are not staggered.
Contact: Perry Simpson, Audit Manager

Summaries of Follow-Up Reviews Published in FY 02-03

FOLLOW-UP REVIEW OF THE HIGHER EDUCATION PERFORMANCE FUNDING PROCESS (June 2003)

This follow-up found that the legislative changes recommended in our June 2001 audit have not yet been implemented. The law still requires funding for higher education to be determined solely on the basis of performance, when in actuality, during the past two years, performance scores have had a negligible effect on funding. Appropriations for higher education have decreased and no new funds have been available. The Commission on Higher Education addressed two of the three recommendations in our audit dealing with the performance measurement system and controls over grant awards.
Contact: Jane Thesing, Assistant Director

FOLLOW-UP REVIEW OF THE DEPARTMENT OF EDUCATION'S ADMINISTRATION OF THE COMPREHENSIVE HEALTH EDUCATION ACT (May 2003)

After our November 2001 audit, the Department of Education improved its administration of the Comprehensive Health Education Act. The department implemented better controls over its grants in the healthy schools program and terminated agreements with a non-profit organization which had charged an excessive rate for indirect costs. The department also improved its efforts to ensure that school districts comply with the act and addressed 10 of 11 recommendations in the audit.

Contact: Jane Thesing, Assistant Director

FOLLOW-UP REVIEW OF THE STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY'S LOW-INCOME HOUSING TAX CREDIT PROGRAM (June 2003)

The State Housing Authority has implemented the eight recommendations in our September 2001 review of the low-income housing tax credit program. Agency officials conduct inspections to ensure that developers use certain materials during construction. In addition, the agency has taken steps to ensure that developers report on the status of their tax credit projects and maximize the use of credits.

Contact: Priscilla Anderson, Audit Manager

FOLLOW-UP REVIEW OF COST SAVINGS STRATEGIES FOR THE SOUTH CAROLINA MEDICAID PROGRAM (June 2003)

In October 2001, we recommended three strategies through which the South Carolina Department of Health and Human Services (DHHS) could reduce the cost of the state's Medicaid program, which provides government-funded health insurance to low-income children and elderly adults as well as low-income disabled persons of all ages. First, we recommended that DHHS determine the feasibility of expanding managed care in lieu of a fee-for-service system. Second, we recommended that DSS expand a program in which Medicaid funds are used to pay non-Medicaid health insurance premiums for Medicaid-eligible persons who have employer-provided health insurance. In our follow-up, we found that DHHS was in the process of examining both of these issues. Third, we recommended that DHHS examine for potential cost savings its contract under which the Department of Social Services determines the Medicaid eligibility of potential clients. In our follow-up, we found that the General Assembly had transferred direct responsibility for determining Medicaid eligibility from DSS to DHHS. The cost incurred by DHHS to determine Medicaid eligibility in FY 02-03 was between $2.6 million and $5 million less than the cost incurred by DSS in FY 99-00.

Contact: George Schroeder, Director

FOLLOW-UP REVIEW OF COMPETITION FOR THE DEPARTMENT OF TRANSPORTATION'S ROAD PAVING CONTRACTS (June 2003)

The Department of Transportation (DOT) has taken steps to implement the recommendations contained in our December 2001 report. DOT has implemented or is in the process of implementing all six recommendations. DOT has revised or is in the process of revising several policies dealing with the bidding out of construction projects. DOT also is in the process of implementing a system for conducting regular analysis of bidding patterns for evidence of anti-competitive behavior.

Contact: Perry Simpson, Audit Manager

Performance Measures

1.   What are your performance levels and trends for the key measures of customer satisfaction?
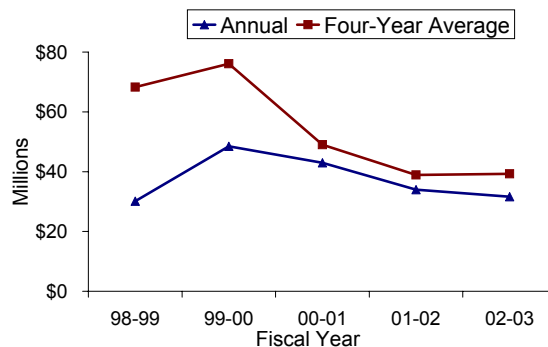
LEGISLATORS SATISFIED WITH QUALITY OF AUDITS
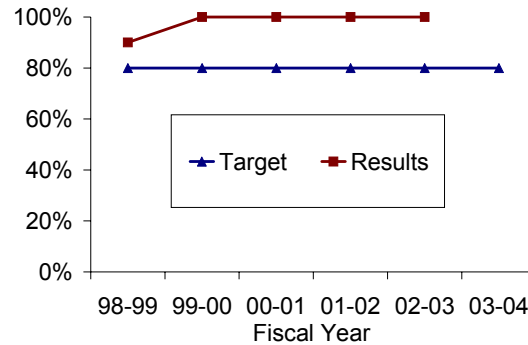
	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Target	80%	80%	80%	80%	80%	80%
Results	90%	100%	100%	100%	100%	

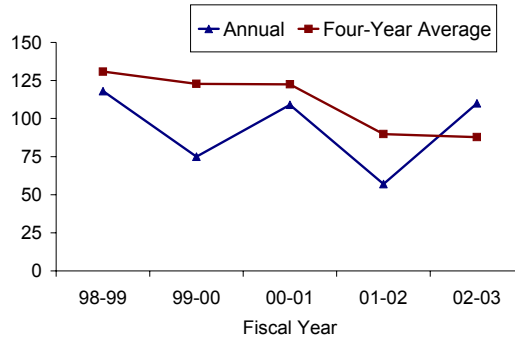2.   What are your performance levels and trends for the key measures of mission accomplishment?

FINANCIAL BENEFITS IDENTIFIED*

	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Annual	$30.1 million	$48.5 million	$43 million	$34 million	$31.6 million	
Four-Year Average	$68.3 million	$76.1 million	$49 million	$38.9 million	$39.3 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 12,13.

NUMBER OF RECOMMENDATIONS*

	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Annual	118	75	109	57	110	
Four-Year Average	130.8	122.8	122.5	89.8	87.8	

* 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 12,13.

3. What are your performance levels and trends for the key measures of employee satisfaction, involvement, and development?

LAC SCORE ON EMPLOYEE SATISFACTION SURVEY COMPARED WITH ORGANIZATIONS NATIONWIDE*

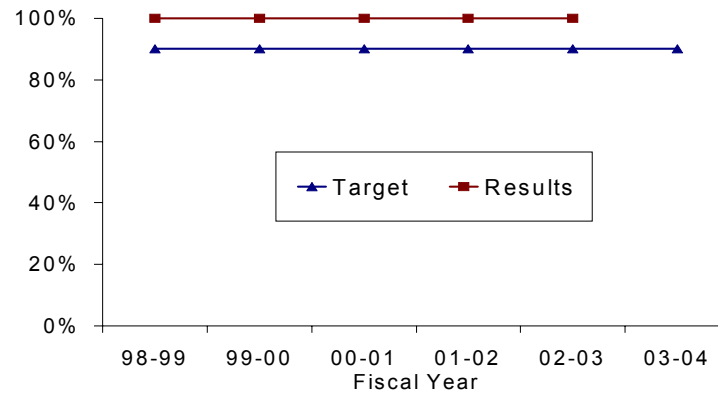|	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Target				55th Percentile		55th Percentile
Results				48th Percentile		

* This performance measure was initiated in FY 01-02. The employee satisfaction survey will be administered every other year.

AUDITORS WITH MINIMUM TRAINING HOURS

	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Target	100%	100%	100%	100%	100%	
Results	100%	100%	100%	100%	100%	

4. What are your performance levels and trends for the key measures of supplier/contractor/ partner performance?

AUDITORS WITH GRADUATE DEGREES OR PROFESSIONAL LICENSES

	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Target	90%	90%	90%	90%	90%	90%
Results	100%	100%	100%	100%	100%	

5. What are your performance levels and trends for the key measures of regulatory/legal compliance and citizenship?

THREE-YEAR PEER REVIEW*

	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Target			Pass			Pass	Pass
Results			Passed			NA	

* A decrease in agency funding prevented the LAC from having an external quality control review conducted in FY 02-03, as was planned. This review will be conducted in FY 03-04.

6. What are your current levels and trends of financial performance?

COST PER DIRECT AUDIT HOUR *

	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Target				$55	$55	$57
Results				$53.56	$55.21	

* This performance measure was initiated in FY 01-02.

AUDITS PUBLISHED ON TIME *

	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Target				80%	80%	80%
Results				0%	67%	

* 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.