

PEER REVIEW

STATE OF HAWAII OFFICE OF THE AUDITOR



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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.

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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 2019 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 2016 to 2019 (see Appendix A). The National Legislative Program Evaluation Society (NLPES) and the NCSL staff liaison to NLPES organized a peer review team consisting of two experienced and respected program evaluators from Kansas and Nebraska (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 took place July 8-12, 2019. 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 2016 and 2019 (Appendix A). Each peer review team member took lead responsibility for review of 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.

To evaluate staff competence, continuing professional education (CPE) records were reviewed to determine whether staff receive 80 hours of required 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 work atmosphere in the office is positive.
- The office has strong internal memoranda on independence.
- The office’s risk assessment document merges analysis of risk likelihood with significance.
- The office’s planning guide is well written.
- Color and graphics are used effectively in the office’s reports.
- 2011 Standard 7.37 states in part, “If the auditors disagree with the [audited entity’s] comments, they should explain in the report their reasons for disagreement.” In specific instances when it was deemed necessary to rebut an agency, the peer review team noted that the office’s language choices were made carefully, thoughtfully, yet firmly.
- The office’s continuing professional education (CPE) tracking program is easy to use.

Independence. The Hawaii Office of Auditor is authorized by State Constitution Article VII, Section 10. Hawaii Revised Statutes, Chapter 23, gives the auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. These authorities provide the Office of the Auditor with assurance that the office can function independently and exercise its responsibilities in conformity with the Yellow Book.

The office has a process for internal disclosure of potential impairments to independence on the part of staff assigned to audits. The process is set forth in the office’s manual of guides. The auditor reviews and assesses the independence of staff when assigning them to an audit project. Staff also complete independence statements.

Reliability/Quality Control and Assurance. The Hawaii Office of the Auditor performs its audits in conformity with *Government Auditing Standards*. As a result, the office is required by statute to undergo

external quality control reviews at regular intervals. These reviews must be conducted by an independent organization that has experience in conducting performance audits. Hawaii Office of the Auditor contracted with NCSL to perform its peer review in 2019.

The office also has established internal procedures for planning audits, supervising staff, obtaining evidence, and documenting and reporting that ensure its reliability. The office's procedure manual is referenced to the *Government Auditing Standards, 2011 Revision*. The written guidance materials are clear and comprehensive.

Objectivity/Professional Judgment. Auditors use professional judgment in planning and performing audits. The office's work process provides for the application of collective professional judgment of the office.

Competence. The office includes experienced, well-educated staff. The staff's diverse backgrounds and skills are beneficial to the office. The staff assigned to perform audits collectively possess adequate professional competence for the tasks required.

Competence may be maintained through a commitment to continued learning and development. Training is available both in-house and through many outside resources, including the National Conference of State Legislatures and the National Legislative Program Evaluation Society.

Every two years, the audit staff must complete at least 80 hours of required continuing education. Staff CPE training is tracked through an electronic system.

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 Office of Health Care Assurance's Adult Residential Care Homes Program, Report No. 18-18, November 2018.

Audit of the Honolulu Authority for Rapid Transportation: Report 1, Report No. 19-03, January 2019.

Audit of the Office of Hawaiian Affairs, Report No. 18-03, February 2018.

Sunrise Analysis: Regulation of Home Inspectors, Report No. 19-09, March 2019.

APPENDIX B: PEER REVIEW TEAM

Stephanie Meese

Stephanie Meese is the legal counsel for Nebraska Legislative Audit Office. She began working for the office in June 2007; prior to taking the position, she worked as a legislative aide for a Nebraska state senator. As an auditor, she has supervised or worked on a variety of topics such as tax incentives, correctional services, child welfare, and juvenile detention. She has her J.D. from the University of Nebraska College of Law and a B.S. in political science and English from the University of Nebraska-Kearney.

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Justin Stowe

Justin Stowe is the legislative post auditor for the Kansas Legislative Division of Post Audit. He started working at the Division of Post Audit in 2006, became the deputy post auditor in October 2010 and was appointed legislative post auditor in 2018. He holds a bachelor's degree in political science and a master's degree in public administration from Kansas State University. His specific work-related interests include promoting a flexible and autonomous office culture, incorporating new technology into audit work, statistical analyses, IT security and website design.

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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 Office of the District of Columbia Auditor, Nebraska Legislative Audit Office, South Carolina Legislative Audit Council, Washington Joint Legislative Audit and Review Committee, and West Virginia Post Audit Division. 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 34 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, about a fifth of the states have offices with 10 or fewer staff. More than three-fourths of audit offices have 11 or more evaluation staff, and with 24 staff, the Hawaii Office of the Auditor falls into this category.