

REPORT TO
MEMBERS OF THE FOURTH STATE LEGISLATURE

MANUAL OF GUIDES
OF
THE OFFICE OF THE LEGISLATIVE AUDITOR

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PREFACE TO MANUAL

Generally

The primary function of the office of the legislative auditor is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

To carry out this function, the office of the legislative auditor performs various activities which are grouped under four major program categories:

- . Audits
- . Legislative services
- . Miscellaneous services
- . General office support.

Briefly and generally, audits are in-depth, detailed examinations of the agencies' systems and operations. Legislative services are work, other than audits, the performance of which is of direct benefit to the legislature (e.g., annual reports, staff services, bill drafting). Miscellaneous services consist of tasks performed at the request of persons outside the legislature (e.g., supplying information to civic groups, assisting the Legislative Reference Bureau). General office support consists of all matters of intra-office concern (e.g., in-service training).

This manual compiles the several guides published by the office of the legislative auditor to aid its staff members in understanding the scope and purpose of each program category and the programs included therein and in the performance of their duties required by the programs.

Definitions

Except as otherwise clearly indicated by the context, as used in the various guides and in this office:

"A Fortiori analysis" means an examination to determine how well an alternative favored by a cost-benefit analysis holds up, if all of the major uncertainties are resolved in favor of another alternative which is strongly favored by intuition.

"Accrual accounting" or "accrual method of accounting" means that system of accounting in which revenues and expenditures are recognized when earned or incurred, regardless of when revenues are actually received or when payments are actually made. An accrual accounting system reflects an entity's total proprietary rights. Thus it reflects as assets all properties and rights which the entity owns or to which it has a rightful claim (such as receivables from debtors, costs paid in advance, etc.); it reflects as liabilities all legal claims against the entity (such as the right to payment for goods delivered and services rendered).

"Allotment procedure" means that method by which the director of budget and finance makes available to any agency for expenditure the sums of money appropriated by the legislature to the agency, pursuant to the provisions of the State Constitution and chapter 35, Revised Laws of Hawaii 1955, as amended.

"Alternative" means a possible means or solution by which an objective can be attained.

"Appropriation" means legislation permitting a government entity to commit or obligate the government to certain expenditures of public funds.

"Assumption" means the probable nature and condition of the environment in which the action will occur.

"Audit" means an in-depth, detailed examination of an agency's systems and processes.

"Bayesian statistics" means that technique by which subjective forecasts are translated into mathematical probabilities. Statisticians traditionally base probabilities on empirical research. Where there are no empirical probabilities available, Bayesian statistics uses best estimates as if they were firm probabilities.

"Benefit-cost ratio" means an economic indicator of efficiency, computed by dividing benefits by costs. Usually, both the annualized benefit stream and the cost stream are discounted so that the ratio reflects efficiency in terms of the present value of future benefits and costs.

"Break-even analysis" means an examination to determine the point at which one alternative is superior to another.

"Break-even point" means that point at which the total costs associated with an alternative are exactly matched by the benefits (or returns) generated by that alternative, leaving no gain of benefits over costs.

"Budget" means a financial plan for the accomplishment of objectives within a definite time period including an estimate of resources required together with an estimate of resources available, usually compared with one or more past periods.

"Budget process" means the procedure followed in the formulation, justification and execution of the responsibilities of a governmental entity within the legislation provided by the legislature and the direction of the governor.

"Cash accounting" or "cash method of accounting" means that system of accounting in which revenues and expenditures are recognized when actually received or actually paid. A cash accounting system does not reflect as income and assets, revenue accrued, but uncollected, and does not reflect as expenses and liabilities debt incurred, but unpaid.

"Chain of command" means an established conduit based upon ascending and descending organizational levels through which commands, responses and communications flow among superiors and subordinates. Also known as "channels of communication."

"Common costs" means costs which will be incurred in the same amount regardless of which alternative course of action is taken.

"Conditional utility" means the utility value of a consequence of an act under a given event.

"Conditional value" means the consequence of an act under a given event. When the consequence is measurable in dollars, it is known as "conditional monetary value."

"Consistent classification" means the classification of several systems, e.g., budget, programming, accounting, reporting, so that data generated are consistent with and can be related to each other.

"Consumer sovereignty" means the conception that consumers control economic life. If prices are higher than what consumers will pay, demand will slacken and prices will fall; if prices are low, consumers will buy and thereby provide an incentive to producers to satisfy consumer wants at a profit. In such a way, the consumer is the ultimate ruler of economic life through his control of the market.

"Consumption" means the utilization of services or material goods for the gratification of human desires.

"Contingency analysis" means an examination to determine how the ranking of the alternatives under consideration holds up when a relevant change in criteria for evaluating the alternatives is postulated or a major change in the general environment is assumed.

"Correlation analysis" means a statistical technique which relates a dependent variable to one or more independent variables in order to determine the closeness of their relationship. When more than one independent variable is involved, the relationship is called multiple correlation. See also: regression analysis.

"Cost-benefit analysis", "cost-effectiveness analysis", and "cost-utility analysis", although there are technical differences, are used interchangeably and mean a systematic examination designed to define objectives and to identify that alternative which yields the greatest benefits or effectiveness for any given cost, or which yields a specified amount of benefits or effectiveness for the least cost. The primary ingredients of such analysis are: (1) objectives--that is, end-results which are desired; (2) alternative means or systems whereby the objectives may be attained; (3) data as to costs (resources) required of each alternative; (4) identification of the (outputs or effectiveness) to be derived from each alternative; (5) a comparison of the alternatives in terms of the quantified costs and benefits of each; (6) a model to aid in analysis; and (7) a criterion for choosing the preferred alternative. The term "cost-benefit analysis" usually applies to situations in which the outputs can be quantified in dollars; and the term "cost-effectiveness analysis" usually applies to situations in which the outputs cannot be easily quantified in dollars.

"Cost category" means a major grouping of costs associated with a program or system. For system analysis purposes, there are three major cost categories: research and development; investment; and operations.

"Cost curve" means a graphical representation of the relationship of cost to another variable, such as output. It is conventional to construct these curves with costs along the vertical axis and the related variable along the horizontal axis.

"Cost element" means one of the primary components of a cost category. For example, the cost category "operations costs" includes among other elements, the following: personnel cost, supply cost, maintenance cost.

"Cost estimating relationship" (CER) means a mathematical expression that describes, for estimating purposes, the cost of an item or activity as a function of one or more independent variables. This form may vary from simple linear relationships to more complex forms. For example, $Cost = a + bx$ where x is an independent variable and a and b are parameters whose values are to be determined from the data available.

"Cost information control" means a system by which incremental costs can be accumulated and assembled to assure maintenance to total program costs within authorized limits.

"Criteria to measure effectiveness" and "effectiveness measures" mean the standards or units by which progress in the attainment of an objective is to be measured.

"Cross-walk" means a reconciliation of the program structure with organizational, accounting and appropriations structures, where the latter are different from the program structure. For example, a cross-walk between the program structure and the organizational structure identifies the link between the programs and the organizational units which are responsible for the performance of the programs.

"Demand" means the amount of a good or service that will be purchased if offered over a given range of prices at a particular point in time. More appropriately "demand schedule."

"Depreciation" means a reduction in the value of assets, usually because of wear, aging, obsolescence, etc. Depreciation accounting is a system of accounting which aims to distribute in a systematic and rational manner the cost or other recorded value of tangible capital assets, less salvage value, over the estimated useful life of the assets. Such accounting is a process of allocation, not of valuation.

"Diminishing marginal utility" means as consumption of a good is increased, a point is reached where each additional unit provides less and less utility.

"Diminishing returns" means the rate of yield which beyond a certain point fails to increase in proportion to additional investments.

"Discount rate" means the rate at which discounting is accomplished.

"Discounting" means reducing some future amount of money to a present value at some appropriate rate, in accordance with the concept of the time value of money.

"Divisibility of consumption" means goods may be classified in terms of consumption as:

"Completely divisible": a unit of the good or service may be completely consumed by a single person with no benefit from this consumption accruing to anyone else, e.g., an apple, an automobile, etc.

"Partially divisible": a good or service which cannot be consumed by one person without other persons benefitting to a greater or lesser degree, e.g., treatment for communicable disease, elementary education, etc.

"Completely indivisible": goods or services which cannot be consumed by one person and the benefits of consumption cannot be avoided, e.g., national defense.

"Economy" means the use of resources efficiently or without waste, loss or extravagance.

"Effectiveness" means the relationship between action and the ends sought. When a specific desired end is attained, action that brought that about is "effective."

"Efficiency" means the comparative relationship between inputs and outputs. The more units of outputs are obtained from a given input, or the less inputs required to attain a given output, the more efficient is the machine or process.

"Encumbrance" means an ear-marking or setting aside of certain sums of money from an appropriation for payment in the future for a particular purpose.

"Expected utility" or "expected utility value" means the sum of the utility values of an act under mutually exclusive and collectively exhaustive set of events, each utility value being weighted by the probability of the occurrence of the event.

"Expected value" means the sum of the consequences of a given act under mutually exclusive and collectively exhaustive set of events, each consequence being weighted by the probability of the occurrence of the event. When the consequences are measurable in dollars, the sum of the consequences are known as "expected monetary value."

"Externalities" or "external consumption" means consumption and associated benefit derived by one who does not participate directly in consumption, e.g., one might benefit from the increased economic activity in a region with a highly skilled workforce without having consumed advanced technical training. Consumption may also be of negative value--e.g., smog--the important point is that in external consumption, payment cannot be directly extracted from the benefited parties or compensation enforced on behalf of the injured parties. See also: spillover.

"Financial plan" means a written document, presented in tabular form and in accordance with the program structure, which spells out on a multi-year basis the financial requirements (costs or resources in dollars) to attain the specified outputs for each program.

"Fixed benefit approach" means that approach in cost-benefit analysis, cost-effectiveness analysis and cost-utility analysis in which the desired level of benefit, effectiveness or utility is fixed, and the optimum solution is least or minimum cost.

"Fixed budget approach" means that approach in cost-benefit analysis, cost-effectiveness analysis and cost-utility analysis in which the budget or resource availability is fixed, and the optimum solution is maximum benefit, effectiveness or utility.

"Fixed costs" means costs which will be incurred regardless of whether or not any course of action is taken; costs which will be incurred independently of output.

"Goal" means a broad statement of purpose expressing profound and desirable social, scientific, political or economic conditions toward the achievement of which government attention should be directed.

"Gross national product" (GNP) means the total market value of all final goods and services produced in the Nation in one year. The GNP was about \$443 billion in 1957 and about \$785 billion in 1967.

"Incremental benefit," "incremental return" and "incremental revenue" mean the additional benefits, returns or revenues which will be derived by the production of additional units of output.

"Incremental costs" means the additional costs to be incurred in the production of additional units of output.

"Indifference curve" means a graphical representation of alternative combinations of two variables that are related to a constant value of a third variable. The slope of an indifference curve is known variously as "the marginal rate of substitution," "the substitution ratio," and "the relative marginal utility ratio." See also: iso-quant curve.

"Inputs" means resources utilized in a program effort to achieve specified outputs; inputs include money, manpower, land, material, equipment, etc.

"Internal control" means a method of checks and balances to assure that directives are properly and effectively carried out.

"Internal rate of return" means the interest rate which, when used to discount future costs and benefits to the present, results in an equality of costs and benefits. Proposed public investment projects may be ranked by their internal rate of return (IRR) for decision-making purposes provided the projects are not mutually exclusive. Ranking projects in this manner implies that funds produced by the projects are reinvested at the IRR. The IRR must be compared with some minimum discount or interest rate before a decision to invest or not to invest can be made. The IRR is also referred to as the interest rate of return, the marginal efficiency of capital, and project yield. See also: present value.

"Inter-systems analysis" means a comparison of alternative programs or systems to achieve a desired end-result.

"Intra-systems analysis" means a comparison of alternative configurations or make-up of a program or system. This examination is often referred to as "trade-off analysis", since time, cost, and other factors within a single program or system are "traded-off" to determine the optimum combinations under various assumptions.

"Investment costs" means costs beyond the development phase to introduce a new program or system into use, and includes capital expenditures. Such costs are essentially one-time costs.

"Iso-quant curve" means an indifference curve showing the different combinations of two factors of production that will yield the same physical output.

"Life cycle costs" means all costs to be incurred during the life of a program or system prescribed by an alternative, including the cost of developing the program or system, the cost of commencing the program or system, and the cost of operating it.

"Linear programming" means a technique for optimizing the allocation of scarce resources when the relationships among the factors bearing on the problem are essentially linear (that is, if the variance in one factor is proportional to the variance in another.)

"Macroeconomics" means the division of economics which deals with aggregates--total income, total output, total employment, the general price level, the general level of wages, etc. Macroeconomic analysis may also be referred to as aggregate economic analysis or income and employment theory. See also: microeconomics.

"Major program studies" means a comparison of alternative combinations of programs or systems within a major program category to determine the optimum combinations under various assumptions.

"Management information" means a formalized system of presenting information required for managerial decision-making. The information generated and arranged is dependent on an analysis of the decisions actually made at each level and the data required for intelligent choice.

"Marginal analysis" means the process of identifying the benefits or costs of alternative behaviors as unitary changes in the alternative variables occur and equalizing the benefit-cost ratios to form a point of indifference (trade-off) for decision-making purposes. See also: indifference curve.

"Marginal benefit", "marginal return", and "marginal revenue" mean the benefit, return or revenue which will be derived by the production of one additional unit of output.

"Marginal cost" means that additional cost which will be incurred to produce an additional or the next unit of output.

"Marginal utility" means the change in total utility due to a one unit change in the number of goods and services consumed; e.g., the additional satisfaction that a purchaser derives from buying an additional unit of a commodity or service.

"Marginal value" means the desirability of the last unit of a good consumed.

"Microeconomics" means the division of economics which is concerned with the income of a firm, the output of a firm or single industry, the price of a single commodity or service, the wage rate of an individual worker, or the wage bill of one firm or industry. PPBS and systems analysis draw heavily upon the analytic tools of microeconomics. See also: macroeconomics.

"Model" means a schematic representation of the relationships that define a situation under study. A model may be mathematical equations, computer programs, or any other type of representation, ranging from verbal statements to physical objects. Models permit the relatively simple manipulation of variables to determine how a process, object, or concept would behave in different situations.

"Modified cash basis of accounting" means that system of accounting in which revenues are recognized when actually received and expenditures are recognized when actually paid or incurred. It also reflects encumbrances. It is in essence the cash method of accounting, except for the inclusion of debts incurred as expenditures and the reflection of encumbrances.

"Objective" means a statement of the end result or product or state of condition desired, for the accomplishment of which a course of action is to be taken.

"Objective function" means the measure of effectiveness used in linear programming models which is to be maximized or minimized. In business the objective function may be profit; in government agencies the objectives may be minimization of costs or maximization of program output with given costs. See also: linear programming.

"Operations costs" means recurring costs of operating, supporting and maintaining the program or system, including costs for personnel, maintenance, supply, etc.

"Operations research" (OR) means the use of analytic methods adopted from mathematics and other disciplines for solving operational problems. Among the common techniques used in operations research are: linear programming, probability theory, information theory, Monte Carlo methods and queuing techniques.

"Opportunity cost" means the return or benefit that the resource could earn in its next best alternative use; that is, the return or benefit which is foregone by a commitment of the resource to a particular use.

"Opportunity loss" means the difference between the benefits received by taking a particular course of action and the benefits which could have been received by taking the next best alternative course.

"Output: means an end-product (or an intermediate product which leads to an end-product), resulting from a program effort.

"Output measure," "output index," and "output indicator" mean the standard or unit by which the quantity or volume of the output or the magnitude of the program is to be measured. (For example, number of degrees granted; gallons of water consumed; number of persons receiving training who are employed; percent of children vaccinated; etc.). (Note: not to be confused with the terms "benefit" and "criteria to measure effectiveness.")

"Output plan" means a written document, presented in tabular form and in accordance with the program structure, which spells out on a multi-year basis the expected program outputs of each program.

"Parameter means a characteristic element or constant factor; an arbitrary constant each of whose values characterizes a member of a system.

"Pareto optimum" or "pareto criterion" or "economic efficiency" means the condition where the level of consumption of no individual in society may be increased without reducing the level of consumption of another individual.

"Payback period" means the length of time required for the stream of net cash proceeds produced by an investment to equal the original cash outlay required by the investment. One of several project evaluation methods. Generally considered by analysts to be inferior to the present value method because it ignores project benefits and costs once the cash outlay for the investment has been recovered. Also called payoff period.

"Point of diminishing returns" means that point beyond which the rate of yield fails to increase in proportion to additional investments.

"Population" means, in statistics, the total collection from which a sample is to be drawn. Sometimes referred to as the universe.

"Present value" means the amount of money, which, if invested immediately at a given rate, would yield one or more future payments, reflecting the increased value of the investment in accordance with the time value of money; the value of a future stream of payments discounted at a given rate to the present time. In short, it means the value today of money to be paid or received in the future.

"Price" means revenue derived in exchange for one unit of a good or service.

"Price theory" means a formulation for deriving the price and amount of a good that should be provided in order to produce the maximum net income. Production is set at a point where marginal revenue and marginal cost curves intersect. These

curves are derived from the demand for the good or service and the cost of production.

"Probability" means the chance of an event happening. (It may be used interchangeably with "probability factor" or "probability index.") Probability may be objective or subjective. It is objective when there is a definitive historical evidence and common experience to support an estimate of the probability; it is subjective when such historical evidence is lacking and the decision-maker must rely on his own judgment as to the estimate of the probability.

"Probability factor" and "probability index" mean a quantitative expression of the chance of an event happening-- the ratio of the number of outcomes that would produce a certain event to the total number of possible outcomes.

"Process" means a series of actions leading to a particular end. (Where the context permits, the use of the word "process" includes "system.")

"Program" means a planned undertaking, requiring a combination of resources, designed to produce results which contribute to the attainment of a specified objective.

"Program category" means a major mission of an agency, consisting of groups of programs which serve the same broad objective or which have generally similar objectives.

"Program element" means a subdivision of a program subcategory, comprising the specific products that contribute to the agency's objective. Each program element is an integrated activity, requiring a combination of resources. In the absence of program subelements, a program element is the smallest unit of integrated activity.

"Program measurement" means the means by which the progress of programs are evaluated in relation to the objectives established.

"Program memorandum" means a written document in narrative form, prepared separately for each program category or program subdivision as appropriate, which contains an agency's program recommendations and serves as a backup for the agency's financial and output plans. It summarizes relevant information on objectives, effectiveness, cost of alternatives considered and the supporting analyses.

"Program structure" means an organized assembly of all of an agency's programs in such a fashion that outputs of goods and services essential to meet its various objectives are discernible. A program structure consists of a hierarchical breakdown, grouping, and ordering of the total work of an agency. In many instances, the outputs or end-products may in fact be intermediate products, especially from the point of view of the next higher level in the decision-making hierarchy.

"Program subcategory" means a subdivision established within each program category, combining agency programs on the basis of narrower objectives contributing directly to broad objectives for the program category as a whole.

"Program subelement" means a subdivision of a program element and constitutes the smallest unit of integrated activity requiring a combination of resources.

"Regression analysis" means the association of one or more independent variables with a dependent variable. Under static conditions the analysis is called correlation. When used for predictive purposes, it is referred to as regression. The relationships are associative only, causative inferences are added subjectively by the analysts.

Where only one independent variable is used the technique is known as simple regression and takes the form of a regression line of the equation:

$$y = a + bx$$

When more variables are added, a dimension is added with each variable, making graphical representation impossible beyond

two independent variables. However, the general analysis is the same for multiple regression, taking the general equation form:

$$y = a + bx_1 + cx_2 + dx_3 + \dots + zx_n$$

For effective regression analysis to be undertaken, the data base must meet certain requirements.

"Relevant costs" means costs which are pertinent to the case at hand. The relevance of costs is determined by the purpose for which they are to be used. For example, in comparing one alternative program with another, both of which are intended to attain a common end-result, relevant costs are the incremental, variable costs--sunk, fixed and common costs are "irrevelant".

"Research and development costs" means costs primarily associated with the development of a new program or system to the point where it is ready for introduction into operational use (including the costs for prototype equipment and test vehicles and devices). These costs are generally one-time costs.

"Responsibility centered cost-based operating budgets" means formation of a budget to facilitate the relationship of inputs to outputs and to identify organizational or individual responsibility for results.

"Review" means a running account, interspersed with spot checks, of an agency's systems and processes.

"Risk" means "measurable uncertainty" per the economist Frank Knight. In decision theory, the distinction is made that risk is measurable while uncertainty is not. In situations of risk, the probabilities associated with potential outcomes are known. The term "risk" may be associated with situations of repeated events, each individually unpredictable but with the average outcome highly predictable. In situations of uncertainty, the probabilities are not known.

"Sampling" means a small part or a single item selected for inspection or analysis as to the quality of the whole or of the group from which the part or item is selected.

"Scalar process" means the process by which an organization is divided into verticle levels of authority, and duties assigned to organizational units in a hierarchial arrangement.

"Secondary benefits" means benefits from a project that accrue indirectly to an external entity. An example of derived secondary benefits is the increased net income of farmers and others from processing, transporting, and selling products in the area of a Bureau of Reclamation project. An example of an induced secondary benefit resulting from the project would be the net income of a new plant that located in the project area solely because of the project.

"Sensitivity analysis" means an examination to determine what variations in consequences (either costs or gains) might occur, if the key parameters or assumptions of a cost-benefit analysis are varied.

"Simulation" means an act or process under test conditions to reproduce phenomena likely to occur in actual performance.

"Social opportunity cost discount rate"(SOC) means a discount rate used to measure the value to society of the next best alternative uses to which funds employed in a public investment project might otherwise have been put by taxpayers. In a perfectly competitive economy the cost of such funds would be represented by the market rate of interest. Some economists believe that evaluations of proposals for government projects require that future costs and benefits be discounted at a discount rate which reflects both the social time preference rate and the productivity of funds in private investment.

"Social time preference rate" (STP) means a discount rate which is used to assign current values to future consumption and which, however it may be computed, theoretically reflects society's evaluation of the relative desirability of consumption at different points in time. Not all economists agree on the source and significance of the STP rate. Selection of an STP rate reflects an implicit balancing of the marginal time preference and the marginal productivity of investments; however, because of numerous market imperfections this should not be taken to mean that the market rate of interest is a measure of both time preference and the productivity of capital; selection of an STP rate requires the exercise of judgment. See also: social opportunity cost discount rate.

"Span of control" means a principle of organizational theory relating to the number of subordinates that an executive can effectively deal with.

"Special analytic document" means a written document, supportive to the program memorandum, which explains in detail the analytic basis upon which the programs set forth in the financial and output plans were selected from among alternatives.

"Spillover" or "spillover effects" means the impact of a course of action upon the costs and benefits of activities other than the one under consideration. For example, the impact of course of action A upon the costs and benefits of other programs within the same governmental unit or upon the costs and benefits of programs of other governmental units; or the impact of course of action A upon the community (secondary benefits).

"Standard deviation" means a measure of the spread of a set of values around the arithmetic average; the tendency of individual values to vary from the mean. Mathematically, it is the square root of the mean of the squares of the deviations of the observed values from the mean.

"Statistic" means a measure, quantity or value which is calculated from a sample rather than from the population.

"Statistical inference" means using information contained in a sample to make predictions about a larger set, the population.

"Suboptimization" means the selection of the best alternative course of action which pertains to a subproblem, i.e., to only part of the overall problem or objective. Suboptimization is usually necessary because alternatives at all the various levels of decision-making cannot, as a practical matter, be analyzed simultaneously before decisions are made at any level. Also referred to as any intermediate stage in a long-run goal attainment program.

"Sunk costs" means costs which have already been incurred and which are unaffected by what is done in the future.

"Supply" means the amount of a good or service that will be offered for sale over a given range of prices at a particular point in time. More appropriately "supply schedule".

"System" means a structure or formalized assembly of parts within which activities occur. (Where the context permits, the use of the word "system" includes "process".)

"Systems analysis" means an analytic study designed to help a decision-maker identify a preferred choice from among possible alternatives. A systems analysis first identifies, then examines, a total process within the context of its environment. In this sense, systems analysis encompasses "cost-benefit analysis", "cost-effectiveness analysis", and "cost-utility analysis" (although often these terms are used interchangeably and synonymously with "systems analysis").

"Target group" means a group within the general population toward which a program is aimed or on which it has a significant impact.

"The New Economics" or "The Keynes' Theory of Economics" means that theory founded upon Keynes' General = x Theory of Employment, Interest, and Money - 1935. The central point of the "new" economics is that capitalism does not contain any mechanisms capable of guaranteeing full employment with relative price stability. The assertion that capitalism is not self-regulating and that it might, in fact, reach an aggregate output equilibrium with substantial unemployment (1930's depression) forms the theoretical basis for governmental intervention in the private sector of the economy.

"Total agency studies" means a comparison of alternative combinations of major programs within an agency to determine the optimum combinations of major programs.

"Trade-off" means giving up some of one for more of another. For example, giving up some of personnel for more of equipment, or giving up some of one program output for more of another program output.

"Uncertainty": in general, uncertainty and risk are used as synonymous terms. A distinction sometimes made between risk and uncertainty is that an event is risky if a probability distribution can be ascertained. It is uncertain if the probability of success or failure cannot be ascertained.

"Unity of command" means an organizational principle that an employee should receive orders from and report results to only one superior.

"Universe": See: population.

"Utility" means the ability to satisfy human wants.

"Utility value" means a quantitative expression of the ability to satisfy human wants.

"Value" means the amount of some other goods, services or money an item commands in exchange; the return or equivalent in goods, services or money for something exchanged.

"Variable" means a quantity that may increase or decrease without other essential changes.

"Variable costs" means costs which are directly attributable to a future course of action--costs which will be incurred because of the future course of action--and which vary in accordance with the quantity of output produced.

"Variance" means the deviation of each item from the mean or average, squaring these deviations, and calculating the average of the sum of the squared deviations.

"Weighted utility" or "weighted utility value" means the utility value of the consequence of a given act under a given event, weighted by the probability of the occurrence of that event.

"Weighted value" means the consequence of a given act under a given event, weighted by the probability of the occurrence of that event.

GUIDE TO AUDITS

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GUIDE TO AUDITS

PART I: INTRODUCTION

Purpose of the Guide

This guide explains the purposes and scope of the programs included within the audit category and sets forth the procedures, methods and standards to be used in the performance of the audits.

Kinds of Audits

There are three principal kinds of audits conducted by this office. They are listed and briefly described as follows:

1. Program audits. Examinations and tests of the agencies' planning-programming-budgeting systems and processes to determine the quality of those systems and processes and the products thereof.
2. Operation audits. Examinations and tests of the agencies' systems and processes, by and through which the laws, policies and programs of the State are implemented, to determine the effectiveness, efficiency and economy with which the agencies are operating.
3. Financial audits. Examinations of all financial transactions, records and statements of all agencies to attest to and ensure their legality, accuracy and reliability and of all internal control systems of the agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.

Planning-programming-budgeting, operations and finances are all parts of the total management process. One follows the other, and each is dependent on the others. In actual practice, they cannot be neatly separated. For example, operational policies and practices

can hinder or promote the full implementation of planned programs. In the same manner, operational deficiencies may be traced to inadequate planning and programming. Thus, in the performance of any one kind of audit, it may be necessary to examine aspects of management, which under this guide seemingly fall within the other kinds of audit. For example, in a program audit, if it appears that the program is not attaining the objectives it was designed to achieve, a search for the causes should include an examination of the operational policies and practices bearing upon the implementation of that program. Poor policies or improper practices may be a contributing cause of the failure of the program to attain the desired results.

Despite this obvious overlap, it is useful, and convenient, and it facilitates the audit program of this office, to distinguish the different kinds of audits. First, the term, "management", covers a broad spectrum of an agency's activities, and a division of that spectrum into parts aids in lending focus to an audit.

Second, although planning-programming-budgeting on the one hand, and operations and finances on the other, are interrelated in the management spectrum, the characteristics of each are sufficiently distinct, at least conceptually, to permit the division. For example, such problems as budget implementation, the assessment and improvement of the work-efficiency of operating units, manpower selection, and the cost control of current operations (all of which are parts of operations and finances) are generally considered to be outside the planning-programming-budgeting system and not the central focus during the PPB process.

Third. Finances are really a part of "operations". The control of expenditures and the reflection of financial transactions in records, books and financial statements are indeed procedures which affect and reflect the efficiency and economy with which the agencies are operating. Also, data used in designing operational systems (and for planning-programming-budgeting systems as well) are often taken from accounting and financial records. However, there are a number of reasons which make it advisable and useful to separate financial audits from other operational audits. One

of the reasons is that the skills required to conduct financial audits differ somewhat from the skills required for operation (and program) audits--the former require the skills of an accountant, and the latter, the skills of a management analyst. Another reason is that data in financial accounting are kept in a somewhat different form from other management data. In financial accounting, data are kept to facilitate the transmission of information to people outside the agency; data for management purposes are kept in such a fashion as to facilitate their use by management. Thus, the rules developed for one are not necessarily the same as the rules developed for the other. Finally, distinguishing financial audits from operation audits helps to satisfy the provisions of the State Constitution which, at present, explicitly singles out financial audits as requiring the particular attention of the legislative auditor.

Organization of the Guide

The purposes and scope of each kind of audits and the methods to be employed in conducting it are contained in Part II of this guide, the standards to be used in performing each kind of audits are contained in Part III, and the forms in which the audit reports are to be prepared are explained in Part IV.

PART II. AUDIT PURPOSES, SCOPE, AND METHODS

AUDIT PURPOSES

1. Generally. The State's resources are limited. This limitation acts as a constraint on governmental activities. Government must choose from among many endeavors, those to which the limited resources will be devoted. It must also determine how much of the resources is to be allocated to each of its undertakings.

While government has the power to increase its resources through its power of taxation, the exercise of that power is limited by political and economic factors. Thus, like the housewife who attempts to stretch the dollar, government seeks to secure as much mileage as it can from its available resources. It does this by maximizing benefits from a given amount of resources or by minimizing costs to attain given desired results or by maximizing benefits less the costs.

Government can attain this optimum condition through proper planning and programming of its undertakings and through efficiency and economy in its operations. The two branches of government which have the responsibility of bringing about this optimum condition are the executive and the legislative branches.

The State legislature, through enactment of legislation, renders basic policy decisions which determine the State's goals, the direction the State will take and the programs it will conduct toward achieving its goals, and the allocation of the State's resources among the programs. It is the executive branch which marshals the resources, determines procedures and seeks to execute the policy decisions rendered by the legislature. This division of functions between the legislature and the executive is true in theory. In practice, the executive branch exercises strong influence in determining the State's basic policies.

First, the legislature is dependent to a large degree upon the recommendations it receives from the executive branch with respect to the goals which the State should seek, the programs it should

pursue, and the manner in which the State's resources should be distributed. Second, the legislature, in determining what programs to authorize and how much of the State's resources should be allocated to the different programs, is influenced by the experience of the executive branch in executing programs which the legislature authorized in the past. The success with which the executive branch has met in executing existing programs and the amount of resources actually consumed in that process bear upon the judgment of the legislature in approving future programs and in allocating resources.

The legislature sometimes does alter the executive plan, and it sometimes does, through committee reports, resolutions and even by legislation, circumscribe or direct operational procedures to be followed by the executive branch to encourage efficiency and economy in operations. However, in the final analysis, the State's plans and programs as adopted by the legislature only infrequently differ in substance from the executive plans and the executive branch is left pretty much on its own in executing legislative decisions.

This situation is not necessarily wrong, nor need it be particularly disturbing to the members of the legislature, provided that they can be assured (1) that the executive plans presented to them and on which they must render a decision, is the result of a high degree of excellence in preparation and (2) that the agencies are effectively, efficiently and economically executing legislative policies. However, under present circumstances, it is difficult for the legislature to determine the extent to which this is true, primarily because of the form in which the executive reports progress in implementing existing programs and proposes plans for the ensuing fiscal year--that is, in the form of a budgetary request. Review of this document, in conjunction with committee testimony, seldom permits either a full understanding of the whole plan or of the proficiency with which these decisions were reached or of the accuracy of the estimated level of resources which will be required.

What the legislature needs is information and guidance with which to assess the quality of the executive's plans and the effectiveness, efficiency and economy being experienced by the

executive branch in carrying out legislative policy decisions. The office of the legislative auditor will provide this assistance to the legislature by periodically and systematically auditing the State agencies' planning-programming-budgeting and operational systems and processes and the results thereof, and will report its findings to the legislature.

2. Specifically. a. Program audits will assess the quality of the agencies' planning-programming-budgeting systems and processes through and by which the executive makes his decisions and formulates his recommendations to the legislature as to what government ought to do, what results it ought to seek, what programs it ought to pursue in an effort to attain the results, and how the limited resources are to be allocated among the various things government chooses to engage in. The assessment will include the effectiveness of the plans and programs previously adopted and authorized as it bears upon the executive's proposals. Through such assessment, the legislature will be assisted in evaluating the quality of the recommendations made by the executive.

b. Operation audits will assess the quality of the systems and processes through and by which programs are implemented by the agencies. The organization of the resources, the delineation of functions to be performed, the establishment of policies and procedures for the conservation and protection of the resources and for the performance of the various tasks, and the actual operational practices of the agencies are parts of the systems and processes which will be subject to scrutiny. Through such assessment, the legislature will be assisted in evaluating the efficiency and economy with which the agencies are operating and in determining the validity of the executive's estimates of the resources needed for the various programs.

c. Financial audits will assess the quality of the agencies' financial systems and processes. The collection of revenues, the expenditure of funds, the financial statements, and the accounting and control systems and methods are the subjects of scrutiny. Through such assessment, the legislature will be assisted in determining the efficiency and economy with which the agencies are

operating, the reliability of the agencies' financial data, and the adequacy of the agencies' controls to safeguard their assets against loss, waste, fraud and extravagance.

AUDIT SCOPE

Audits are either general or special in scope and nature.

1. General audits are comprehensive in scope--that is, each general audit examines the totality of the systems and processes of a given kind (planning-programming-budgeting or operational or financial) or of all systems and processes of an agency as a whole or a major subdivision thereof. General audits are usually conducted on a planned schedule, which lists all agencies in the order in which they will be examined.

The staff members assigned to functional areas are expected to schedule program audits and operation audits of the agencies within their respective functional areas on a planned, systematic, scheduled basis. Those who are responsible for financial audits are expected to conduct general financial audits of all agencies on a planned, systematic, scheduled basis.

2. Special audits are generally problem oriented. They are conducted as problems are detected by the analysts in charge of functional areas in the course of their surveillance or pre-audits of the agencies and as the urgency of the problems dictates. They may also be initiated by the legislative auditor on his own volition, because of special legislative or public interest. In addition, all staff members are responsible for identifying special problem areas and suggesting that an audit be made. All suggestions for special audits made by analysts in charge of functional areas or by any other staff member are to be made in accordance with the "project policies" of this office.

The scope of special audits vary from audit to audit. It is never as broad as a general audit. The nature of the problem may require focus on only a part of the planning-programming-budgeting, operational or financial systems and processes, or it may require an examination of parts of all of the systems and processes. Every

organizational level of the agency or only some levels or some units of the agency may be affected by the special audit. The scope of any special audit is subject to approval of the legislative auditor.

AUDIT METHOD

1. Generally. Every audit shall follow the steps outlined in the "project policies" of this office and shall be conducted in the following manner:

- a. Identify and examine the applicable laws and all expressions of legislative intent made at committee hearings or contained in committee reports and in legislative resolutions. Identify and examine all representations made by the agency to legislative committees.
- b. Systematically gather the facts about the systems and processes under examination and the specific actions, decisions, outputs and transactions which are under scrutiny or which come under special scrutiny in the course of the audit. Document all facts. The facts are to be gathered from the following, among other possible, sources.
 - . executive and agency policies, rules and regulations.
 - . executive and agency reports, organization charts, files and records.
 - . personal observations, interviews, group conferences, questionnaires, etc.
- c. Conduct such library research as may be necessary.
- d. Analyze the facts and the law and the research findings, and upon such analysis, evaluate:
 - . the quality of the systems and processes.
 - . the quality of the actions taken, decisions made, outputs produced, and transactions had.
 - . the effects and impact of the systems and processes and of the actions, decisions, outputs and transactions.

e. Formulate recommendations for improvements or corrections in the systems or processes and the actions, decisions, outputs or transactions.

2. Financial audits. In addition to the foregoing (to the extent that they do not conflict with the following), a financial audit shall be performed as follows:

a. The audit shall consist of a limited general audit of the accounting records and transactions of the funds established for the agency. A limited general audit embraces all financial transactions and records for the period covered by the audit and shall include a test of the financial data by the analyst to provide him with a basis to report on the fairness of the financial statements and system of accounting and internal control.

b. The audit shall be conducted in accordance with the generally accepted auditing standards adopted by the membership of the American Institute of Certified Public Accountants and the standards set forth in this guide.

PART III. AUDIT STANDARDS

The following standards are intended to aid the analyst in his audit of an agency's planning-programming-budgeting, operational and financial systems and processes. Depending on the scope of the audit, all or only some of the standards may be applicable in an audit.

PROGRAM AUDIT

1. Generally. The essence of planning-programming-budgeting is to clarify objectives and to determine, from among different alternatives, what action is to be taken at what costs to achieve the desired results. It is a system to aid in decision-making and in optimizing benefits less costs, or in maximizing benefits at a given cost, or in minimizing costs to attain given results. It is a system which is applicable at all levels of an organizational hierarchy which participate in the formulation of long range plans.

2. Steps in PPB. The program audit examines the quality and adequacy of the planning-programming-budgeting systems and processes and the products thereof. A complete audit examines the following steps in the management process:

Planning

- a. Identification of needs to be met by government.
- b. Definition of the goals toward which government efforts will be directed.
- c. Development of the objectives to be sought.
- d. Identification or establishment of measurements with which to judge effectiveness or progress in relation to stated objectives.

- e. Identification of the alternative means by which the objectives may be attained.
- f. Costing of alternatives.
- g. Identification of the benefits to be derived from each alternative.
- h. Comparison of the various alternatives in terms of costs and benefits of each.
- i. Selection of the alternative or alternatives.

Programming

- j. Structuring of the programs selected.
- j.1 Time-phasing programs over a period of years.

Budgeting

- k. Preparation of the financial plan.
- l. Preparation of the output plan.
- l.1 Preparation of the program memorandum.
- m. Preparation of supportive analytic documents.

Corrective Action

- n. Execution of the authorized programs.
- o. Data collection on program performance.
- p. Evaluation of the data collected.

3. Standards. The adequacy with which the various steps are fulfilled may be assessed by weighing it in relation to the following characteristics.

Planning

- a. Identification of needs to be met by government may be said to be adequate to the extent to which the needs
 - . describe situations or conditions of people or their environment.
 - . describe the difference between what does exist and what should exist.
 - . are those to which governmental attention should be given, either alone or in conjunction with individuals or private interests.

- . express values which are in harmony with the overall value system of our society.
- b. Definition of the goals toward which government efforts will be directed may be said to be adequate to the extent to which the goals
- . contribute either to greater social order or greater social benefits.
 - . reflect a consensus of regional, social, economic and political needs and interests of society at a given time.
 - . are realistic, current and ultimately attainable.
 - . are a result of identifiable public opinions about the "proper role" of government.
 - . are in consonance with the value and belief systems of our society.
 - . provide a conceptual yardstick against which government expenditures can be tested.
- c. The development of objectives to be sought may be said to be adequate to the extent to which each statement of objective:
- . describes the state of condition or result that is being sought.
 - . states the "real" objective.
 - . states the end-result being sought in quantitative form or in such manner that it is possible to identify and develop criteria to measure the degree of success or failure in achieving it.
 - . contributes to the attainment of overall goals.
 - . is consistent with other governmental objectives and the objectives formulated at higher levels of the program structure.
 - . is attainable.
 - . is reasonable, logical and understandable.

- . is expressed in a manner which will permit consideration of alternatives for its accomplishment.
 - . is meaningful to the people responsible for its attainment.
 - . serves to guide, direct, and control human effort.
 - . motivates people toward its accomplishment.
 - . is a reflection of current conditions.
- d. The identification or establishment of measurements with which to judge effectiveness or progress in relation to the stated objectives may be said to be adequate to the extent to which the criteria identified or established:
- . are appropriate and enable measurement of progress toward the objective.
 - . consider all major effects relative to the objective.
 - . are related to and consistent with higher level criteria.
 - . describe the quantitative bases for measurement, or if any criterion is not itself measurable in quantitative terms, specify the quantitative measures that are satisfactory proxies for such criterion.

(Often a specific statement of an objective identifies some of the criteria that would be appropriate. But there may be others. Criteria give an even more concrete expression of the objective. Criteria should adequately cover the implications of the objective.)

- e. Identification of the alternative means by which the objectives may be attained may be said to be adequate to the extent to which the alternatives:
- . reflect means to the end objective (assure or contribute to the attainment of the objective).
 - . are "real" alternatives.
 - . are all-inclusive.
 - . take into consideration limitations imposed by law, policy, precedent or custom.

- . yield outputs or products which relate to the criteria with which to judge progress in relation to the stated objective.
 - . specify the expected level or quantity of the outputs.
- f. Costing of the alternatives may be said to be adequate to the extent to which the costs:
- . are stated in dollar terms.
 - . reflect loss of benefits which could be derived from use of the resources for alternative purposes (opportunity costs).
 - . reflect all costs (life cycle costs) required for each alternative: research and development, investment and operating (manpower, equipment, supplies, maintenance, etc.).
 - . consist of future, incremental, variable costs (exclusive of sunk and fixed costs).
 - . are reasonable estimates (cost estimating relationship techniques).
 - . are cumulative over an extended time horizon (including lead time and the period of a systems operation and for the period of its benefits).
- g. Identification of the benefits to be derived from each alternative may be said to be adequate to the extent to which the benefits:
- . correspond to the criteria identified for judging progress in relation to stated ends.
 - . are indicators or sets of measures of utility or value of the estimated quantity of expected output.
 - . are stated in appropriate quantitative form, preferably in dollars, where feasible.
 - . are cumulative over an extended time horizon.

- h. Comparison of the various alternatives may be said to be adequate to the extent to which such comparison:
- . compares the alternatives in terms of the costs and benefits of each and ranks the alternatives in order of desirability (inter-systems analysis).
 - . discounts all future costs (and all benefits where stated in dollars) of each alternative to their present dollar value.
 - . discounts all future costs (and benefits where measured in dollars) at the appropriate discount rate.
 - . considers the uncertainties of and risks involved in each alternative, in quantitative form.
 - . considers all intangibles and spill-over effects of each alternative.
 - . makes the correct assumptions for each alternative.
 - . compares balance increments in costs against increments in benefits at various program levels with attention to diminishing returns and resource limitations.
 - . considers possible mixes of alternatives.
 - . considers possible mixes of resources, benefits, and time, within a given alternative, to find the optimum combination under varying assumptions (intra-systems analysis).
 - . includes sensitivity tests to determine the effect on each alternative of differing or changing degrees of uncertainties and risks, assumptions, discount rates, etc.
 - . is documented.
- i. Selection of the alternative or alternatives (the tests of preferredness) may be said to be adequate to the extent to which the alternative or alternatives:
- . maximize the present value of all benefits minus that of all costs, where benefits and costs are commensurable (have the same common denominator--i.e., dollars); or

- . maximize gains for a specified cost or minimize costs for achieving a specified gain (tested by use of different scales of effectiveness and different budget sizes).
- . are selected in the light of spill-over effects, uncertainties and risks.
- . are in consonance with intuition and judgment.
- . are followed by an analysis and trade-off of time, cost and benefits among the major program selections (major program and total agency studies).

(Neither maximizing gains while minimizing cost, nor maximizing ratio of effectiveness to cost is a valid basis for selecting alternatives.)

Programming

- j. Structuring of the programs selected may be said to be adequate to the extent to which the structure:
- . permits comparisons and trade-offs between and among the various programs.
 - . is a meaningful categorization of all programs on a hierarchical basis.
 - . contains a limited number of levels (generally, no more than four in the total State program structure), the lowest level consisting of programs or program sub-elements which are the simplest units of activities, each unit producing a specific, identifiable result, about which resource allocation decisions are to be made.
 - . permits the grouping of programs into a limited number of groups at each level of the program structure hierarchy.
 - . avoids double-counting of programs--that is, a program which serves more than one program grouping is placed in that group to which it contributes most; and, if it is also noted in other groupings, it is noted as a "non-add" entry.

- . contains or is supported by a statement which describes the objectives and the intent, scope and content of each category at all levels of the structure.
- . is stated in the output form or in a manner such that the product is identifiable.

j.1 Time-phasing programs over a period of years may be said to be adequate to the extent to which it

- . is accomplished within the total dollar limits allotted by some higher levels of authority to the program, the mission or agency, as the case may be.
- . is in accordance with the State's over-all fiscal strategy which takes into account, among other factors, the State's current cash position, revenue projection, constitutional and statutory limitations on raising revenues, and economic and market trends and conditions prevailing in the community.
- . covers a time-span of at least five years in the future.
- . specifies which programs (or what parts of a program) are to be implemented when within the time-span.
- . specifies the resources required at what point in time for each program.
- . specifies the sequence in which, and when and how, each resource required is to be acquired, developed or constructed.
- . specifies with precision for the first year, and as accurately as possible for the remaining years in the time-span, the cost of acquiring, developing, constructing and maintaining each resource.

Budgeting

- k. Preparation of the financial plan may be said to be adequate to the extent to which the plan:
- . is a multi-year plan, displaying for each program element, the total costs for the past year, the total cost for the current year, and the estimated cost for the ensuing year and for at least four additional years; and totals the cost for the next five years.
 - . contains separate tables showing the breakdown of the estimated costs of each program element for the past and ensuing years in terms of the resources required--for research and development, investment, and operations (manpower, equipment, supplies, maintenance, etc.).
 - . contains other relevant, supplemental tables as may be pertinent to a full understanding of the financial plan --e.g., breakdown of the costs of each program element (for the past and ensuing years) by geographic, organizational or other appropriate unit.
 - . discloses all sources of funding for each program element, including off-setting revenues, and indicates the net cost to the State.
- l. Preparation of the output plan may be said to be adequate to the extent to which the plan:
- . is stated in multi-year terms (corresponding to the multi-year financial plan).
 - . displays for each program element (corresponding to those in the multi-year financial plan), the output measures and the output actually attained in the past year, the expected output for the current year, and the outputs projected for the ensuing year and for at least four additional years; and totals the expected outputs for the next five years.

- . contains pertinent and relevant supplemental tables showing the outputs of each program element (for the past and ensuing years) by geographic, organizational or other appropriate unit.

1.1 Preparation of the program memorandum may be said to be adequate to the extent to which the memorandum:

- . is organized around the program structure.
- . outlines the broad program strategy upon which plans and programs are to be built for the future years and provides background for the financial and output plans and for the development of the annual budgets (both operating and capital improvements) and legislative programs.
- . defines the long-range goals.
- . defines the objectives in a measurable way.
- . identifies the criteria by which to measure progress toward achieving the objectives.
- . contains major program recommendations stated in output terms and defined in quantitative terms.
- . indicates the benefits (both primary and secondary) to be derived from the recommended programs.
- . explains the relationship between the program outputs and the stated objectives, benefits and criteria to measure progress.
- . identifies the issues and indicates the choices made and the reasons for the choices (compares the choices made with alternative programs in terms of costs and benefits).
- . summarizes the analytic basis for the choices, and where necessary, refers to supportive program analysis documents for more detailed descriptions of the analysis conducted.
- . When a program is experimental or a demonstration project, indicates this fact, and if the experimental or

or demonstration basis is to continue for more than one year, indicates why a decision to start a full-scale program is being postponed, what is being done to reach a conclusion on expansion or termination and the date when a decision is expected.

- . is short and concise with a summary.
- . indicates the priorities by which choices are to be dropped if there are not enough funds.

- m. Supportive analytic documents may be said to be adequate to the extent to which each document:
- . identifies the objective being sought in quantitative, measurable terms.
 - . identifies the criteria used by which to measure progress toward achieving the objective.
 - . identifies the issues and all alternatives considered.
 - . contains the analytic basis on which the choice or choices were made.
 - . identifies the assumptions, risks, uncertainties, intangibles and spill-over effects considered for each alternative
 - . identifies the costs and benefits of each alternative.
 - . reveals the basis (the procedures, data and sources used) in estimating the cost of each cost element and the cost-estimating relationships and equations used.
 - . reveals the basis for anticipated benefits.
 - . states the sensitivity tests conducted, with what results.
 - . indicates the trade-offs had within a program and among programs selected.
 - . indicates the mixes of programs and resources considered.
 - . contains the model or models used in the analysis.
 - . reviews the costs and benefits of prior efforts.
 - . compares balance increments in costs against increments in benefits at various program levels with attention to diminishing returns and limitations of physical resources and assesses the incidence of benefits and costs as well as their totals.
 - . is made whenever a proposal for major new legislation is involved.
 - . is attached as an appendix to the program memorandum.
 - . contains specific recommendations for future action.

- n. Program execution may be said to be adequate, to the extent to which it:
- . produces the anticipated benefits and contributes to the attainment of the objective for which the program was formulated, at the time or times called for and in the manner provided in the plans; or
 - . reveals the inadequacies of the plans or the agency's operations which hinder the production of the anticipated benefits.
 - . (Where program execution fails to produce the anticipated benefits and the causes are traceable to operations, the agency's operational systems and processes shall also be examined during the course of the program audit in accordance with the standards set forth under "operation audit" in this part.)
- o. Data collection may be said to be adequate to the extent to which it conforms to the standards set forth under "data collection" in this part.
- p. Evaluation may be said to be adequate to the extent to which it:
- . is based upon the data collected.
 - . takes into consideration changing conditions in the environment.
 - . identifies and factually substantiates causes of failure in meeting anticipated results.
 - . contributes to the resolution of the causes for the failure rather than on the symptoms of it.
 - . leads to re-assessment of plans, programs and resource requirements.
 - . encourages and fosters the development and identification of alternate objectives and programs.
 - . leads to greater sophistication in cost-benefit analysis.

OPERATION AUDIT

1. Generally. The essence of operations is the marshalling of resources for the programs authorized, the structuring of the agency and the execution of the approved programs effectively, efficiently and economically. There are many facets to operations. Some parts of the systems and some parts of the processes exist or occur at higher levels of the agency's organizational structure, and others exist or occur at lower levels, and others exist or occur at all levels. This guide is not intended to be exhaustive of all facets of operations.

2. Parts of the operational systems and processes. The operation audit examines the quality and adequacy of the systems and processes through and by which planned programs are implemented and of the services or goods produced. Among other facets, an operation audit examines the following:

- a. Analysis of the plan approved for implementation.
- b. Delineation of functions.
- c. Acquisition of resources.
- d. Organizational structure.
- e. Establishment of operational policies and procedures.
- f. Establishment of work performance standards.
- g. Execution of programs.
- h. Data collection.
- i. Evaluation.

3. Standards. The adequacy of the operational systems and processes may be assessed by weighing it in relation to the following characteristics.

- a. The analysis of the plans to be implemented may be said to be adequate to the extent to which it:
 - . identifies the significant components of the plan.
 - . identifies the extent of its variation from present operations.

- . assesses the limitations imposed by statute, administrative regulation, available resources, time, departmental authority and methodological requirements.
 - . assesses the possibility of unavoidable deviations from planned performance and consideration is given to alternative methods and resources which will permit action to continue.
 - . contributes to an understanding of the intent and expectations of the authorizing body.
 - . assesses the impact of the plan on individuals and units within the organization, on other governmental agencies, and on the community.
- b. Delineation of functions may be said to be adequate to the extent to which it:
- . identifies and assigns all activities necessary to program implementation.
 - . recognizes homogeneity of purpose or process.
 - . contributes to professional and occupational specialization.
 - . avoids or limits overlapping of similar activities.
 - . balances the possibility of isolationism and problems of coordination with logical single purpose structuring.
- c. Acquisition of resources may be said to be adequate to the extent to which it:
- . secures the resources of the quality required for the proper performance of the work.
 - . secures the resources or assures the availability of the resources in such quantities as required at such times as the schedule demands. (The term "required" means actually required, and is not necessarily synonymous with budgetary authorization.)

- d. Organizational structure may be said to be adequate to the extent to which it:
- . permits ready cross-walk of functions where it is different from program structure.
 - . permits coordination of efforts where program implementation involves two or more organizational units.
 - . balances the "rules" of organizational structuring with the particular time, place, condition and people involved.
 - . presents a planned hierarchical structure as expressed in such concepts as unity of command, communication through channels, the scalar process and chain of command.
 - . provides for an optimum span of control.
 - . centralizes those functions which can best be handled by staff or service units.
 - . provides for logical lateral relationships among middle management levels in order to facilitate voluntary coordination.
 - . permits reasonable adaptability in recognition of unique personal capabilities.
 - . is flexible and current.
- e. The policies, rules, and procedures may be said to be adequate to the extent to which they:
- . are consistent with legislative policies.
 - . are consistent with higher level policies.
 - . are consistent among themselves.
 - . are realistic.
 - . identify all fiscal implications of the policies, rules and procedures.
 - . are well-defined and understood by the people affected.

- . promote and facilitate, rather than hinder, the achievement of program objectives.
 - . safeguard resources against waste, loss and fraud.
 - . contribute to worker efficiency.
 - . contribute to the full use of resources for the purposes intended.
- f. Work performance standards may be said to be adequate to the extent to which they:
- . relate directly to the achievement of the end-objective.
 - . are expressed in measurable terms.
 - . are attainable and reasonable.
 - . contribute to improved performance, employee interest and organizational morale.
 - . inform the persons involved about their tasks, responsibilities and authority.
 - . are clearly and specifically stated in terms of expected accomplishments so that they are understandable and acceptable to the managers responsible for results, and to employees who perform the work.
 - . are consistent with recognized technical and professional norms in the subject matter field.
- g. Program execution may be said to be adequate to the extent to which it:
- . contributes to the attainment of objectives or the production of the end-results.
 - . conforms to plans.
 - . conforms to legislative policies and directions.
 - . conforms to State and agency rules, regulations, policies and procedures.

- . permits the performance of every significant component and task required to be performed.
 - . utilizes the resources for the purposes intended, and only as necessary.
 - . is absent of loss, waste, extravagance or fraud.
 - . utilizes tested, labor and time-saving devices, practices and procedures.
 - . provides proper supervision.
 - . is consistent with recognized technical and professional norms in fiscal, industrial, administrative and office management practices.
- h. Data collection may be said to be adequate to the extent to which it conforms to the standards set forth under "data collection" in this part.
- i. Evaluation may be said to be adequate to the extent to which it:
- . identifies and factually substantiates causes of failure in meeting anticipated results.
 - . contributes to the resolution of the causes for the failure than on the symptoms of it.
 - . is based upon the data collected.
 - . takes into consideration changing conditions in the environment.
 - . leads to re-assessment of the organizational structure and delineation of functions.
 - . contributes to improved policies, procedures, work performance standards, and methodology.

AUDIT OF DATA COLLECTION SYSTEMS AND PROCESSES

1. Generally. Data collection consists of collecting, manipulating and transmitting information, whatever its use is to be. Data are useful in the evaluation of the effectiveness of, and in providing the basis for taking corrective actions in planned programs. They are also useful in evaluating the efficiency and economy of operations. The quality of data collection is, therefore, a proper subject of examination in both program audits and operation audits. The standards by which to judge the quality of data collection are, however, separately treated for a variety of reasons.

First, the standards are common to both kinds of audits--that is, the same standards apply whether an audit is a program audit or an operation audit. Second, all data, regardless of the use to which they are put, are derived from the same sources--that is, from the working level on up. They are consolidated, sorted and summarized at each successive level up the organizational hierarchy so as to supply the right information to the right persons at the right time for the right purpose. Third, information gathering is rapidly becoming an important part of the total management process, requiring certain amount of expertise.

2. Standards. Data collection may be said to be adequate to the extent to which it:

- . is accurate.
- . reflects current operations.
- . is readily retrievable.
- . is useful and pertinent in identifying areas where corrective action is needed.
- . contributes to an evaluation of effectiveness, efficiency and economy.
- . is comparable to established standards.
- . relates actual results to expected results.
- . is reported in measurable units such as time and dollars.

- . is developed into illustrative charts and graphs where feasible.
- . is supplemented by qualitative analysis which contributes to a complete understanding of its significance.
- . is gathered routinely at the working level as a normal part of daily operations.
- . is consolidated and summarized at each successive level of coordination in a manner which is pertinent and clear, without omitting essential information.
- . is sorted and transmitted without delay, as and when required, to the proper persons.

FINANCIAL AUDIT

1. Generally. An agency's fiscal responsibility consists of expending state funds in accordance with law and for the purposes authorized, collecting all revenues which it is by law required to receive, safeguarding all public funds and property with which it is charged from loss, waste, extravagance and fraud, maintaining a system of accounts which accurately reflect all fiscal transactions, and preparing financial statements which accurately summarize the agency's fiscal transactions and fiscal status.

2. Audit examination. The financial audit examines the legality and propriety of the agency's expenditures, the adequacy of the systems and processes through and by which financial transactions are had and recorded and resources are maintained, and the accuracy and reliability of the agency's financial statements. The audit includes an examination of the following:

- a. Revenue collections
- b. Expenditures
- c. Financial records and accounts
- d. Financial statements
- e. Controls
- f. Operations.

The first four items are financial data. Financial information is one kind of data kept by an agency. As explained earlier, financial data are treated separately under financial audits, because of the form in which they are kept and the skills required in examining them.

3. Standards. The adequacy of the financial systems and processes may be assessed by weighing it in relation to the following characteristics.

- a. Revenue collections may be said to be adequate to the extent to which:
 - . all revenues required to be collected are received.
 - . the collections are timely.
- b. Expenditures may be said to be adequate and proper to the extent to which they:
 - . are made in accordance with appropriation and legislative intent and direction.
 - . are necessary (simply because an expenditure is authorized, does not imply that it is necessary).
 - . are reasonable.
 - . are made without waste or extravagance and not as a result of loss or fraud.
- c. Financial records and accounts may be said to be adequately maintained to the extent to which they:
 - . are kept in accordance with accepted principles of accounting, state laws, rules and regulations and the standards set forth herein.
 - . are kept on a program basis as to permit full costing of each program, or permit easy identification of the full costs of each program (cross-walking).

- . permit the identification and aggregation of each kind of costs for any and all programs (e.g., research, and development, investment, manpower, supplies, equipment).
 - . accurately reflect all fiscal transactions, both receipts and expenditures.
 - . permit a comparison of actual expenditures with appropriations and allotments by programs and kinds of costs.
- d. Financial statements may be said to be adequate to the extent to which they:
- . are accurate and reliable in reflecting the agency's financial transactions and current fiscal and property status.
 - . are in accordance with generally accepted principles of accounting, the laws, policies, rules and regulations of the State, and the standards set forth herein.
 - . reflect consistent observance in the period under examination in relation to the preceding period.
 - . are intelligible and readily understandable by the legislature.
- e. Internal controls of the agency may be said to be adequate to the extent to which they:
- . safeguard public funds and property from loss, waste, fraud, or extravagance.
 - . ensure accurate and reliable fiscal records.
 - . promote adherence to laws and policies.
 - . provide for periodic pre-audits of the agency's accounts and evaluation of the control systems and processes.
- f. Operations. An agency's financial condition is sometimes affected by the agency's policies, rules, regulations, procedures and practices relating to other operational aspects of management. In a financial audit, all such policies, rules, regulations, procedures and practices

shall be examined as they bear upon and have relevance with respect to the findings made in the course of the financial audits. The standards by which to test the adequacy of such policies, rules, regulations, procedures and practices shall be those set forth for operation audit.

PART IV. AUDIT REPORT CONTENT AND FORM

This part sets forth guides in the preparation of the audit report. Some departure from the guides may be necessary from time to time, depending on the particular audit. All such departures, however, should be approved in advance by the auditor.

AUDIT CONTENT

1. Generally. Generally, an audit report shall contain the following parts:

- a. A table of contents.
- b. An introduction, consisting of
 - . an explanation or statement of the purpose of the report.
 - . a brief description of the scope of the audit examination.
 - . an outline of the organization of the material in the report.
- c. The body, containing
 - . the laws, rules and regulations examined.
 - . the facts gathered.
 - . the analysis performed.
 - . evaluation and conclusions reached.
 - . recommendations, if any.
- d. A summary.

(The summary should be written in such a manner that it may stand by itself, if detached from the report. It should contain enough specific information to explain the aims and results of the study, be as short as possible

without cutting out essential information or destroying its accuracy, and be consistent in tone and emphasis with the report proper.)

- e. An appendix of additional pertinent information in tabular, chart or narrative form, not included in the body of the report, and the responses from the agencies affected by the audit report.

2. Financial audits. A financial audit report shall be divided into two major parts (or in two separate documents), one entitled, "financial statements", and the other entitled, "management letter".

- a. Financial statements. The body of the "financial statement" shall contain an explanation of the extent and character of the audit and:

- . a statement as to whether or not the financial statements examined were presented in accordance with generally accepted principles of accounting.
- . a statement as to whether or not such principles had been consistently observed in the period examined in relation to the preceding period.
- . the inadequacies in the disclosure of information in the financial statements.
- . an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefor shall be stated.

- b. Management letter. The body of the "management letter" shall contain such information enumerated with respect to other audits. It shall specifically contain:

- . the extent and character of the review of the internal control, accounting and other operational systems and processes.

- . an evaluation and discussion of the quality and adequacy of the financial records, financial reporting and budgetary controls and of other operational systems and processes as they bear upon the effectiveness with which the funds and property are safeguarded against loss, waste, extravagance and fraud.
 - . a disclosure of any improper, unauthorized, wasteful, fraudulent and extravagant expenditure of funds or failure to collect in a timely fashion and to account for all revenues.
 - . a disclosure of any inefficient or uneconomical operations observed during the course of the audit.
 - . information regarding disposition by the agency of the findings and recommendations set forth in the audit reports of the immediately preceding financial audit.
- c. Exhibits. "Financial Statement" shall include as exhibits the financial statements which were examined and supplementary financial schedules or statements, statistical data and comments which are necessary, desirable and pertinent in describing or understanding the operation and conditions of the agency. At a minimum, the following exhibits shall be included:
- . a combined balance sheet which reflects the proprietary balances of each fund at the end of the period under audit. (The balance sheet may be omitted in situations where such omission would not significantly affect the financial report.)
 - . a combined statement of revenues, expenditures, lapsed appropriation and unexpended balances which reflect the results of the operations of each fund for the period under audit.
 - . supplementary financial statements which provide further analysis of the statements of revenues, expenditures, lapsed appropriation and unexpended balances (e.g., a

breakdown of the revenues and expenditures by programs of the agency and by the character or object of expenditures).

- supplementary financial schedules which reflect changes in fixed assets during the period, the status of bonded indebtedness, the variance between actual and estimated revenues and expenditures.

GUIDE TO LEGISLATIVE SERVICES

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GUIDE TO LEGISLATIVE SERVICES

PART I. INTRODUCTION

Purpose of Guide

This guide explains the purposes and scope of the programs included within the legislative services category and sets forth the procedures, methods and standards to be used in the performance of the services.

Kinds of Services

The principal kinds of services rendered by this office are listed and briefly described as follows:

1. Annual review of agency programs and operations. An annual report to the legislature at the commencement of the session indicating this office's assessment, in summary form, of the status of the programs of the agencies, the degree to which the agencies are conforming to legislative directions, the quality of the agencies' operations, and the agencies' problems and their probable causes in program implementation and operations.
2. Annual inventory of agencies' responses to legislative requests. A compilation, in summary and digest form, of the responses made by the agencies to legislative requests contained in legislative resolutions and committee reports, with an assessment of whether or not, in the view of this office, the agencies have substantially complied with the requests.
3. Legislative staff, research and program information. Assistance to the legislature, particularly during legislative sessions, in staffing, bill drafting, bill analysis, and information supplying.

4. Seminars. Conducting informational seminars for legislators.

Organization of the Guide

The purposes, scope, methods, standards, content and format of each kind of legislative services are contained in the subsequent parts of this guide.

PART II. ANNUAL REVIEW OF AGENCY PROGRAMS AND OPERATIONS

Purpose of Review

It is helpful to the legislature, if, at the commencement of each session, it has some idea as to the status of various state programs and the operations of the various agencies. Detailed information as to all programs for all agencies cannot be supplied through audits. The number of audits possible in a year is restricted by time, as well as by the sheer number of agencies and programs. Yet, some information as to programs and operations of all agencies is useful and helpful to the legislature in its decision-making function, particularly with respect to the state budget.

The office of the legislative auditor will assist the legislature in this regard by submitting to the legislature at the commencement of each session, a review of the agency programs and operations.

Scope of Review

The review consists of a brief, summary assessment of the progress and status of the programs of each agency, the success with which the agency has met or is meeting legislative directions, the agency's problems in implementing programs, in meeting legislative directions, and in operations, and the probable causes of such problems.

The annual review is to be distinguished from audits. The term, "audit", implies an in-depth, methodical, detailed examination. An audit report is the product of an intensive study and analysis. A review, however, by its very nature, precludes any in-depth examination of any program or operation, although it covers generally all facets of management (planning-programming-budgeting, operations and finances). A review report summarizes the results of pre-audits conducted of all agencies. In this sense, a review will help to uncover significant problem areas

which may later become the subjects of in-depth audits.

Method of Review

The quality of the review depends upon the degree to which the analyst assigned to a functional area is familiar with the programs and operations of the agencies which fall within his area. To insure a high degree of familiarity and to facilitate the review function of this office, each such analyst shall keep a running check and conduct "pre-audits" of the programs and operations of each agency within his functional area, in the following manner.

1. Maintain on a current basis an inventory of:
 - . all programs being administered by each agency (in program structure form), together with a brief description of the objectives and character of each program.
 - . the resources allocated to each program and the names of other agencies which are involved in implementing the program.
 - . all pertinent laws, legislative expressions of intent and direction (as expressed at committee hearings, in committee reports and in resolutions), and the representations made by the agencies at legislative committee hearings.
 - . State and agency rules, regulations and policies relating to programs, operations and finances.
 - . executive and agency reports on program status, progress and accomplishments.
2. Conduct pre-audits by periodically and on a systematic basis:
 - . reviewing all applicable laws, legislative expressions of intent and directions, agency representations to legislative committees, state and agency rules, regulations and policies, and executive and agency reports on

program status, progress and accomplishments.

- . performing field work and conducting interviews to determine program status and progress and to identify significant problem areas in implementing legislative policies and directions and their probable causes.
- . analyzing the facts gathered and formulating impressions and assessments regarding program status and progress and the significant problem areas and their causes.

Standards for Review

Although a review does not require an in-depth analysis of every aspect of planning-programming-budgeting, operational and financial systems and processes of the agencies, the standards set forth in the Guide to Audits should be kept in mind as pre-audits are conducted by the analysts.

Content and Format of the Annual Review Report

1. Generally. The annual review report shall contain:

- a. a foreword by the legislative auditor
- b. a table of contents
- c. the body
- d. a subject matter index arranged by departments in alphabetical order.

2. Body. The annual review report is a compilation of the reports on each agency. Thus, the body of the annual report will contain as many major divisions, parts, or sections as there are agencies included in the report. As to each agency, the report shall contain the following parts:

- a. An introduction, consisting of:
 - . the agency's program structure.
 - . an explanation of the scope of the review. (The volume of programs being administered by an agency

does not make it practical to include all programs in the review, particularly where there is no significant comment to make with respect to program status, progress or accomplishment or operational deficiencies. In such cases, a brief note, indicating the programs not included in the review and the reasons therefor, should be included in the introduction.)

b. The body, consisting of as many parts as there are programs under review, and containing, as to each program:

- . a brief description of the program--its objectives (or purpose), its character, and the names of the other agencies involved in implementing the program.
- . an identification of the concerns, directions and policies expressed by the legislature, particularly in the immediately preceding session.
- . a description of the status of the program, indicating what was done by the agency to meet legislative directions and policies and the progress the agency is making in meeting program objectives.
- . an identification of the significant deficiencies and unusual transactions in program implementation, operations and finances, together with an assessment of the probable causes.
- . a brief summary.

c. Exhibits. Where charts, graphs, tables and the like are pertinent to an understanding of the report, but are otherwise of some length to be included within the body of the report, they shall be attached as exhibits.

3. Supplementary Reports. All programs in which significant problem areas were detected should be included in the review, even

though they may have been the subject of a general or special audit. In all such cases, of course, the review should simply summarize the findings of the audit and refer to the audit for details. In some instances, a review of a program or a particular problem area may be of some length. In such instances, a separate paper may be written on the subject matter, and the annual review should refer to such special paper. In addition, as a result of the annual review, the legislature may request that a further study be conducted with respect to a program or problem area. In that case, the study may result in an audit or a "semi-audit" and a special paper will be written, based on such study.

PART III. INVENTORY OF RESPONSES TO LEGISLATIVE REQUESTS

Purpose

At each session, the legislature often requests the various agencies to take certain actions or to study certain matters or to supply to the legislature certain information. Such requests are made through committee reports and resolutions. It is helpful to the legislature to be (1) reminded of the requests it had made; (2) informed of the actions taken by the agencies in response to the requests; and (3) informed of the reports which the agencies may have prepared in response to the requests. An inventory of responses to legislative requests, prepared by the office of the legislative auditor, is intended to furnish that help.

Scope

The inventory covers all requests made by the legislature via committee reports and resolutions, including those made to quasi-government bodies. Since the inventory is one which summarizes the responses, and since the requests of the legislature often require the agencies to whom the requests were made to submit written reports, on actions taken, at the succeeding session of the legislature, the annual inventory covers only those requests made by the legislature two sessions ago. The inventory will indicate whether or not the agencies filed their reports to the legislature as required.

As the word, "inventory", implies, it is simply a compilation of the responses. No assessment is made as to the quality and adequacy of the actions taken by the agencies in response, except to indicate whether or not the responses generally appeared to satisfy the intent of the legislature.

Method

Each analyst assigned to a functional area shall, prior to the close of each calendar year, take an inventory of all requests made to agencies within his functional area. In taking this inventory, the usual method shall be by a written communication to the agency concerned, asking the agency for information as to the actions taken pursuant to the legislative requests. Each committee report and resolution and a brief summary of each legislative request shall be noted in the written communication. All letters requesting such information shall be sent over the signature of the legislative auditor.

Where answers to this office's communication appear vague and indefinite, the analyst shall attempt to seek a more definitive reply through personal interviews.

Content and Format

The inventory of responses shall be presented in tabular form. It shall contain the following parts:

1. A foreword by the legislative auditor.
2. A table of contents.
3. The body of the report arranged thusly:
 - . executive agencies, beginning with the office of the governor, and the others arranged alphabetically.
 - . the judiciary.
 - . county governments.
 - . quasi-public agencies.
4. An index by subject matter.

The body of the report shall be arranged in three columns, thus:

1. The number of the resolution or the number of the bill, the committee report of which contains the request.

2. The request, indicating briefly
 - . the nature of the request.
 - . the date, if any, when the request was to be completed.
3. The response of the agency, indicating briefly
 - . the nature of the response or action taken.
 - . if no action was taken, the reasons therefor.
 - . an indication of whether or not, in the opinion of this office, the response appeared generally to satisfy the intent of the legislative request.

GUIDE TO GENERAL OFFICE SUPPORT

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GUIDE TO GENERAL OFFICE SUPPORT

PART I: INTRODUCTION

PURPOSE OF THE GUIDE

All matters which concern the internal operations of this office are included in the category, general office support. However, unlike other program categories, general office support includes only a limited number of "programs", as that term is usually defined. For the most part, this category includes (1) "programs", the products of which are internally oriented and (2) this office's policies regarding personnel and office procedure.

This guide, then, explains the purposes, scope and methods of conducting those programs which may from time to time be established for the benefit of the members of this office and outlines the policies respecting the duties and the standards of conduct expected of each member of the legislative auditor's staff.

PART II. (SAVE)

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(Next page starts with GO-11)

PART III: PERSONNEL CLASSIFICATIONS
AND COMPENSATION SCHEDULE

PURPOSE AND SCOPE

This part of the guide explains the difference in duties and compensation of the various classes of employees in the office of the legislative auditor.

SECRETARIAL STAFF CLASSIFICATIONS AND COMPENSATION

1. Classification and Compensation. The classification and compensation of the secretarial staff shall follow as closely as possible the guidelines for the classification and compensation of secretaries in the State service generally.

2. General Nature of Work. Generally, secretarial services include the following:

- . Providing stenographic and clerical services in preparing correspondence, reports, bills, resolutions, specifications, proposals, contracts, audit reports, and other material.
- . Maintaining the office library. This includes cataloguing and shelving and keeping a card file of all materials.
- . Maintaining office equipment and supplies. This entails determining the need for and ordering all supplies, and assuring the proper maintenance and inventory of all equipment.

- . Providing personnel services. This entails the preparation of the payroll and necessary personnel forms and the maintenance of staff records and applicant files.
- . Maintaining financial records. This includes the issuing of purchase orders, payment of invoices, and the maintenance of the accounting records.
- . Maintaining office files.

PROFESSIONAL STAFF CLASSIFICATION AND COMPENSATION

1. Position Classification. The work performed by the office of the legislative auditor is a broad type of program and management analysis and audit designed to be supportive to the policy and law-making functions of the legislature. The following four levels of work complexity and professional competency within this profession have been identified.

a. Assistant Legislative Analyst

Individuals working at this professional level generally perform financial and management auditing, or program review and evaluation assignments under the supervision of other staff members. An assistant legislative analyst usually works as a member of a team assisting in gathering specific kinds of information. In addition, an assistant legislative analyst devotes a considerable amount of time to developing knowledge and understanding of state and county government programs and operations, of intergovernmental relationships, of legislative procedures and operations, of the auditing principles and practices of the office of the legislative

auditor, and of work disciplines pertinent to the conduct of state and county governments. Work at this level requires the ability to learn and apply the principles, methods, and techniques of auditing, management analysis, and program evaluation; to collect and analyze facts and reach sound conclusions therefrom; and to prepare all written assignments in a clear and concise manner.

b. Associate Legislative Analyst

Individuals at this level perform a wide variety of financial and management auditing, or program review and evaluation assignments of moderate difficulty, as a member of a team or under direct supervision of higher level analysts. The performance of such work is generally in accord with established practice and procedure of the office of the legislative auditor and within clearly identified organization and program areas. An associate legislative analyst occasionally serves as staff resource to the legislature within prescribed subject matter areas and within circumscribed standards of conduct. Individuals at this level also devote some time to increasing their knowledge of state and county government operations and pertinent work disciplines. In addition to the abilities required at the next lower level, work at this level requires a good working knowledge of analytical techniques; the ability to integrate a broad range of facts and derive sound conclusions and recommendations; and the ability to organize, prepare and write clear and concise portions of audit reports and other reports.

c. Legislative Analyst

Individuals at this level perform a wide range of auditing and analysis in matters which are diverse and complex. A legislative analyst often works independently under general supervision and, as assigned, serves as team leader of specific projects or phases of projects; performs in accordance with established practice and procedure of the office of the legislative auditor with sufficient technical knowledge and judgment to work independently; and serves as staff resource to legislative committees within prescribed areas and circumscribed standards of conduct. In addition to the abilities required for lower levels, work at this level requires the ability to supervise the work of others; to deal effectively with individuals at policy-making levels within the various branches of state, county, and federal governments; to conduct independent and complete research of assigned projects; and to prepare complete audit report and other reports.

d. Supervising Legislative Analyst

An individual at this level plans, organizes, directs, and coordinates complete audits, program reviews and evaluations, and special studies or projects. The supervising legislative analyst exercises immediate and continuous supervision over assigned staff members while a project is in progress, and controls the technical quality of the product of an audit or study. Guidelines provided are broad; work is performed within the broad framework of laws and in accordance with the principles of sound

organizational, program, and financial management. The supervising legislative analyst provides consultative services to individual legislators and legislative committees on selected matters which are within their scope of work specialization. Individuals at this level require the ability to supervise comprehensive audits, systems studies or program evaluations; to exercise a high level of judgment and discretion in interpreting laws, policies, and documents; to assure the development of clear presentations from complex material and the preparation of complete reports in a form suitable for submission by the legislative auditor; and to deal effectively with individuals at policymaking levels.

2. Compensation Schedule. The following is a schedule of the salary ranges of the annual (and monthly) compensation of the various classes of professional staff members.

Compensation Schedule
(Revised, Effective July 1, 1975)

	<u>Salary Range</u>	
	<u>Minimum</u>	<u>Maximum</u>
Assistant Legislative Analyst	\$10,500 (875)	- 13,296 (1108)
Associate Legislative Analyst	13,860 (1155)	- 18,924 (1577)
Legislative Analyst	19,692 (1641)	- 23,916 (1993)
Supervising Legislative Analyst	24,900 (2075)	- 30,300 (2525)

PROGRAM MANAGEMENT AND ADMINISTRATIVE STAFF
CLASSIFICATION AND COMPENSATION

1. Position Classification. The following four positions are established to assist the legislative auditor and his deputy to manage the various programs of the office of the legislative auditor and to assist in administering the internal affairs of the agency.

a. Assistant Legislative Auditor - Director, Program Review and Legislative Services

The individual in this position has overall responsibility for managing the review of state programs and the development of issue papers, the rendering of legislative services, the development and preparation of specifications for audits, program evaluations and special studies, the maintenance of liaison with the federal government, and such other responsibilities as may be assigned by the legislative auditor. He represents the legislative auditor and acts for him when so delegated. In consultation with and under the general direction of the legislative auditor, the individual plans and schedules the projects and work assignments for the analysts under his supervision. He reviews and supervises the work of the analysts, furnishes technical assistance and guidance to them, provides for the continuing development of their professional skills, and assures that all work performed and reports and other papers prepared meet the standards of the office. The individual recommends to the legislative auditor the hiring, promotion, separation, and other personnel action of employees.

b. Assistant Legislative Auditor - Director, Audit Operations

The individual in this position has overall responsibility for managing all audits and special investigations conducted by the office of the legislative auditor, the administration of consultant contracts, the preparation of audit and study proposals, and such other responsibilities as may be assigned by the legislative auditor. He represents the legislative auditor and acts for him when so delegated. In consultation with and under the general direction of the legislative auditor, the individual plans and schedules the projects and work assignments for the analysts under his supervision. He reviews and supervises the work of the analysts, furnishes technical assistance and guidance to them, provides for the continuing development of their professional skills, and assures that all work performed and reports and other papers prepared meet the standards of the office. The individual recommends to the legislative auditor the hiring, promotion, separation, and other personnel action of employees.

c. Administrative Assistant to the Legislative Auditor

The individual in this position assists the legislative auditor in conducting the administrative business of the office. Under the general supervision of and in consultation with the legislative auditor, he analyzes and solves administrative problems and recommends administrative improvements; develops, installs, and evaluates office policies and procedures; formulates the budget and monitors its execution; prepares periodic financial and administrative

reports; reviews incoming correspondence for action and prepares outgoing correspondence; monitors the office workload and workflow and assures timely response to legislative requests and other action requests; assures that personnel actions are timely and in compliance with law and office policies; controls, and assures the adequacy of, office space and facilities, equipment, and supplies; serves as liaison on administrative matters between the office and other offices and organizations; and performs such special investigations and other duties as may be assigned.

d. Special Programs Officer

The individual in this position administers the special programs of the office, in addition to other assigned duties. Under the general supervision of and in consultation with the director of program review and legislative services, he monitors pending federal programs and assesses their impact on Hawaii, analyzes what changes to pending and existing federal laws or rules would be in the interests of the State, identifies problems of State agencies in the implementation of federally-funded programs, maintains liaison with federal officials, and prepares periodic reports on federal programs for submission to the legislature. The individual also reviews the statements filed by lobbyists with the legislative auditor to assure that they are complete, and when so directed, investigates the activities of any lobbyist to determine whether the lobbyist is in compliance with law.

2. Compensation. The compensation of the assistant legislative auditors, the special programs officer and the administrative assistant to the legislative auditor shall be set by the legislative auditor.

PART IV: PERSONNEL POLICY

PURPOSE AND SCOPE

The personnel policy is intended to guide all staff members in matters relating to their working relationship to this office.

POLICY NO. 1 - RECRUITMENT

Appointments to the staff are made by the auditor with the approval of the Speaker of the House of Representatives and the President of the Senate. Applications will be received at any time. Employees are encouraged to recommend persons to the Auditor who might make valuable additions to the staff. Tenure is at the pleasure of the auditor.

POLICY NO. 2 - HOURS OF WORK

a. Regular. Normal office hours of work are from 7:45 a.m. to 4:30 p.m., Monday through Friday. Staff members shall not be required to work on those State holidays designated in Section 8-1, Hawaii Revised Statutes. Special holidays granted to State and/or county government employees by the governor and/or the mayor may be granted to the staff at the discretion of the auditor.

b. Overtime. Staff members may expect to work in addition to their regular hours when workload or legislative demands require it. No additional compensation shall be paid for overtime work. Professional staff members shall not be given compensatory time off; however, clerical staff members shall receive compensation for overtime in accordance with Section 80-4, Hawaii Revised Statutes.

c. Time Sheets. Individual staff members are required to maintain a daily record of time spent on various projects and activities for purposes of recording past performance experience and estimating future program resource requirements.

POLICY NO. 3 - LEAVES

a. Vacation Leave. Regular staff members shall earn vacation credits in accordance with the provisions of Section 79-1, Hawaii Revised Statutes. Vacations may be taken upon the recommendation of the individual's immediate supervisor and approval of upper level management. No vacations will be permitted during periods that the legislature is in session.

Staff members are encouraged to take the full amount of their vacation credits each year and in a single continuous period. It is expected that some accumulation from year to year may be unavoidable because of work demands, or may be deliberate so as to accommodate future extended travel plans. Staff members are urged to seek approval from the auditor of such plans as early as possible so as that accurate estimates of staff resources will be available in advance for program planning and scheduling and the desires of the staff members may be accommodated if at all possible.

b. Sick Leave. Staff members, both regular and temporary, shall earn sick leave credits in accordance with the provisions of Section 79-8, Hawaii Revised Statutes. Effective July 1, 1975, a staff member who retires or leaves government service in good standing with sixty days or more of unused sick leave shall be entitled to additional retirement service credit in accordance with law.

c. Funeral Leave. Leave shall be granted upon the death of a member of the employee's family as provided by Section 79-13, Hawaii Revised Statutes.

d. Administrative Leave. The auditor may grant other requests for permission to be absent from work for good cause on an individual basis.

e. Other Leaves. In general, employees will also be granted leaves for purposes specified by law for regular government employees

at the discretion of the auditor. Requests should be made as far in advance as possible in order to assure their fullest consideration.

f. Administrative Procedures. Each period of leave, other than administrative leave, taken by a staff member shall be recorded on LA Form No. 6 (Request for leave of absence) and, upon approval by appropriate upper level management personnel, shall be filed with the personnel clerk of the office of the legislative auditor. It shall be the responsibility of each staff member to initiate LA Form No. 6 in advance of the desired period of leave, or, in the case of illness or other unanticipated absence from work, to initiate the form immediately upon return to work. Should a staff member be absent from work due to circumstances which prevent the individual from requesting a leave of absence in advance, such as illness or personal emergency, the individual should notify his immediate supervisor by telephone or other expedient means of the reasons for and the approximate duration of the absence. The supervisor shall, in turn, relate this information to appropriate upper level management personnel and the personnel clerk.

POLICY NO. 4 - TRAINING AND STAFF DEVELOPMENT

Staff members will be encouraged in their efforts to improve their individual professional development and their competency in the work of this office. Course work for credit may be taken at the University of Hawaii with the prior approval of the auditor during working hours for all sessions except the Spring semester. This privilege will be limited at any one time to courses of three credit hours or less. Staff members are expected to pay their own tuition and fees for such course work and are expected to complete them successfully.

Attendance at institutes, seminars, conferences and similar functions is also permitted during working hours with the approval of the auditor. Fees for attendance may be paid by the office at the discretion of the auditor. Staff members knowing of such meetings are encouraged to advise the auditor of them so that those of value will be given consideration. Decisions regarding staff attendance will necessarily take into account the workload of the office and the staff at that time.

It is the intent of the auditor to develop a library of current and classic materials relating to government in general and its many functions. Staff members are expected to recommend library purchases and to become familiar with the materials on hand.

POLICY NO. 5 - PAY

Starting salaries for staff members are determined at the discretion of the auditor in accordance with the office's salary schedule. An individual's background of education and experience as well as the work he is expected to perform will be taken into consideration. Moreover, consideration will be given to the ability of the office to recruit staff in competition with other government and non-government organizations.

Employees can expect to earn an incremental pay increase annually provided their work is performed in a manner acceptable to the auditor. Merit increases in addition to increments may

also be awarded where the auditor feels they are justified by the quality of work performed. General reviews and adjustments of the salary schedule and the placement of individuals at particular rates may be reviewed at any time the auditor deems it necessary.

Staff members shall not receive additional compensation for hours worked in excess of the regular hours per day, or days per week.

POLICY NO. 6 - EMPLOYEE CONDUCT

Staff members are expected to dress and conduct themselves at all times in a manner which will reflect credit upon themselves, their colleagues and the office of the auditor.

No staff member shall attempt to take personal advantage of his position as a member of this office, nor divulge to others information which might be considered confidential or privileged in nature. When any doubt exists, staff members are encouraged to discuss the matter with the auditor before any problems arise.

Members of the staff shall refrain from active participation in political activities such as holding office in political parties, working for a candidate in political campaigns, serving on campaign strategy committees and making public endorsement of candidates. Membership in a political party, attendance at political rallies, coffee hours and the like and making voluntary contributions to candidates are permitted.

Responsible participation in community affairs and organizations is encouraged.

POLICY NO. 7 - TRAVEL

Travel on Oahu, the neighbor islands, or to the mainland, is a normal expectation of work in the office of the auditor. Every effort will be made to avoid undue hardship to staff members and their families as a result of travel requirements. Instances of possible problems should be brought to the attention of the auditor who, within the requirements of law with respect to his responsibilities, will attempt to resolve them.

Employees will be allowed a per diem allowance and to incur other travel expenses while travelling on the neighbor islands and out of state. Staff members are expected to exercise moderation with respect to these expenses without jeopardizing the successful completion of the assignment.

a. Per diem allowance. Employees will be allowed a per diem allowance of \$30, except that an allowance in excess of \$30 but not more than \$40 may be allowed upon approval of the auditor. The per diem allowance is intended to cover hotel accommodations and subsistence.

Whenever unusual conditions exist, such that the per diem allowance is insufficient to cover the actual cost of standard hotel accommodations and subsistence, employees may, upon the approval of the auditor, be paid for the actual expenditures incurred, in lieu of the per diem allowance. Under these conditions, the subsistence costs that may be claimed shall not exceed a daily average of \$12 for neighbor island travel and \$17.50 for out of state travel.

b. Miscellaneous travel expenses. Costs which may be claimed by employees as necessary in connection with their travel include, but are not necessarily limited to, the following: registration fees, business telephone calls, radiograms, baggage transfers, cost of traveller's checks, bus and taxi fares, cost of ground transportation and parking fees. To the extent practicable, the most economical means of ground transportation shall be used.

c. Neighbor island travel. Employees may request a cash advance for their per diem allowance and for other anticipated travel expenses. Employees are expected to return to Honolulu at the end of the work week, except that they may, if they wish, remain on the neighbor island over the weekend when it is more economical to do so.

d. Out of state travel. Air transportation will be by economy or coach class, unless otherwise approved by the auditor. Employees will be paid in advance their per diem allowance plus \$50, or such other amount as the auditor may authorize, for miscellaneous travel expenses.

e. Reporting requirements. Upon the completion of the trip, the employee is required to complete a financial report on the costs of travel. The report shall include a computation of the per diem allowance for the period of travel and an itemization of expenses paid by the employee. Receipts and other documents supporting the itemized expenses are to be attached to the report.. Excess funds shall be returned to the office, or excess expenses shall be reimbursed to the employee.

f. Automobile mileage reimbursement. Reimbursement will be made at the rate of 12¢ per mile for the first 400 miles and 10¢ per mile thereafter for each calendar month period, for mileage on personal cars used in the course of the work of the office. Mileage may be charged only where the location of work is outside the civic center complex (i.e., beyond reasonable walking distance). In cases

where it is more practicable to go directly to the work site from the staff member's residence rather than to the central office, mileage may be requested only for the excess mileage involved in the home to work site distance as compared with the regular home to central office distance.

POLICY NO. 8 - SEPARATIONS

An employee who decides to terminate his service with the office must give a minimum of two weeks' notice of such a decision. In cases where the staff member may be conducting an extensive project for which the office of the auditor is responsible, sufficient notice should be given to permit a rational transfer of the project to another staff member, or to permit completion of it prior to separation.

Employees who are terminated at the discretion of the auditor shall receive a minimum of 30 calendar days' notice.

POLICY NO. 9 - EMPLOYEE WELFARE

Staff members are entitled to participate in the employee benefit programs afforded all regular government employees in Hawaii. They include:

- Retirement System (mandatory)
- Health Insurance
- Dental Insurance (children of employees only)
- Life Insurance
- Credit Union
- U. S. Savings Bonds Payroll Deduction Plan

Details about these programs are available in the office.

General office social events surrounding such occasions as Christmas and New Year's and the departure of staff members are encouraged so long as the expense is kept within reasonable limits and all employees are invited to participate.

Solicitation for fund raising events by members of the staff is permitted so long as it does not become excessive. Solicitations for fund-raising events by persons outside the staff will be permitted only after prior approval by the auditor. It should be absolutely clear that participation is on a voluntary basis and that under no circumstances is an employee to feel any obligation or pressure to contribute if he does not wish to.

PART V: PROJECT POLICY

PURPOSE AND SCOPE

This policy outlines the steps which are required to be followed in the performance of a project, unless otherwise instructed or directed by the legislative auditor.

POLICY NO. 1 - PROJECT DEFINED

A project is a work assignment which culminates in a report to the legislature or to the auditor.

POLICY NO. 2 - PROJECT CATEGORIES

Depending on the nature of the work assignment, a project falls into one of the following program categories:

- . Audits
 - . Program audit
 - . Operation audit
 - . Financial audit
- . Legislative Services
 - . Annual review of agency programs and operations
 - . Annual inventory of responses to legislative requests
 - . Legislative staff, research and program information
 - . Seminars
- . Miscellaneous Services
- . General Office Support

a. Audits. Audits are in-depth, planned studies or examinations of State and county departments and agencies. The studies result in written reports, containing findings of fact, conclusions of law (including statutes, rules, regulations and policies) and,

where appropriate, recommendations. The reports are normally addressed to the legislature. A project within this category is initiated either by the legislative auditor on his own volition or as a result of a legislative request contained in a resolution or committee report, or as a result of a request by an interim legislative committee organized for the purpose of conducting an in-depth study of a particular subject matter.

b. Legislative Services. A project within the legislative services category is a work assignment performed in direct response to a request of an individual legislator or a legislative committee for information or for assistance in fact gathering on a specific issue, bill drafting or bill analysis or for services as staff to the committee. The category also includes work assignments the performance of which does not require in-depth studies or examinations but is of direct assistance and of beneficial use to the legislature in its decision-making function during legislative sessions. The services rendered do not require lengthy research and depend to a large degree upon the staff member's familiarity with the specific subject matter under consideration. A written report may or may not be required, depending on the nature of the service.

c. Miscellaneous Services. A project within the miscellaneous services category is one which assists persons or agencies outside the legislature. For example, an assist to the office of the Legislative Reference Bureau in securing data or writing a report is an example of the kind of projects which fall within this category.

d. General Office Support. A project within this category is generally a task relating to the internal organization and operations of the office of the legislative auditor. Included within this category are projects such as in-service training, improvement of office procedures, etc. Written reports, if any, are addressed to the legislative auditor.

Each of the major categories and the programs therein is explained in fuller detail in the various guides published by this office.

POLICY NO. 3 - PROJECT PURPOSE, SCOPE, METHOD, STANDARDS, FORM

For the purpose and scope of each kind of projects, the methods and standards to be used, and the form and content of the reports, reference should be made to the guides published by this office for each program category.

POLICY NO. 4 - PROJECT SUGGESTIONS

Every staff member is responsible for identifying and suggesting projects, regardless of the category in which they may fall. All suggestions are to be made through simple memoranda to the legislative auditor which describe the nature of the proposed project, the anticipated benefits, and the reasons therefor.

POLICY NO. 5 - STEPS IN PROJECT EXECUTION

Except where clearly inapplicable, in the performance of every project, these steps shall be followed:

- . Preliminary survey
- . Specifications
- . Proposal
- . Work outline
- . Field work
- . Progress reports
- . Report outline
- . Report writing
- . Closing report files

a. Preliminary Survey. Any project suggested by a staff member may, at the discretion of the auditor, be subject to a preliminary survey. The purpose of this preliminary survey is to assess critically the value and feasibility of the project. A written report is to be submitted to the auditor with findings, including the probable costs and benefits of the project, and a recommendation either that the project is feasible and that it be conducted or that the project is not feasible and that it not be conducted, with reasons for the reassessment.

A preliminary survey may also be conducted before the specifications, proposal or work outline for a particular project is prepared. The purpose of such preliminary survey is to enable the staff member to acquire some working knowledge of the programs or operations of the agency affected by the project. Such preliminary survey is expected to assist the staff member in the preparation of the specifications, proposal or work outline and should not be construed as an examination of the agency nor conducted in a manner as to lead the agency to believe that a full scale audit of the agency has begun.

b. Specifications. Specifications are detailed and explicit, written description of the work desired to be performed in the project. As a general rule, no staff member drafting specifications shall be assigned to perform any of the work stated in the specifications; he shall, however, be available for consultation and advice during the period of the project. Specifications shall include at least the following:

- (1) A clear statement or a full description of:
 - . The specific objective(s) of the project.
 - . The nature and scope of the project.
 - . The tasks to be performed, the specific concerns to be investigated, the facts to be gathered, and the questions to be answered.
 - . The approach desired in performing the work.
 - . The practical, legal and political limitations, if any, on the work to be undertaken.
- (2) The form in which a report on the project is to be submitted.
- (3) The form and content of the proposal to be submitted in reply to the specifications.

The specifications shall also include the framework developed in preparing the specifications to lend perspective and a system viewpoint to the project. All specifications shall be submitted to the auditor for his approval.

c. Proposal. Upon approval of the specifications, the staff member assigned to perform the work called for in the specifications shall prepare a proposal. The proposal shall contain at least the following:

- (1) The facts needed to complete the project and the sources from which such facts will be collected.
- (2) The approach that will be taken in performing the work required and the methodology and procedures which will be used in gathering data and in performing analysis.
- (3) The resources necessary to complete the project and, where the project requires the input of more than one staff member, the amount of time to be devoted to the project and the nature of the tasks and the phase or part of the project to be undertaken by each person.
- (4) If the nature of the project is such that the services of a consultant (any resource outside the office of the legislative auditor) is desirable, a clear statement of the reasons why such consultant is desirable, the nature and scope of the work to be done by the consultant, the competencies required of the consultant, the name, qualification and experience of any recommended consultant, and the estimated cost of securing the consultant's services.
- (5) The estimated time required to complete the work called for in the specifications, including the estimated dates on which each major phase of the work will be commenced and completed, the report outline will be presented and the final report submitted.
- (6) The estimated total cost of the work, by appropriate cost elements (e.g., salaries, travel, communication, etc.).

The drafter of the specifications shall review the proposal and check for completeness, reasonableness and feasibility. He shall evaluate the costs and benefits of proceeding with the project as

proposed and submit his recommendations to the auditor. As necessary, the proposal may be returned for redrafting. With the approval of the auditor, the specifications may be modified and a new proposal required.

d. Work Outline. Upon approval of the proposal by the auditor, the staff member assigned to perform the work called for in the specifications and the proposal shall prepare a work plan outlining the manner in which the work is to be programmed. It shall include a breakdown of the major phases of the work, and for each phase, an identification of what tasks are to be done, the estimated dates on which they are to be commenced and completed, the names of the persons who will perform the tasks, and the amount of time to be expended by each person on each task. It shall further identify the dates on which progress reports will be made to the auditor. Where appropriate, PERT, critical path method, and other techniques shall be used to plan project time schedules, to control costs, and otherwise to manage the performance of the work.

e. Field Work. Field work may be undertaken immediately upon approval of the work outline by the auditor. If the project requires an examination of a department or agency, prior to such examination, a letter, indicating the nature and purpose of the examination and the name of the analyst who will conduct the examination, shall be prepared for the auditor's signature and delivered to the department or agency concerned.

f. Progress Reports. Progress reports shall be made to the auditor at such times noted in the work outline or twice monthly. These reports shall indicate whether the project is on schedule, the significant findings made to date, the significant problems encountered, and the revisions to the specifications, proposal or work outline that are required by the findings. All revisions to the specifications, proposal and work outline shall be subject to the auditor's approval.

g. Report Outline. Before any draft of the project report is prepared, a report outline shall be submitted to the auditor. The outline should be in sufficient detail and be representative

of the first draft of the report so that judgment can be made as to the logicalness of the organization of the material, the appropriateness and comprehensiveness of the facts gathered and evaluated, and the reasonableness of the conclusions reached and recommendations made.

h. Report Writing. Upon approval of the report outline, the project report shall be prepared and submitted to the auditor. The report shall be revised as often as may be necessary before it is put in final form. The auditor may from time to time submit any draft of the report to any staff member for comments and suggestions. As appropriate, all project reports shall contain the following parts:

- . a table of contents.
- . an introduction, explaining the purpose and scope of the project and the organization of the material.
- . the body, containing the laws, rules, and regulations examined, the facts gathered, the analyses and evaluation performed, the conclusions reached and the recommendations being made.
- . a summary.
- . an appendix of pertinent additional information not included in the body of the report.

i. Comments of Affected Agencies. Where a project consists of an audit of an agency's programs, management or operations, before the audit report is put in a form suitable for distribution to the legislature, copies of the preliminary draft of the report shall be transmitted to the governor, the president of the Senate, the speaker of the House of Representatives and those agencies affected by the report's findings and recommendations. This distribution is for a limited purpose only--to apprise the affected agencies of, and to afford them an opportunity to comment on the findings and recommendations; it is not intended as a public release of the contents of the report. The staff member responsible for

the report shall prepare an auditor's memorandum that appropriately responds to the agencies' comments. Both the agencies' comments and the auditor's memorandum shall be included in the appendix of the final form of the report which is distributed to the legislature.

j. Closing Report Files. A file or files shall be maintained for each project, including any work sheets prepared, documents gathered and communications had during the course of the conduct of the project. When the final draft of the report has been approved by the auditor, the file or files shall be culled and extraneous materials shall be removed. The completed files shall then be deposited in the central files of the office of the auditor, together with the project time sheets.

POLICY NO. 6 - PERFORMANCE OF FIELD WORK

In every project, the following shall be observed:

- a. A mental attitude of objectivity and independence shall be maintained throughout the project.
- b. Professional care shall be exercised in performance and in the preparation of the report.
- c. Assistants, if any, are to be properly supervised.
- d. No representation as to the findings of any examination on information in connection therewith shall be released to any agency or person until the project has been completed and the report has been prepared and issued, except upon the prior approval of the legislative auditor.
- e. In addition to the foregoing, in a financial audit, the generally accepted auditing standards adopted by the membership of the American Institute of Certified Public Accountants shall be adhered to.

POLICY NO. 7 - CONSULTANT SERVICES

With the approval of the auditor, the services of a consultant may be secured on any project where (1) the project, or any part thereof, requires professional or technical competencies beyond

those possessed by the office of the legislative auditor or (2) because of the size of the project or the office's commitment on other projects, the manpower of the office of the legislative auditor is insufficient or simply unavailable to complete the project within the time required. "Consultant services" means the personal services of a professional or technician, or a firm of professionals or technicians, acting as an independent contractor; it does not include the services of a person who is hired on a temporary basis and who performs his tasks under the direct, operational control of the auditor.

In the engagement of a consultant, the following procedure shall be followed:

a. Specifications. Specifications shall be drafted outlining clearly and in detail, the objective and scope of the work to be performed by the consultant. The specifications, in form and content, shall conform to the provisions of policy no. 5b.

(1) In addition to those matters contained in policy no. 5b, the specifications shall specify:

- . The dates on which the contract to perform the work is to be awarded and work is expected to commence and terminate.
- . That all workpapers developed by the consultant while performing the work, including computations and notes, shall be available to the auditor at any time during the course of the work and at the conclusion thereof for inspection and review, and that the auditor may cause a copy of any of the workpapers to be made for his files.
- . That the consultant shall submit progress reports while the work is being performed and be available upon reasonable demands to discuss the progress of the work being performed.

- . That the consultant shall prepare a preliminary draft, in specified number of copies, of the report on the work performed and be available to discuss the same with the auditor and, where the work involves an examination of an agency's program, management practices or operations, with the appropriate officials of the affected agency.
 - . That the final draft of the report, acceptable to the auditor, shall be submitted in specified number of copies.
 - . That the consultant shall be available, upon completion of the work required, for attendance at legislative hearings, trials, depositions, etc., to testify on or to discuss the findings and recommendations contained in the final report.
 - . The extent to which assistance and cooperation from the auditor's office will be available to the consultant.
 - . The budgetary limitations on the contract price, and whether or not and to what extent progress payments will be allowable.
 - . The date by which proposals or bids should be submitted.
- (2) In specifying the form in which a report on the work done is to be submitted, the specifications shall incorporate the provisions of policy no. 5h.
- (3) In specifying the form and content of the proposals to be submitted by prospective consultants, the specifications shall require each prospective consultant to state:
- . The qualification of the consultant, including, as appropriate: the nature of its organization; its specialty; the size of its professional,

administrative, technical and clerical staff, both full-time and part-time; the specific competencies and qualifications of its professional staff members; and its past experiences in work similar or related to the work called for in the specifications, together with samples of its past work.

- . The approach, method and procedure that the consultant intends to take and the tests and standards that the consultant intends to use in performing the work required.
- . The resources that the consultant intends to commit to the work, including the name and qualification of, the scope of the work contemplated for, and the amount of time to be devoted by each of the consultant's personnel and that of any subcontractors that the consultant intends to engage.
- . The consultant's estimate of the time required to complete the work, including an estimate of the dates on which work can commence and a final report will be submitted.
- . The name of the office and address from which the work will be conducted.
- . The cost or price for the work, by appropriate cost elements (e.g., salaries, rental of equipment, travel, communication, printing, etc.) and by phases of the work required. The cost shall be exclusive of the cost of attending legislative hearings, trials, depositions, etc., after the submission of an acceptable final report; the cost of such attendance, if any, shall be separately stated.

b. Proposal. No consultant contract shall be let without providing an opportunity to as many known, qualified and interested persons and firms as possible to submit proposals or bids to perform

the work called for in the specifications; provided that, with the approval of the auditor, consultant's services may be negotiated with a particular person or firm under the following circumstances:

- . The competencies required by the specifications are special and peculiar to or the approach desired to be taken has been developed only by a particular person or firm; or
- . The work required involves simply a review and the rendering of advice to the office of the legislative auditor of a limited nature (e.g., reviewing, evaluating and advising on a specific piece of work done by this office; reviewing and advising in the drafting of specifications by this office; reviewing a study done by another consultant and raising questions thereto; interpreting data, statistics and technical matters, an understanding of which is required by this office; training members of the staff of this office in particular skills necessary to complete a project; etc.).

As necessary, conferences with prospective consultants shall be held to explain the contents of the specifications.

c. Selection Criteria. If more than one proposal or bid is submitted, the proposals or bids shall be compared and the consultant selected on the basis of the following criteria:

- . The degree to which each proposal complies with the specifications.
- . The qualification and competency of each prospective consultant as reflected by the nature of its organization, its staff capabilities, its past experience and its reputation.
- . The competencies that each prospective consultant intends to commit to the work.

- . The approach, methods and procedure that each prospective consultant intends to follow and the tests and standards that each prospective consultant intends to use in performing the work required.
- . The depth to which each prospective consultant proposes to study, investigate, review and analyze the various aspects of the work required.
- . The time within which each prospective consultant will complete the work.
- . The costs and anticipated benefits of each proposal.

The auditor is not required to select that proposal which specifies the lowest price or cost. The auditor may make counter-proposals to any proposal to obtain the most favorable terms. The auditor may reject all proposals when, in his opinion, none of the proposals meets the requirements of the specifications, the required competencies will not be brought to bear on the work required, the costs exceed the budgetary limits prescribed for the work, the benefits to be derived are likely to be less than anticipated, or the rejection is otherwise in the best interest of the office of the legislative auditor or the State. Upon rejection of all proposals, the auditor may call for new proposals, with or without modifications to the specifications.

d. Contract. (1) All contracts for consultant services shall contain the following:

- . Definition of technical terms.
- . All provisions of the specifications and the accepted proposal or bid, either by incorporation or reiteration; a statement shall be included that, unless otherwise specifically noted in the contract, in the event of any conflict between the provisions of the specifications and those of the proposal or bid, the provisions of the specifications shall prevail.

- . The extent to which assistance and cooperation will be available to the consultant from the office of the legislative auditor and the name of the staff member of the office of the legislative auditor who shall serve as liaison and contract supervisory officer.
- . The terms, nature and frequency of progress reports to be made by the consultant to the auditor.
- . The commencement, progress report and completion dates of the project, including the dates on which the preliminary draft and the final draft of the report are to be submitted to the auditor.
- . A prohibition against duplication, use or disclosure in any manner for any purpose the findings and results of the consultant's work, without the prior written approval of the auditor.
- . The amount, method, condition and time of payment for the consultant's services (see paragraph (2) below).
- . The source of funding to pay for the cost of the contract services.
- . The conditions under which and the method by which the contract may be modified, extended or cancelled (see paragraphs d(3) and (f) below).
- . A statement that the contract is not binding unless appropriations to pay for the services are available as certified by the State comptroller.

(2) All contracts shall separately state the costs of (a) the study, research, review or examination called for in the specifications and (b) attendance at legislative hearings, trials, depositions, etc., after the submission of an acceptable final report. Contract costs for the study, research, review or examination called for in the specifications shall be governed by the following:

. The amount to be paid shall be determined on the basis of the complexity and difficulty of the work required, the going rate for similar work, both within and without the State government, and the qualification, experience and reputation of the consultant.

. Payment may be made on the basis of any of the following: a lump sum or fixed price for the total work; fee plus cost reimbursement; or daily or hourly compensation plus cost reimbursement. Daily or hourly compensation plus cost reimbursement shall be used only in those contracts where work is to be performed "upon request" or "when requested" by the auditor during the term of the contract.

. In all cases where cost is to be reimbursed, "cost" includes: actual transportation costs; per diem allowances for subsistence expenses at the rate established by law for State employees; specific, reasonable and allocable administrative and operating expenses related to the performance of the work, including such items as communications costs, office expenses, clerical services, data processing services, report production expenses, supervision, etc.; and other specific, identified, unusual expenses.

. In all cases where payment is to be made on the basis of either fee plus cost reimbursement or daily or hourly compensation plus cost reimbursement, a ceiling shall be established which limits the total amount (including both fee or compensation and costs) required to be paid.

. Whenever possible, payment shall be made in a single installment at the completion of the work. Where progress payments are made, the installments shall not be more frequent than

quarterly. Each installment shall be payable in arrears for services rendered to date; it shall be made at clearly identifiable stages of progress upon submission by the consultant of a written progress report and a certified statement showing the compensation due and the costs (by appropriate cost elements) actually incurred. A ceiling on the total amount (including both compensation and costs) payable in each installment shall be established. In the aggregate, progress payments shall not exceed 75 per cent of the ceiling for the entire study, research, review or examination, with the balance to be paid upon completion of the entire work.

. No final payment, whether the contract lump sum or the final installment of progress payments, shall be made except upon submission by the consultant of a final report acceptable to the auditor, a certified statement of the compensation due and the total costs (by appropriate cost elements) incurred in the performance of the work required, and, as required by section 103-53 Hawaii Revised Statutes, a clearance from the State director of taxation showing that all delinquent taxes levied or accrued against the consultant under State statutes have been paid.

Contract costs for attendance at legislative hearings, trials, depositions, etc., for the purpose of reviewing and discussing the findings and recommendations contained in the consultant's final report, shall be governed by the following:

. The compensation shall be consistent with the complexity and difficulty of the testimony to be given, the going rate for similarly qualified consultants and the qualifications and reputation of the consultant.

- . A daily or hourly compensation shall be specified, either a fixed sum per day or hour, or a fixed fee per day or hour plus cost reimbursement. In case of fixed fee per day or hour plus cost reimbursement, the specific cost items which are reimbursable (e.g., travel, lodging, subsistence) shall be specified.
- . All payments shall be made in arrears upon completion of the testimony and upon submission of a certified statement of the compensation due and the costs (by appropriate cost elements) actually incurred.

(3) No contract may be expanded in scope or otherwise modified or extended in time except upon the prior written approval of the auditor. All consultant contracts shall require that if the consultant finds during the performance of his work that the scope of the work needs expansion or some aspect of the work should be modified or a longer period of time will be required to complete the work, he shall notify the auditor in writing of the nature and circumstances of, and the reasons for the need to expand, modify or extend the contract, together with a full description of any additional work required and the cost of such additional work.

(4) All contracts and all amendments to contracts shall be signed by the consultant and by the auditor in behalf of the State. The signature of the consultant or, in case of a firm, the signature of the person purportedly signing in behalf of the firm shall be acknowledged and verified.

e. Contract Administration. While the contract work is being performed by the consultant, the staff member of the office of the legislative auditor who has been appointed to serve as liaison and contract supervisory officer shall:

- . Maintain communication with the consultant.
- . Render such assistance to the consultant as the office of the legislative auditor is required to render under the contract.

- . Review and ascertain the progress being made by the consultant to determine whether or not the terms of the contract are being met.
- . Review for completeness all statements submitted for payment for work performed.
- . Make such recommendations to the auditor as appropriate regarding the consultant's work and demand for payment for work completed.

f. Contract Cancellation. At any time during the performance of work by the consultant, the auditor may terminate the contract upon written notice to the consultant, if in the judgment of the auditor, the work is not progressing as intended, the consultant's work is not likely to produce that result or product called for in the contract, or the work is being unreasonably delayed. Upon such termination, the consultant shall be paid for all work performed to date upon submission of an accounting of such work performed, a certified statement of all compensation earned and costs incurred to date, and a tax clearance from the State director of taxation as provided in section 103-53, Hawaii Revised Statutes. Nothing in this paragraph shall be construed as a waiver of any right of action that the State may possess by reason of the consultant's breach of any provision of the contract.

g. Review and Evaluation of Consultant's Report. (1) Upon submission of the preliminary draft of the consultant's report, the auditor's liaison and contract supervisory personnel shall:

- . Review the report to determine compliance with all of the provisions of the specifications, proposal and contract, substantiation of all of the findings, the reasonableness, feasibility and practicality of the proposed recommendations, and the appropriateness of the recommendations in the light of the findings. As necessary, the auditor may require the consultant to revise all or parts of the report or to make further studies and to submit another preliminary draft.

- . Where the project consists of an audit of an agency's programs, management or operations, cause copies of the preliminary draft acceptable to the auditor to be distributed to the governor, the president of the Senate, the speaker of the House of Representatives and those agencies affected by the report's findings and recommendations and arrange for such meetings as may be necessary between the consultant and the affected agencies to review and clarify the report's findings and recommendations.
- . Receive and review all comments submitted by the affected agencies and cause a reply to be prepared by the consultant.
- . When requested by the auditor, prepare an auditor's overview of the consultant's report for submission to the legislature.

(2) Upon submission of the final draft of the consultant's report, acceptable to the auditor, the auditor's liaison and contract supervisory personnel shall:

- . Assess the results of the contract in the light of those anticipated at the time the contract was let.
- . Review all work papers of the consultant and select those for duplication for the files of the office of the legislative auditor.
- . Review the statement for final payment submitted by the consultant for completeness and conformance with law.
- . Close the report file as provided in policy no. 5j.

PART VI: TIME RECORD POLICY

SCOPE

This policy outlines the methods and forms by which time spent on project and non-project activities of the office is to be recorded.

POLICY NO. 1 - TIME RECORDS GENERALLY

A record of time spent on each activity of the office shall be maintained for the purpose of controlling performance and cost, assessing past performance, and estimating future program resource requirements. Time records shall be kept for both project and non-project activities. The responsibility for maintaining reasonably accurate time records is upon all staff members.

POLICY NO. 2 - PROCEDURE

(a) Each analyst shall maintain a daily log, recording therein the amount of time spent on each activity during the day. Time shall be measured to the nearest quarter hour. Each analyst may devise his own form or utilize LA Form No. 1 for this purpose.

(b) Semi-monthly (on the 16th of each month and on the first of the following month), each analyst shall summarize on LA Form No. 2 and LA Form No. 3 the time spent on project and non-project activities during the preceding period. A separate LA Form No. 2 shall be prepared for each project.

(c) On the first of each month, after summarizing the time spent on a project on LA Form No. 2, each analyst shall submit the form to the analyst in charge of the project. Upon receipt of LA Forms No. 2 from all analysts on the project, the analyst in charge shall record on LA Form No. 4, the time spent by each analyst on the project during the preceding month. After such recording, the analyst in charge shall return the LA Forms No. 2 to the respective analysts for the analysts' summarization of the next month's time spent on the project. At the conclusion of the project, each analyst on the project shall immediately complete LA Form No. 2

covering the time period since the last summarization to the date of completion of the project and submit the same to the analyst in charge. The analyst in charge shall in turn complete LA Form No. 4 and deposit both forms No. 2 and No. 4 in the central files of the auditor together with the project file.

(d) On the first of each month, after summarizing the time spent on non-project activities on LA Form No. 3, each analyst shall submit the form to the secretary in charge of maintaining non-project time records for the office. Upon receipt of LA Forms No. 3 from the analysts, the secretary shall record on LA Form No. 5, the time spent by each analyst on non-project activities during the preceding month. After such recording, the secretary shall file all LA Forms No. 3 by analysts. The secretary shall maintain on LA Form No. 5 a running account of all non-project time spent by the various analysts.

(e) The auditor and such persons as he may designate may, from time to time, review any and all daily logs and time sheet forms for the purpose of ascertaining the costs of the projects and for the purpose of planning, management and control.

POLICY NO. 3 - TIME SHEET FORMS

The following forms shall be used to record project and non-project time:

- (a) LA Form No. 1 - Daily Time Sheet (optional)
- (b) LA Form No. 2 - Analyst's Project Time Summary
- (c) LA Form No. 3 - Analyst's Non-Project Time Summary
- (d) LA Form No. 4 - Master Project Time Sheet
- (e) LA Form No. 5 - Master Non-Project Time Sheet

POLICY NO. 4 - DEFINITIONS

The terms "project," "specifications," "proposal," "audit," and "program review," used in the various time sheet forms, are defined elsewhere in this Guide. Other terms used in the forms mean as follows:

Project Time Sheets (LA Forms No. 1, 2, and 4)

A. Specifications

(1) "Preparation"

Preparing to write specifications. It includes time spent discussing the nature of the project with superiors and others in the office and, where the project has been requested by the legislature, with the appropriate legislator or legislative committee. It further includes time spent conducting preliminary surveys of the agencies affected by the project, doing library research, and developing a framework to assist in analyzing the issues or problems encompassed by the project.

(2) "Writing"

Developing an outline for, and writing specifications. It includes time spent discussing the written specifications with the proposal writer and with superiors and others in the office.

B. Proposal

(1) "Preparation"

Preparing to write a proposal. It includes time spent conducting preliminary surveys of the agencies concerned, doing library research, examining the framework developed for the specifications, and discussing the specifications with the writer thereof and with superiors and others in the office.

(2) "Writing"

Developing an outline for, and writing a proposal. It includes time spent discussing the written proposal with the writer of the specifications and with superiors and others in the office.

(3) "Review"

Review of the proposal by the specifications writer. It includes time spent discussing the written proposal with the writer thereof and with superiors and others in the office.

C. Audit/Program Review/Etc.

- (1) "Preparation" Preparing to conduct the project. It includes time spent formulating a work plan or work outline. Where specifications and proposals are not prepared or required, it further includes time spent discussing the nature of the project with superiors and others in the office and, where the project has been requested by the legislature, with the appropriate legislator or legislative committee.
- (2) "Data gathering" Gathering data required in the project. It includes time spent working in the fields, gathering documents, figures and statistics and traveling to and from sources of data. It further includes time spent attending legislative or agency meetings for the purpose of securing information related to the project.
- (3) "Analysis" Analyzing the data collected, comparing against standards, and drawing conclusions. It includes time spent sorting out the facts, reassembling data and determining sufficiency of data to support conclusions.
- (4) "Report writing" Developing an outline for, and writing the report. The term, "report" includes bills, resolutions, committee reports and other writings prepared as part of "legislative services" or as part of "general office support." It further includes responses to written comments of any agency affected by our report.
- (5) "Conference/
In-House" Discussing written outline or report with superiors and others in the office. Where the office provides "technical assistance" to a legislator or legislative committee, it includes time spent discussing the report with the legislator or legislative committee at whose request the report has been prepared. Where the office provides continuous technical staff support to an interim or other special legislative committee, it includes time spent at the meetings of such committees.

(6) "Conference/
Agency"

Discussing the completed written report with agencies (other than the legislature) affected by the report. It includes time spent preparing for a meeting with such agencies and traveling to and from the agencies.

D. "Legislative Hearings"

Time spent before legislators or legislative committees (other than that included in "Conference/In-House") to discuss the contents of written reports.

Non-Project Time Sheets (LA Forms No. 1, 3, and 5)

"Reading"

All general reading, unrelated to any specific project.

"Training: In-House"

All training conducted or sponsored by the office of the auditor. It includes time spent in preparation for classes and attendance at training sessions.

"Training: Seminar
and Conferences"

All training conducted or sponsored by agencies outside the office of the auditor, including federal, state and private seminars conducted in Hawaii and elsewhere. It includes time spent traveling to and from the seminar or conference site.

"Training: University
credit courses"

Courses offered by a university, college or community college for credit, although attendance is on a non-credit basis. It includes time spent traveling to and from the university, college or community college.

"Agency meetings"

Meetings held by government, or non-government agencies or committees, other than the State legislature, to discuss or study specific subject matters unrelated to any project then in progress in this office, to which an analyst is invited or attends as an observer. It includes time spent at such meetings and traveling to and from the situs of such meetings.

"Staff Conferences"

Meetings of the auditor's staff to discuss matters of the office, unrelated to any specific project.

"Legislative Sessions and Hearings"

Attendance at legislative sessions or legislative committee meetings or hearings for general purpose, unrelated to any specific project.

"Vacation"

Leave of absence taken in accordance with chapter 79, HRS.

"Sick leave"

Leave of absence taken in accordance with chapter 79, HRS.

ANALYST'S NON-PROJECT TIME SUMMARY

ANALYST _____

DATE _____

Reading	Training			Agency Meetings	Staff Conferences	Legislative Sessions and Hearings	Vacation	Sick Leave			Total
	In-House	Sem. and Conferences	Univ. Credit Courses								

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LA Form No. 3

ANALYST'S NON-PROJECT TIME SUMMARY

ANALYST _____

DATE _____

Reading	Training			Agency Meetings	Staff Conferences	Legislative Sessions and Hearings	Vacation	Sick Leave			Total
	In-House	Sem. and Conferences	Univ. Credit Courses								

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LA Form No. 3

ANALYST'S NON-PROJECT TIME SUMMARY

ANALYST _____

DATE _____

Reading	Training			Agency Meetings	Staff Conferences	Legislative Sessions and Hearings	Vacation	Sick Leave			Total
	In-House	Sem. and Conferences	Univ. Credit Courses								

LA Form No. 3

PART VII: EMPLOYEE PERFORMANCE EVALUATION POLICY

PURPOSE AND SCOPE

This policy prescribes the method by which work performance by professional staff members of this office is to be evaluated.

POLICY NO. 1 - TERMS DEFINED

As used in this evaluation policy:

- (1) "Upper management" means the auditor, the deputy auditor, or the head of a major organizational unit of this office.
- (2) "Project manager" means a professional staff member, other than an upper management personnel, who is placed in charge of a project or task and has the responsibility of directing, supervising, or coordinating the work of one or more other staff members.

POLICY NO. 2 - OBJECTIVES OF EVALUATION

a. Performance evaluation of professional staff members, as provided in this part, is intended to contribute to upgrading the professional skills and competence of staff members and the quality of work of this office. Specifically, the objectives of performance evaluation are:

- (1) Identifying professional training needs to be met through in-service training and self-improvement programs; and
- (2) Determining the kind and degree of other informal assistance and guidance to be provided individual staff members to upgrade their skills and competence.

b. Performance evaluation shall also be conducted for the purpose of supporting the various personnel programs of this office. In this regard, the specific objective of performance evaluation is to assist in determining pay, promotion, award, retention, work

assignment, and related employment matters. Decisions in these matters do not necessarily flow, as a matter of course, from an evaluation or a series of evaluations; however, a particular evaluation or series of evaluations may be a determinate factor.

POLICY NO. 3 - THE SYSTEM IN GENERAL

a. The performance of all professional staff members of this office shall be subject to periodic evaluation by upper management. Where a project manager has been appointed, the project manager shall be subject to evaluation by upper management, and those working under the direction, supervision, or control of the project manager shall be subject to evaluation by both upper management and by the project manager.

b. The evaluation shall be in writing in the following instances:

- (1) Evaluation by a project manager of a staff member's performance under the project manager's immediate direction, supervision, or control; and
- (2) Evaluation by an upper management personnel of a project manager's or other staff member's performance under the upper management personnel's immediate direction, supervision, or control.

POLICY NO. 4 - RATINGS

Performance shall be rated as either "acceptable" or "not acceptable," except that the rating "outstanding" may be assigned in cases of vastly superior work. The following sections enumerate the factors to be considered in evaluating performance. Generally, all factors are to be considered together in arriving at the rating to be assigned. However, where one factor is particularly outstanding or deficient, that factor alone may constitute a sufficient basis for assigning a rating.

POLICY NO. 5 - EVALUATION CRITERIA

a. Generally. In evaluating a staff member's performance, the following shall be considered: the papers written, the level of skills demonstrated, and the attitudes exhibited.

(1) Written product. A written product shall be judged in terms of its quality, completeness, and timeliness.

(A) A writing possesses quality if

- (i) The writing and its parts are appropriately focused;
- (ii) The material is logically organized;
- (iii) The findings are supported by sufficient, competent evidence;
- (iv) The writing manifests adequate data evaluation; and
- (v) The audit findings are complete in describing the conditions found and the causes and effects of such conditions.

A writing of quality requires the reviewer of the product to make only editing changes--e.g., shortening sentences, adjusting paragraphs and arrangement of material, and correcting grammar. A writing lacking quality requires substantial re-drafting--e.g., re-focusing, major re-shuffling of material, supplying missing, significant data, and re-writing findings based on further data evaluation.

(B) A writing is timely if it is submitted within the deadline established in the specifications, proposal, instructions, or directions. If any material is returned to a staff member for re-drafting, the original deadline shall be retained as the yardstick; however, the time within which the redraft is submitted shall also be considered in determining timeliness.

- (2) Level of skill. The level of skill demonstrated is appropriate if
 - (A) It is commensurate with the level required by the task performed; or
 - (B) It is of that level expected of the staff member in light of his rank; or
 - (C) It evidences discernible progress in skill development since the last evaluation.
- (3) Attitude. An individual's attitude shall be judged in terms of his commitment to the missions and his contributions to the growth of this office and includes such manifestations as enthusiasm toward work, assistance, support, consideration, and cooperation given to other staff members, and willing assumption of responsibility.

b. Project manager. In evaluating the performance of a staff member as a project manager, in addition to those factors enumerated above, the member's effectiveness and efficiency in organizing and managing the team and project shall be considered.

- (1) Organization. Team and project are effectively and efficiently organized if work is fairly and rationally divided and assigned, interaction among team members is facilitated, efforts are conserved, and the timely completion of the project is assured.
- (2) Management. Management is effective and efficient if:
 - (A) Leadership is exercised in a manner which motivates, inspires confidence, and fosters cooperation and esprit de corps among team members, and moves the project along.
 - (B) Supervision is given which minimizes unnecessary effort and duplication of work, treats individual

members fairly, and insures timely completion of tasks.

- (C) Guidance is rendered to team members, individually and collectively, in a fashion which clarifies assignments and tasks to be accomplished, points out appropriate directions, provides helpful suggestions, assists in individual development, and promotes initiative.

POLICY NO. 6 - EVALUATION DATES

Performance evaluation shall be conducted:

- (1) Upon completion of a project or task.
- (2) Annually, on the staff member's anniversary date.
- (3) At other times as appropriate in light of the objectives of the evaluation policy.

POLICY NO. 7 - EVALUATION PROCEDURE

a. A staff member's performance on a project or task shall be evaluated in writing as follows:

- (1) Upon completion of a project or task, the project manager or upper management personnel, as the case may be, shall evaluate the performance of each staff member who worked on the project or task under the immediate direction, supervision, or control of the project manager or upper management personnel.
- (2) Within thirty days prior to a staff member's anniversary date and at such other times as required, the project manager or upper management personnel under whose immediate direction, supervision, or control the staff member is then working shall evaluate the staff member's performance on the project or task to which he is then assigned; provided, that the project or task is at such a stage and the staff

member has been on the project or task for such period of time as to provide a basis for such evaluation.

- (3) In evaluating a member's performance as a project manager, upper management shall consult with those staff members whose work was or is being directed, supervised, or coordinated by the project manager.
- (4) All relevant factors shall be considered, and the written evaluation shall explain fully the basis for the rating assigned.

b. The staff member evaluated shall be given a copy of the written evaluation, accorded a conference at which the evaluation may be discussed with the evaluator, and provided an opportunity to submit a written response to the evaluation.

c. On a staff member's anniversary date and as necessary upon completion of a project or task and at other times, upper management shall review with the staff member the written evaluations submitted on the performance of the staff member.

d. All written evaluations and responses shall be filed in the personnel jacket of the staff member concerned.

POLICY NO. 8 - SELF-EVALUATION

Each staff member is encouraged to evaluate his own performance in this office. The following form is suggested for this self-evaluation:

- (1) On or just prior to a staff member's anniversary date, set forth in writing one's objectives for the coming year. Where objectives are determined for a time span longer than a year, note the expected degree of accomplishment for the year. The objectives may relate to job performance, skill development, or personal growth. In setting these objectives, the contents of management's evaluation of the staff

member may be relevant. Any statement of objectives may be submitted to upper management for review and advice as to appropriateness of the objectives.

- (2) On the following anniversary date, evaluate in writing one's own progress during the year toward achievement of the objectives. If the stated objectives have not been attained, determine objectively the problems and reasons for non-attainment. Then formulate a new set of objectives for the ensuing year.

POLICY NO. 1 - SELF-EVALUATION

APPENDICES

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LAWS RELATING TO THE OFFICE OF THE AUDITOR

CONSTITUTION – STATE OF HAWAII

Article VI, Taxation and Finance

Section 7. The legislature, by a majority vote of each house in joint session, shall appoint an auditor who shall serve for a period of eight years and thereafter until a successor shall have been appointed. The legislature, by a two-thirds vote of the members in joint session, may remove the auditor from office at any time for cause. It shall be the duty of the auditor to conduct post-audits of all transactions and of all accounts kept by or for all departments, offices and agencies of the State and its political subdivisions, to certify to the accuracy of all financial statements issued by the respective accounting officers and to report his findings and recommendations to the governor and to the legislature at such times as shall be prescribed by law. He shall also make such additional reports and conduct such other investigations as may be directed by the legislature.

LAWS RELATING TO THE OFFICE OF THE AUDITOR

HAWAII REVISED STATUTES

CHAPTER 23 AUDITOR

Sec. 23-1 **Definition.** As used in this chapter:

“Departments, offices, and agencies” mean and include all executive departments, boards, commissions, bureaus, offices, agencies and all independent commissions and other establishments of the state government (excepting the legislature) and all quasi-public institutions and all courts which are supported in whole or in part by, or which handle state or public funds; and

“Political subdivision” means and includes all counties and municipalities of the State insofar as they are supported by or handle state or public funds.

Sec. 23-2 **Auditor; appointment, tenure, removal.** The auditor shall be appointed, hold office for such term, and be subject to removal in the manner prescribed in section 7, article VI, of the Constitution.

Sec. 23-3 **Salary of the auditor and appropriations.** The salary of the auditor shall be fixed by the legislature and shall not be diminished during the auditor’s term of office. For the period beginning on July 1, 1969 and ending on June 30, 1970, the salary shall be the same as the salary of circuit court judges. Effective July 1, 1970, the salary shall be the same as the salary of circuit court judges.

The funds for the support of the auditor’s office shall be provided for in the act providing for the expenses of the legislature.

Sec. 23-4 **Duties.** The auditor shall conduct postaudits of all transactions and of all books and accounts kept by or for all departments, offices and agencies of the State, and its political subdivisions. The postaudits and all examinations to discover evidence of any unauthorized, illegal, irregular, improper, or unsafe handling or expenditure of state funds, or other improper practice of financial administration shall be conducted at least once in every two years after the close of a fiscal year, and at such other time or times during the fiscal year as he shall deem necessary or as may be required by the legislature for the purpose of certifying to the accuracy of all financial statements issued by the respective accounting officers and of determining the validity of expenditures of state or public funds.

Sec. 23-5 **Auditor; powers.** The auditor may examine and inspect all books, records, files, papers and documents and all financial affairs of every department, office and agency and political subdivision, and may, by precept under his hand in the form contained in section 40-93, require all such persons as he may think fit to appear personally before him at any time and place to be named in the precept, and to produce to him all such accounts, books, records, files, papers, and documents in the possession or control of such persons as shall appear to be necessary for the purpose of examination. The auditor may cause search to be made and extracts to be taken from any book, paper, or record in the custody of any public officer without paying any fee for the same; and every officer having the custody of the books,

records, files, papers, and documents shall make such search and furnish such extracts as thereto requested.

Sec. 23-6 Examination under oath. The auditor may administer oaths to persons summoned to appear before him and may question such persons, under oath, concerning receipts and expenditures of money and concerning all other things and matters necessary for the due execution of the duties vested in him by this chapter.

Sec. 23-7 Discovery of irregularities. In case the auditor at any time discovers evidence of any unauthorized, illegal, irregular, improper, or unsafe handling or expenditure of state funds, or other improper practice of financial administration or if at any time it comes to his knowledge that any unauthorized, illegal, irregular, improper, or unsafe handling or expenditure of state funds or other improper practice of financial administration is contemplated but not consummated, in either case, he shall forthwith transmit the facts to the legislature or any legislative interim committee then in existence, and the governor and the city council or board of supervisors of the political subdivision concerned. The auditor shall in his annual report to the legislature make specific recommendations for the avoidance of the same in the future.

Sec. 23-8 Assistance and staff. In the performance of his duties, the auditor may employ the services of one or more certified public accountants or accounting firms, and such other assistants and clerical workers as may be necessary, provided the cost thereof shall not exceed such sums as may be available out of the appropriation provided by law for the conduct of his office and provided further, that such accountants, firms, and assistants are entirely independent of the departments, offices, and agencies of the State and its political subdivisions whose affairs are subject to audit by the auditor. All employees shall be hired by the auditor subject to the approval of the president of the senate and the speaker of the house of representatives and shall serve at his pleasure; provided, that in the establishment of the salary of each employee the auditor shall consult with the department of personnel services and shall follow as closely as possible the recommendations of the department; and provided further, that the salary of the first assistant or first deputy shall not exceed a sum equal to ninety-five per cent of the salary of the auditor. The auditor and his full-time staff shall be entitled to participate in any employee benefit program privileges.

Sec. 23-9 Reports. The auditor shall, at each regular session, submit a report to the legislature of the audits and examinations conducted by him for the immediately preceding fiscal year and all other audits and examinations conducted by him during the current fiscal year, together with findings and recommendations relative to the expenditures made and financial transactions had by the departments, offices, and agencies of the State and its political subdivisions. Reports may also be submitted to the legislative council or any legislative interim committee then in existence. Certified copies of all audits and examinations made by the auditor shall be sent to the governor and the director of finance. All reports shall be available for public inspection. A certified copy of that portion of any report which consists of audits and examinations of departments, offices, or agencies of a political subdivision shall be sent to the city council or board of supervisors of the political subdivision concerned.

Sec. 23-10 Penalty for violation and false evidence. Any person summoned as provided in section 23-5 to give testimony or to produce any books, papers or other documents relating to any matter under inquiry, who wilfully makes default, or who, having appeared, refuses to answer any questions pertaining to the matter under inquiry, shall be fined not less than \$100 nor more than \$1,000, or imprisoned not less than one month nor more than twelve months, or both. If any person, in the course of his examination before the auditor, wilfully gives false evidence, the person so offending shall incur the same penalties as are or may be provided against persons convicted of perjury.

PROGRAM STRUCTURE
OFFICE OF THE LEGISLATIVE AUDITOR

I. AUDITS

- A. Program Audits
- B. Operation Audits
- C. Financial Audits

II. LEGISLATIVE SERVICES

- A. Annual Review of Agencies' Programs and Operations
- B. Annual Inventory of Agencies' Responses to Legislative Requests
- C. Legislative Staff, Research and Program Information
- D. Seminars

III. MISCELLANEOUS SERVICES

IV. GENERAL OFFICE SUPPORT

- A. General Management
- B. Personnel Services
- C. Finance
- D. Library Services
- E. Purchasing and Property Management