



NATIONAL CONFERENCE
of STATE LEGISLATURES

The Forum for America's Ideas



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 states, 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. Its objectives are:

- 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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August 16, 2010

Ms. Marion Higa
State Auditor
Office of the Auditor
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Richard Moore
*Senator
Massachusetts Senate
President, NCSL*

Tim Rice
*Executive Director
Illinois Legislative Information System
Staff Chair, NCSL*

William Pound
Executive Director

Dear Ms. Higa:

At your request, and under the terms of a 2010 contract executed with the National Conference of State Legislatures, we assessed your office's quality review process and overall report quality on a sample of projects completed during the compliance period from 2008 to 2010.

In our opinion, the office is in compliance with all applicable Generally Accepted Government Auditing Standards—general, fieldwork and reporting (defined in the 2007 Revision to United States Government Auditing Standards issued by the Comptroller General of the United States)—pertaining to performance audit engagements.

We base our assessment on observations made during an on-site review conducted June 21-24, 2010. It included a review of the office's manual of guides, personnel handbook, five randomly selected audits and selected personnel records, as well as interviews with several of the office's professional staff. We note that the conduct of our review was not impaired in any way. We were granted full access to relevant reports, working papers, supporting documentation and staff.

We appreciate the courtesy and cooperation extended to us in conducting this review. We commend you for your willingness to contract for this peer review to independently confirm the independence and quality of your audits.

Sincerely,

Bob Boerner

Philip Durgin

Ruta Fanning
Peer Review Team Leader

Kathy McGuire

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INTRODUCTION

NCSL Peer Review

The Hawaii Office of the Auditor (OA) contracted with the National Conference of State Legislatures (NCSL) to review and evaluate its quality review process, the quality of its performance audits and staff competency. NCSL's National Legislative Program Evaluation Society's staff liaison organized a peer review team consisting of four highly experienced and respected program evaluators from Florida, Pennsylvania, Utah and Washington.

The OA conducts its performance audits in compliance with general auditing standards and also uses field work and reporting standards for performance audits contained in the Government Auditing Standards published by the Comptroller General of the United States (often referred to as the "Yellow Book"). The peer review was the second completed by NCSL for the OA; the first was completed in August 2007.

Peer Review Purpose

The purpose of the peer review was to enable the OA to meet the external peer review requirements of the Generally Accepted Government Auditing Standards (Standards, paragraphs 3.55 to 3.63). To that end, the peer review compared the office's policies and performance to the applicable general and performance audit standards (Standards, chapters 3, 7 and 8). It provided a collective assessment of the OA's quality review process, how those quality review processes were used to develop the OA's performance audits, and the qualifications of OA staff. As provided in standards paragraph 3.51, the peer review team took into consideration that an audit organization's quality control system shall be reasonable and suitably designed for the size of the organization.

History of the Office of the Auditor

In 1950, delegates to Hawaii's first Constitutional Convention considered the position of the auditor sufficiently important to be established in the state constitution. The delegates envisioned an auditor who would help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended in accordance with legislative intent.

State Constitution Article VII, Section 10, establishes the Office of the Auditor. The constitution specifies that the auditor be appointed for an eight-year term by a majority vote of each house in joint session. The auditor may be removed only for cause by a two-thirds vote of the members in joint session. It is the constitutional duty of the auditor to conduct

post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the state and its political subdivisions. The auditor also undertakes additional studies and investigations as directed by the Legislature. 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. The auditor also has the power to summon people to produce records and answer questions under oath.

The office became a reality in 1965 when a joint session of the House and Senate appointed Clinton T. Tanimura as the state's first auditor. After serving more than two full terms, Mr. Tanimura retired in December 1988. Newton Sue became the new acting state auditor. In 1989, Mr. Sue adopted Generally Accepted Government Auditing Standards (GAGAS) promulgated by the U.S. General Accounting Office to ensure the credibility, reliability and quality of audit reports. When he retired in 1991, Marion M. Higa assumed the role of acting state auditor and was appointed by the Legislature in 1992. In May 2008, the Legislature reappointed Ms. Higa to her third eight-year term to start on July 1, 2008.

Methodology

The Office of the Auditor has adopted the generally accepted government auditing standards (often referred to as the "Yellow Book") issued by the Comptroller General of the United States as the principles by which it performs work.

In its review, the peer review team assessed the OA's adherence to the GAGAS and those for performance audit field work and reporting. The peer review team reviewed documentation relating to the function of the OA, its policies and procedures, and the five performance audits produced since January 2008 through June 2010 (Appendix A).

Reports and a sample of performance audits completed by the OA during the compliance period were selected for review. The audits were randomly selected individually by members of the peer review team from a list of audits released between January 2008 and June 2010 that had been prepared by OA staff. Each peer review team member took lead responsibility for review of one of the performance audits. This included reviewing the performance audit in depth, reviewing the supporting working papers, and interviewing current OA staff who worked on the performance audit. The fifth audit ("*Program and Management Audit of the State's Purchasing Card Program*") was read by two members of the peer review team, but the supporting work papers were not reviewed.

The peer review team discussed its preliminary conclusions with the auditor, the deputy auditor/general counsel, and OA managers on site.

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

OFFICE OF THE AUDITOR COMPLIANCE WITH YELLOW BOOK STANDARDS

The peer review team found the OA in compliance with the following standards that were highlighted by the peer review team and applicable to the evaluation process. All references are to the 2007 Revision to the U.S. Government Auditing Standards.

General Standards (Chapter 3)

Independence - In all matters relating to evaluation work, the OA and the individual auditors are free from personal, external and organizational impairments to independence and avoid the appearance of such impairments of independence.

Professional judgment – Auditors use professional judgment in planning and performing audits and in reporting the results.

Competence – The staff assigned to performance audits collectively possess adequate professional competence for the tasks required.

Based on introductions with select OA staff and a review of personnel information, the peer review team determined that OA staff have combined skills and education to competently complete evaluation reports. The staff appear to be well-qualified and bring a high caliber of legislative familiarity and a variety of undergraduate and advanced degrees. An array of training opportunities is available, both in-house and through many outside resources. These resources include the National Conference of State Legislatures and the National Legislative Program Evaluation Society. A wide variety of in-house training classes are offered, including internal training on the Government Auditing Standards (“Yellow Book”) Chapter 7 Standards, the Hawaii Sunshine Law and How to Prepare for an Interview.

Technical knowledge – The peer review team determined that OA staff collectively possess the technical knowledge, skills and experience necessary. They possess knowledge of Government Auditing Standards, general knowledge of the environment in which audited entities operate and the subject matter under review, skills to communicate effectively and skills appropriate for the performance audits being completed.

Continuing professional education – Auditors performing work under GAGAS—including planning, directing, performing field work, or reporting on a performance audit under GAGAS—maintain their professional competence through continuing professional education.

The peer review team determined that current OA staff are in compliance with their continuing professional education requirements. Every two years, staff complete at least 80 hours of

continuing professional education that directly enhances the evaluators' professional proficiency to complete performance audits. A minimum of 24 hours in government audit functions was completed. The OA training coordinator maintains documentation of completed CPE courses.

Quality control and assurance, including external peer review – The OA has established a system of quality control that is designed to provide it with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements.

Field Work Standards for Performance Audits (Chapter 7)

Planning – Work is adequately planned.

Supervision – Staff is properly supervised.

Audit documentation – Performance auditors prepare and maintain audit documentation. Audit documentation related to planning, conducting and reporting on the performance audit contains sufficient information to enable an experienced auditor, who has had no previous connection with the performance audit, to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions. Audit documentation includes support for findings, conclusions and recommendations.

Reporting Standards for Performance Audits (Chapter 8)

Report contents - The performance audits include the objectives, scope and methodology; the audit results, including findings, conclusions and recommendations, as appropriate; a reference to compliance with generally accepted government auditing standards; and the views of responsible officials.

Report issuance and distribution – Performance auditors submit audits to the appropriate officials of the audited entity and to the Legislature. Copies are available to the public.

APPENDIX A. PERFORMANCE AUDITS REVIEWED

Study on the Appropriate Accountability Structure of the Hawaii Teacher Standards, 09-05, February 2009

Investigation of the Procurement and Expenditure Practices of the Department of Business, Economic Development and Tourism and Selected Attached Agencies, 09-07, April 2009

Study of the Social and Financial Impacts of Mandatory Health Insurance Coverage for the Diagnosis and Treatment of Autism Spectrum Disorders, 09-09, July 2009

Management Audit of the Aloha Tower Development Corporation, 10-04, April 2010

Program and Management Audit of the State's Purchasing Card Program, 10-05, June 2010

APPENDIX B. 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. This accountability role is a critical part of the constitutional system of separation of powers and is essential to ensuring the trust that citizens place in government.

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 program evaluations, policy analyses and performance audits—address whether agencies are properly managing public programs and identify ways to improve the programs. 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 program evaluation office provides a legislature with an independent, objective source of information. Most, if not almost all, parties presenting information to a legislature have a vested interest in the information. This includes executive branch agencies, citizens’ groups and lobbyists. A legislative program evaluation office can provide objective information without taking a position on results of the use of that information. It also allows a legislature to ensure that it can obtain the information it needs without depending upon the executive branch to provide it.

Forty-six states have established legislative program evaluation offices. Half the offices have existed for at least 25 years, and some for more than 50 years. In 2003, the Maine Legislature created an entirely new program evaluation office. The Nebraska Legislature restructured its legislative audit staff to create the Office of Legislative Audit and Review in 2006.

The average legislative program evaluation office in the United States has 19 staff. The median is 14; thus, half the offices have fewer than 14 staff and half have more. The Hawaii Office of the Auditor staff size of 25 auditors is slightly larger the national office size.

Legislative program evaluation offices employ a variety of professional staff. Almost all offices have full-time analysts and supervisors. About two-thirds of the offices employ support staff, and about half have full-time computer and technical support personnel. About a third of the offices also have specialized staff who edit or review reports.

APPENDIX C. PEER REVIEW TEAM

Bob Boerner

Bob Boerner is a program principal in the Legislative Information Services program of NCSL. He specializes in several topic areas, including cable television, state government and telecommunications, and serves as staff liaison to the National Legislative Program Evaluation Society. He conducted a sunset review of the Arizona Office of the Auditor General in 1999, a review of how Florida's Office of Program Policy Analysis and Government Accountability (OPPAGA) reports are used by key stakeholders, and peer reviews of OPPAGA in 2002 and 2006. He also conducted a 2007 peer review of the Hawaii Office of the Auditor, a 2007 peer review of the Washington State Joint Legislative Audit and Review Committee, a 2008 peer review of the Nebraska Legislative Performance Audit Section, and a 2010 peer review of the Wyoming Legislative Service Office's Program Evaluation Section. He supervises NCSL's program to facilitate peer reviews of legislative program evaluation offices. He received his Bachelor of Arts degree from the University of Colorado and his Juris Doctorate from the University of Denver College of Law. He has been a member of the Colorado Bar since 1989.

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Philip Durgin

Philip Durgin has worked for the Pennsylvania Legislative Budget and Finance Committee (LB and FC) since 1981 and has been the executive director since 1988. As director he has supervised a wide variety of program audits and evaluation studies. Mr. Durgin participated in a National State Auditors Association (NSAA) peer review of the Florida State Auditor General's Office and in a 2007 NCSL peer review of the Washington State Joint Legislative Audit and Review Committee. In 1991, the LB and FC underwent a NSAA peer review that found the LB and FC to be in compliance with generally accepted government auditing stan-

dards. Mr. Durgin served on the executive committee of the National Legislative Program Evaluation Society from July 2002 through August 2005. He graduated from Haverford College, has an MPA from The Pennsylvania State University with a certificate in policy and program analysis, and is a CPA.

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Ruta Fanning

Ruta Fanning currently serves as the Washington State Joint Legislative Audit and Review Committee's (JLARC) legislative auditor. JLARC is a joint, bipartisan legislative committee that provides oversight of state-funded programs and activities by conducting performance audits and other evaluation studies on behalf of the Legislature and Washington citizens.

Ms. Fanning was appointed as JLARC's legislative auditor in August 2005. She has more than 25 years of public service that includes notable high-profile positions within Washington state government, such as director of the Office of Financial Management, vice president for Finance and Administration at The Evergreen State College, deputy director and interim executive director of the Washington State Higher Education Coordinating Board, staff coordinator for the Appropriations Committee of the State House of Representatives, director of Management and Budget for the Department of Corrections, and staff coordinator and budget analyst for the Washington State Senate Ways and Means Committee.

Ms. Fanning's work experience also includes private consulting specializing in financial management and public education issues, as well as private sector finance and accounting. She has a Master of Public Administration degree from the University of Washington and a bachelor's degree in biology from Pacific Lutheran University.

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Kathy McGuire

Kathy McGuire serves as deputy director of the Office of Program Policy Analysis and

Government Accountability (OPPAGA). The deputy director helps the director manage OPPAGA's operations to ensure that the office's products meet the Legislature's information needs. This includes coordinating office-wide activities and resources; strategic planning; monitoring project progress; reviewing reports and related products; mentoring management staff; overseeing staff evaluation; and identifying and resolving organizational problems. Ms. McGuire became deputy director in February 2005. She previously served as staff director for criminal justice. For more than 15 years, she has conducted and led a wide variety of program evaluations and policy analyses. Ms. McGuire also assists with OPPAGA's staff training program and has attended the Legislative Staff Management Institute at the University of Southern California. She received her Bachelor of Arts degree from Northern Illinois University and her Master of Science in Urban and Regional Planning from Florida State University.

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Tim Osterstock

Tim Osterstock is an audit manager for the Office of the Utah Legislative Auditor General. He started in that office in 1981 and has been an audit manager since 1997. During his career, he has conducted, supervised and managed state agency performance evaluations of most of the state's departments and has spent a great deal of time working with state-mandated local government programming, environmental issues, educational issues and corrections/law enforcement. Mr. Osterstock has been an active member of the National Legislative Program Evaluation Society (NLPES), serving as an executive committee member from 2002 through 2009 and as the executive committee chair for 2007-2008. A graduate of the University of Utah with a BS in business management and an MBA, he also holds both internal auditor (CIA) and fraud examiner (CFE) certifications.

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