

PEER REVIEW

STATE OF HAWAII OFFICE OF THE AUDITOR



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NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

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The National Conference of State Legislatures is the bipartisan organization that serves the legislators and staffs of the nation's 50 states, its commonwealths and territories.

NCSL provides research, technical assistance and opportunities for policymakers to exchange ideas on the most pressing state issues and is an effective and respected advocate for the interests of the states in the American federal system.

NCSL has three objectives:

- To improve the quality and effectiveness of state legislatures.
- To promote policy innovation and communication among state legislatures.
- To ensure state legislatures a strong, cohesive voice in the federal system.

The Conference operates from offices in Denver, Colorado, and Washington, D.C.

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INTRODUCTION

Peer Review Purpose

The Hawaii Office of the Auditor follows *Government Auditing Standards* (i.e., the Yellow Book, or GAGAS) for performance audits. These standards require the office to undergo a peer review every three years. The office recognizes the importance of a peer review for ensuring the quality of its legislative audit work.

The purpose of a peer review is to identify whether the Hawaii Office of the Auditor's system of quality control provides reasonable assurance of compliance with *Government Auditing Standards* and professional best practices as determined by peer reviewers with respect to performance audit engagements. The office contracts with private accounting firms to complete its financial auditing activities.

NCSL/NLPES Peer Review Methodology

The Hawaii Office of the Auditor contracted with the National Conference of State Legislatures (NCSL) to perform its 2016 peer review to assess the office's system of quality control and overall quality of reports in a sample of performance audits completed during the period from 2013 to 2016 (see Appendix A). The National Legislative Program Evaluation Society (NLPES) Peer Review Committee and the NCSL staff liaison to NLPES organized a peer review team consisting of three experienced and respected program evaluators from Colorado, Virginia and Washington (see Appendix B).

As noted above, the Hawaii Office of the Auditor adheres to *Government Auditing Standards* (i.e., the Yellow Book or GAGAS) published by the Comptroller General of the United States. This peer review compared the office's policies and performance to Yellow Book requirements and the knowledge base of peers from similar offices. The review provided a collective assessment of the office's quality assurance and review processes, how those quality processes were used to develop the office's performance audits, and the qualifications and independence of staff.

Specifically, the peer review team sought to determine whether the sample of reports reviewed, as well as the processes that underlie the reports, met the following criteria:

- 1) Work is professional, independent, and objectively designed and executed.
- 2) Evidence is competent and reliable.
- 3) Conclusions are supported.
- 4) Products are fair and balanced.
- 5) Staff is competent to perform work required.

An onsite visit held June 20-24, 2016. A meeting of the peer review team and entire staff was held. During the meeting, everyone introduced themselves and provided short descriptions of their backgrounds, including education and relevant work experience.

The peer review team reviewed documentation relating to the function of the Hawaii Office of the Auditor, its audit-related policies and procedures, and four performance audits. The audits were selected by members of the peer review team from a list of audits released between 2013 and 2016 (Appendix A). Each peer review team member took lead responsibility for review of one or two performance audits. This included reviewing the performance audits in depth, reviewing the supporting working papers and interviewing current staff who worked on the performance audit.

Because the office contracts all of its financial auditing activities to private accounting firms, the office requested that the peer review team also provide observations on its policies, procedures and processes for monitoring financial audit contracts.

To evaluate staff competence, continuing professional education (CPE) records were reviewed to determine whether staff receive 80 hours of training every two years.

The team discussed its preliminary conclusions with the state auditor. The team also met with the state auditor, deputy auditor, general counsel and other key staff to further discuss conclusions. In addition, the peer review team presented its preliminary findings to the entire staff.

Appendix A lists the performance audits reviewed by the peer review team. Appendix B describes the qualifications of the peer review team members. Appendix C provides a general profile of program evaluation offices.

COMPLIANCE WITH YELLOW BOOK STANDARDS AND BEST PRACTICES

Section 3.101 of *Government Auditing Standards, 2011 Revision* (i.e., the Yellow Book, or GAGAS) by the Comptroller General of the United States allows the peer-reviewed agency to receive one of three possible ratings—pass, pass with deficiencies or fail.

In the peer review team’s opinion, the Hawaii Office of the Auditor has a quality control system that is suitably designed and followed, providing reasonable assurance that the office is performing and reporting performance audit engagements in conformity with applicable *Government Auditing Standards* for the period reviewed. Based on its professional judgment, the peer review team gives a rating of “pass” to the Hawaii Office of the Auditor.

The peer review team found many positive aspects of the Hawaii Office of the Auditor’s work including:

- The office places high priority on independence. Constitutional and statutory authority provide considerable assurance that the office can function independently. The office has statutory access to documents, records and people within other branches of government; broad audit authority; and the ability to self-initiate audits.
- The office guards its work carefully, maintaining necessary confidentiality.
- The Office of the Auditor has documented its system of quality control and assurance through its *Manual of Guides* and other means. The office’s *Manual of Guides* is well-constructed and well-written.
- The office invests a lot of effort and time in robust planning.
- The office generates a lot of products for a small agency. Reports are written clearly, using plain language. The office has implemented a robust follow-up process on

previously issued audit recommendations, adding value by validating agency claims and developing new audit plans.

- The office has a good documentation and indexing system. The office uses an electronic working paper tool, created within its SharePoint system. The use of indexing within working papers facilitates review and, because of its electronic nature, is an efficient way to determine the support for various facts and conclusions. Audit work papers demonstrated evidence that a good level of supervision and review occurs regularly.
- Staff care about their work and want to make a difference. The diverse backgrounds and skill sets of the staff are beneficial to the office. The office offers good cross-training opportunities by rotating staff responsibilities. Procedures also are in place to help ensure that auditors meet CPE requirements and to document CPE hours.

During its review, the peer review team offered additional technical and procedural suggestions for management of the Hawaii Office of the Auditor to consider. The suggestions were not criticisms of the office; rather, they were provided as opportunities to further refine its practice of the audit profession and do not affect the peer review team's overall judgment of the office or its compliance with *Government Auditing Standards*.

APPENDIX A. PERFORMANCE AUDITS REVIEWED

Audit of the Department of Transportation's Energy Performance Contracts: Improved Oversight Is Needed to Ensure Savings, Report No. 15-18, December 2015.

Audit of the Department of Human Services' KOLEA System: \$155 Million KOLEA Project Does Not Achieve All ACA Goals, Report No. 15-20, December 2015.

Credits Continue to Tax the State: Follow-Up on Recommendations Made in Report No. 12-05, Audit of the Department of Taxation's Administrative Oversight of High-Technology Business Investment and Research Activities Tax Credits, Report No. 15-11, September 2015.

Still Not Measuring Up: Follow-Up on Recommendations Made in Report No. 13-01, Management Audit of the Department of Agriculture's Measurement Standards Branch, Report No. 16-06, May 2016.

APPENDIX B: PEER REVIEW TEAM

Greg Fugate

Greg Fugate is a performance audit manager with the Colorado Office of the State Auditor (OSA). He has been at the OSA for 15 years. Mr. Fugate manages the OSA's Professional Practice & Quality Assurance Section, where he is responsible for advising audit staff on the application of auditing standards and internal policies and procedures, conducting internal quality reviews, monitoring staff training and independence for compliance with applicable professional requirements, overseeing the OSA's communications and publications functions, and monitoring the statewide fraud hotline. He has served on the NLPES Executive Committee since 2009 and recently was elected as its Vice Chair. Mr. Fugate holds a B.A. degree in political science from Knox College, a M.A. degree in political science from the University of Colorado at Boulder, and he is a Certified Government Auditing Professional and a Certified Fraud Examiner.

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Keenan Konopaski

Keenan Konopaski is the Legislative Auditor for the Washington State Legislature and serves as the staff director for the Joint Legislative Audit and Review Committee, his state's performance audit committee. He holds a master's degree in public administration from the University of Washington and a bachelor's degree in mathematics from Whitman College. Mr. Konopaski is an active member of NLPES. He currently is an executive committee officer with the GAO-sponsored Pacific Northwest Intergovernmental Audit Forum.

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Nathalie Molliet-Ribet

Nathalie Molliet-Ribet is the senior associate director of Virginia's Joint Legislative Audit and Review Commission. She joined JLARC 13 years ago. Since then, she has led and overseen studies in a variety of policy areas ranging from benefit programs to economic development. Ms. Molliet-Ribet has received a master's degree in public policy from Georgetown University. She has served on the NLPES Executive Committee for four years and currently is the NLPES Chair.

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Brenda Erickson

Brenda Erickson is a program principal in the Legislative Management Program at NCSL. She specializes in legislative processes and serves as the NCSL liaison to NLPES. Ms. Erickson coordinated peer reviews for the Hawaii Office of the Auditor, Nebraska Legislative Audit Office, South Carolina Legislative Audit Council and Washington Joint Legislative Audit and Review Committee. She also has participated in numerous assessments of legislative process and staffing, including studies in Arizona, Arkansas, Maine, Oregon, Tennessee and Virginia. She has worked at NCSL for 31 years. Before joining NCSL, she worked for the Minnesota House of Representatives for five years. Ms. Erickson received her bachelor's degree in math from Bemidji State University.

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APPENDIX C. PROFILES OF PROGRAM EVALUATION OFFICES

Among the many roles state legislatures play—debating public policy, enacting laws and appropriating funds—is the fundamental responsibility to oversee government operations and ensure that public services are effectively and efficiently delivered to citizens.

To help meet this oversight responsibility, most state legislatures have created specialized offices that conduct research studies and evaluate state government policies and programs. These studies—variously called policy analyses, program evaluations, performance audits or sunset reviews—address whether agencies are properly managing public programs and identify ways to improve them. Similar offices in legislatures around the country serve a vital function. They significantly bolster legislatures’ ability to conduct independent oversight of the other branches of government and determine if legislative program priorities are adequately fulfilled.

A legislative sunset, audit or program evaluation office provides a legislature with an independent, objective source of information. Most, if not all, parties presenting information to a legislature have a vested interest in the information. These include executive branch agencies, citizens’ groups and lobbyists. A legislative sunset, audit or program evaluation office can provide objective information without taking a position on results of its use. It allows a legislature to ensure that it can obtain the information it needs without depending upon the executive branch to provide it.

Most legislative program evaluation offices have been in operation for many years. Ninety-two percent have served their legislatures more than 10 years, with most offices having served for more than 25 years. Hawaii has had a performance audit function in place since 1965.

To help ensure that they produce high-quality work, offices use professional standards to guide their activities. Approximately half of offices follow *Government Auditing Standards*, issued by the U.S. Government Accountability Office. A quarter of offices use internally developed standards and some offices use more than one set of standards. Most remaining offices have not

adopted formal standards. The Hawaii Office of the Auditor conducts its performance audits in accordance with the generally accepted government auditing standards for performance audits contained in the *Government Auditing Standards* (2011 Revision), internal operating guidelines and professional best practices.

Legislative program evaluation offices vary substantially in size, reflecting the diversity among states and legislatures. According to the 2014 *Ensuring the Public Trust* survey, more than three-fourths of audit offices have 11 or more evaluation staff. About a fifth of the states have offices with 10 or fewer staff. With 21 staff, the Hawaii Office of the Auditor falls into the first category.