Peer Review

State of Hawaii
Office of the Auditor
PEER REVIEW

STATE OF HAWAII
OFFICE OF THE AUDITOR

National Conference of State Legislatures
The Forum for America’s Ideas

William T. Pound
Executive Director

7700 East First Place
Denver, Colorado 80230
(303) 364-7700

444 North Capitol Street, N.W., Suite 515
Washington, D.C. 20001
(202) 624-5400

www.ncsl.org

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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.
December 10, 2013

Ms. Jan K. Yamane
Acting State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813

Dear Ms. Yamane:

At your request, and under the terms of a 2013 contract executed with the National Conference of State Legislatures (NCSL), we reviewed the system of quality control of the Hawaii Office of the Auditor in effect for a three-year compliance period from 2011 to 2013.

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 Yellow Book 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 team’s assessment is based on observations made during an onsite visit conducted June 24-27, 2013. During this visit, the team reviewed the office’s audit-related policies and procedures, five performance audits and continuing professional education records. Team members also interviewed office managers and some randomly selected staff. The team notes that the conduct of the peer review work was not impaired in any way. Team members were granted full access to relevant reports, working papers, supporting documentation and staff.

The peer review team appreciates 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 quality of your performance audits.

Sincerely,

Joel Alter
Program Evaluation Coordinator
Minnesota

Lisa Kieffer
Deputy Director
Georgia

Angus Maciver
Deputy Legislative Auditor
Montana

Brenda Erickson
NLPES Liaison
NCSL
INTRODUCTION

NCSL Peer Review

The Hawaii Office of the Auditor contracted with the National Conference of State Legislatures (NCSL) to review and assess the Hawaii Office of the Auditor’s system of quality control, the quality of its performance audits and its staff competency during a three-year period from 2011 to 2013 (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 highly experienced and respected program evaluators from Georgia, Minnesota and Montana (see Appendix B).

Conclusion

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 Yellow Book 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.
Peer Review Purpose

The Hawaii Office of the Auditor follows Yellow Book standards 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 this peer review is to identify whether the Hawaii Office of the Auditor meets Yellow Book standards and professional best practices as determined by its NCSL/NLPES peer reviewers.

History of the Hawaii 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 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’s authority, however, is limited to reviewing, evaluating and reporting its recommendations to the Legislature and governor.

The office became a reality in 1965 when a joint session of the Hawaii Senate and House 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 promulgated by the U.S. General Accounting Office to ensure the credibility, reliability and quality of audit reports. When Mr. Sue retired in 1991, Marion M. Higa assumed the role of acting state auditor and was appointed state auditor by the Legislature in 1992. Ms. Higa held the position until her retirement in December 2012. Jan K. Yamane currently is the acting state auditor.
Methodology

The Hawaii Office of the Auditor contracted with NCSL to perform its 2013 peer review.

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 core Yellow Book principles 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 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.

The peer review team reviewed documentation relating to the function of the Hawaii Office of the Auditor, its policies and procedures, and five performance audits. The audits were selected by members of the peer review team from a list of audits released between 2011 and 2013 (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.

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. To evaluate staff competence, continuing professional education (CPE) records were reviewed to determine whether staff receive 80 hours of training every two years. Interviews with randomly selected staff were conducted to assess application of the office’s internal quality assurance system.

The team discussed its preliminary conclusions with the acting state auditor and deputy auditor. 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.
Office of the Auditor
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 Yellow Book 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.

Independence

Constitutional and statutory authority provide the Hawaii Office of the Auditor with considerable assurance that the office can function independently and exercise its responsibilities in conformity with GAGAS. This includes statutory access to documents, records and people within other branches of government; broad audit authority; the ability to self-initiate audits; and protection of work paper confidentiality.

The office has implemented a rigorous process for internal disclosure of potential impairments to independence on the part of staff assigned to audits. The required documentation was available to peer reviewers and contained evidence of management review and consideration of threats to independence.
Professional Judgment

Audit work papers demonstrated evidence that a good level of supervision and review occurs regularly, indicating the application of professional judgment during the course of the audit.

Competence

The competence standard addresses technical knowledge requirements for staff assigned to audits. Technical knowledge is defined broadly to include any specialized subject matter knowledge, which could include knowledge of the interpretation and application of the law by an attorney working as part of or in conjunction with an audit team.

Competence may be maintained through a commitment to continued learning and development. Continuing professional education plays an integral part in maintaining competence. Professional judgment must be exercised to select suitable educational activities and comply with CPE requirements. The Office of the Auditor has procedures in place to help ensure that auditors meet CPE requirements, and the office has a system to document CPE hours.

Quality Control and Assurance

The Office of the Auditor has documented its system of quality control and assurance through both its Manual of Guides and other means. The manual provides clear, comprehensive and specific guidance to staff regarding how the organization assures implementation of GAGAS through the course of an audit. The manual also provides clear links between specific GAGAS standards and the audit process used by the office.

Planning

The Hawaii Office of the Auditor has established and implemented processes to ensure the auditors adequately plan and document the work necessary to address audit objectives.

Planning documents indicate the auditors have obtained an understanding of program operations, and related laws and regulations. The processes related to internal control review assessments, fraud and abuse considerations, and risk assessments are well-documented and easy to follow. The planning guide also provides a good overview of the work that will be (and has been) conducted.

Supervision

The Hawaii Office of the Auditor has established and implemented processes to ensure its auditors' work is appropriately supervised.
Attentive supervisory review is provided, without being onerous to either the supervisor or the auditor. The documentation of weekly status updates demonstrates ongoing supervisory review, progress on audit tasks and considerations of potential obstacles to audit work. Supervisory review and sign-off within SharePoint is clear and provides a solid audit trail (version control). The office’s Manual of Guides is well-constructed and well-written, particularly for staff purposes. The independent review process is thorough and well-documented.

**Evidence**

The Hawaii Office of the Auditor has established and implemented processes to ensure its auditors obtain sufficient and appropriate evidence to provide a reasonable basis for their findings and conclusions.

The office’s Manual of Guides explains how working papers (that is, the record of work done on and evidence for a project) are organized, prepared and reviewed. The peer review team found that working papers are conclusion-driven, which may facilitate review.

The manual discusses the nature of evidence and clearly describes physical, documentary and testimonial evidence. Auditors may use different types and sources of evidence, depending on the audit objectives. The peer review team noted that when testimonial evidence is used, the interview write-ups are straight-forward, and the viewpoint of the auditee is clearly presented. The question and answer approach to the write-up is easy to follow.

**Documentation**

The Hawaii Office of the Auditor has established and implemented processes to ensure audit documentation is prepared in sufficient detail to enable an experienced auditor, who has no previous connection to the audit, to understand the nature, timing, extent, results of audit processes and conclusions drawn.

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.

Documentation of fraud and abuse discussions was clearly presented, and decisions were fully supported.

**Reporting**

The Hawaii Office of the Auditor generally complies with the reporting standards of the Yellow Book. For example, the office’s reports present conclusions, recommendations and
the views of the audited entity. The reports describe audit objectives, scope and methodology.

Suggestions for Further Consideration

As noted above, the peer review team found many positive aspects of the Hawaii Office of the Auditor’s work, including:

- The office’s independence is strengthened by its establishment in state constitution and statute.
- The office’s *Manual of Guides* is thorough and well-written.
- The electronic work paper system works well and facilitates review.
- The organization of working papers is conclusion-driven.
- Documentation at the various stages of the auditing process is well done.
- Indexing and cross-referencing are easy to use.
- Interview write-ups are detailed and well-written.

During its review, the peer review team provided suggestions for management of the Hawaii Office of the Auditor to consider to enhance its practice of the audit profession. The suggestions were not criticisms of the office; rather, they were provided as opportunities for further refinement and do not affect the peer review team’s overall judgment of the office.

The Hawaii Office of the Auditor has built a good reputation and has the trust of the Legislature. It should take the necessary steps to maintain this reputation and trust.

**Independence.** The position of state auditor currently is filled on an interim basis by the previous deputy state auditor. The Hawaii Legislature has not yet filled this position permanently for a full eight-year term, as specified in statute. If perpetuated over a long period of time, the acting status of the state auditor may lead to impairment of the independence for the organization as a whole. Under the independence standards, GAGAS emphasizes the importance of constitutional or statutory safeguards that mitigate threats to independence. In the case of the state auditor, statutory safeguards include the appointment of the position for an eight-year term. Furthermore, to ensure the credibility of the office’s work, it would be preferable for the auditor to be appointed on a permanent rather than an interim basis.

**Professional Judgment.** While the review team determined that appropriate professional judgment was provided and exercised in the audit process, it offers suggestions for enhancing one component area: professional skepticism. Evidence that staff maintained and applied professional skepticism during interactions with agency personnel varied. The Office of the Auditor should review the guidance provided to staff as it relates to supporting assertions made by agency personnel during interviews (see the discussion on testimonial evidence...
below) and their responsibilities to verify documented facts or figures made available by audited agencies.

**Competence.** The peer review team could not determine whether or how the office’s general counsel was involved in certain discussions pertaining to legal issues. The Hawaii Office of the Auditor should review its guidance to staff and other internal documentation procedures relating to involvement of general counsel in audit projects to ensure efficient and proper use of this valuable resource. This could include determining when it is appropriate to document specific interactions with counsel, the form or content of documentation, or the rationale for relying on agency legal interpretations as opposed to those of general counsel.

The peer review team also recommends that the Office of the Auditor consider moving CPE documentation and tracking to a computerized system, as it already has done for its audit work papers.

**Quality Control and Assurance.** The peer review team observed some instances in which reports directly quoted individuals, but working papers did not provide evidence of these quotations. In these cases, the quotations were taken from interview summaries and represented paraphrases of comments, not direct quotes. For accuracy, it is important that quotations cited in reports reflect the actual words used by the individual. In the examples observed, the use of direct quotations for paraphrased statements should have been detected and corrected in the internal review process.

**Planning.** The peer review team raised some concerns about hypotheses documents. The team wondered whether these drive analysts in a particular direction or whether they could be phrased in a more neutral way and still achieve the same purpose (that is, to force thought into how the work to follow will be accomplished).

**Evidence.** The Hawaii Office of the Auditor’s reports that were reviewed relied considerably upon testimonial evidence. The office should consider alternatives, when appropriate, given that testimonial evidence may not always be the strongest form of evidence. Stronger forms of evidence may be available to support the finding or conclusion.

Based on peer review team discussions with the Office of the Auditor management, the office’s staff have limited ability to analyze and manipulate large data sets. In some cases, analysis of this type of data might provide more direct evidence of a program’s operations or impacts. In addition, the office generally has not conducted surveys (for example, of employees, clients or stakeholders), but this is another tool that the office should consider using. In some cases, surveys might help the audit team determine whether opinions expressed by some agency officials are widely shared. In general, collection of testimonial evidence will always be an important part of audit work, but the Office of the Auditor would be better positioned to assess a wide array of research questions if its staff had stronger skills in data management, quantitative analysis and survey research.
As noted earlier, the office should encourage the application of professional skepticism to ensure that staff question or independently assess the accuracy or validity of information provided by agency staff. Obtaining and analyzing source data may provide a tool for corroborating or challenging information provided by the auditee. For example, if numbers are obtained from auditees, staff can use source data to determine the accuracy and completeness of the auditee’s answer.

**Documentation.** Consideration should be given to documenting discussions with general counsel in working papers (if discussions are more substantive than procedures related to access issues or where to find legal justification).

In some cases, handwritten or scanned documents are included in SharePoint. Consideration should be given to moving to a more fully electronic process in which documents originate in electronic form and notes and other information are entered electronically.

**Reporting.** The peer review team offers several observations on the office’s reporting practices, with the hope of improving the Hawaii Office of the Auditor’s ability to clearly convey its messages to readers.

1. For the most part, “Super Summaries” of reports represent attempts to distill report content into a single page. However, the peer review team is concerned about the use of a single sidebar with a “pull quote” in each summary. In some cases, it seemed to the team that such a quotation did not fully capture the essence of the report. This approach also required readers to infer from the quotation the message the Hawaii Office of the Auditor wanted to convey. The peer review team is concerned that agencies might deny having made such statements, and that the use of such statements might make agencies reluctant to speak with candor. The team recommends that the office consider using a statement of its own conclusions or findings for this sidebar, rather than using a quotation. This may be a more direct way to convey the office’s primary message. The Super Summary sidebar is prominent in the reports, and its content should be selected with great care.

2. The Office of the Auditor’s reports generally do not contain footnotes in the body of the report. In the peer review team’s view, this may be a missed opportunity. Footnotes could help convey the source of certain statements (for example, the source of “best practices” cited in a discussion) or statutory references. They could contain discussion of criteria or other details that might be unnecessary in the main text of the report. Given that the office’s working papers are not public documents, it is especially important that the body of the office’s reports be as clear, explanatory and transparent as possible—and occasional footnotes might be helpful in this regard.
3. The body of reports sometimes is confusing and repetitive. Report sections often begin with summary paragraphs (but are not labeled as such), followed by paragraphs that contain additional explanation. The summary sentences (which come before the evidence has been presented) may initially appear to be unsupported assertions. In addition, in the working papers these summary sentences usually do not contain specific working paper sources. Possible options may include: a) finding ways to clarify that certain paragraphs are summaries (e.g., by labeling them as such or distilling them to bulleted findings); or b) using summary statements at the end of a section or to lead into recommendations, rather than as a lead-in to sections containing findings.

4. Additional opportunities exist for the office to convey information graphically. Many of the reports are fairly dense and text-heavy. If information can be conveyed through tables, charts, photos or other graphic devices, this may help make the reports more visually appealing to readers.

5. The Yellow Book requires auditors to communicate an overview of the objectives, scope, methodology and timing of a planned performance audit to audited entities, officials charged with governance and relevant legislative committees. The Hawaii Office of the Auditor does not have an oversight committee, and its reports are either legislatively mandated or self-initiated. While the office communicates its intentions to audited agencies, it may wish to consider preparing documents that help key legislators or the public understand works in progress. (This may be especially important for self-initiated projects.) Documents briefly describing a project’s objectives, scope, methods and timing could be shared with legislators or posted on the office’s website.
APPENDIX A. PERFORMANCE AUDITS REVIEWED

Audit of the Department of Taxation’s Administrative Oversight of High-Technology Business Investment and Research Activities Tax Credits, Report No. 12-05, July 2012.


Management Audit of the Department of Education’s School Bus Transportation Services, Report No. 12-07, August 2012.

Management Audit of the Natural Energy Laboratory of Hawaii Authority, Report No. 12-03, May 2012.

APPENDIX B: PEER REVIEW TEAM

Joel Alter

Joel Alter is a program evaluation coordinator for the Minnesota Office of the Legislative Auditor, where he has worked since 1983. Mr. Alter received a bachelor’s degree in political science and speech from the University of Northern Iowa and a master’s degree in public affairs from the University of Minnesota’s Humphrey School of Public Affairs. He served on the National Legislative Program Evaluation Society’s executive committee from 1997 to 2004, including one year as its chair.

Joel Alter  
Program Evaluation Coordinator  
Office of the Legislative Auditor  
658 Cedar Street, 1st Floor South  
St. Paul, MN 55155  
651-296-8313  
joel.alter@state.mn.us

Lisa Kieffer

Lisa Kieffer is a deputy director of Georgia’s Performance Audit Division. During her 18 years with the office, she has led and managed audits of various state programs, which have resulted in cost savings, improved efficiencies, a greater focus on programmatic outcomes, and legislative and budgetary changes. Ms. Kieffer holds a master’s degree in public administration and a bachelor of arts degree in English from the University of Georgia. Ms. Kieffer is the current NLPES chair.

Lisa Kieffer  
Deputy Director  
Performance Audit Division  
Department of Audits and Accounts  
270 Washington Street SW, Room 1-156  
Atlanta, GA 30334  
404-651-8867  
kiefferl@audits.ga.gov
Angus Maciver

Angus Maciver is the deputy legislative auditor with the Montana Legislative Audit Division. He has worked for the Montana Legislature since 2002. During this time, he has conducted and managed a wide variety of performance audit projects at many of the state’s executive branch agencies. Mr. Maciver received a bachelor’s degree in political studies and international relations from the University of Aberdeen, Scotland. Mr. Maciver is an active member of the NLPES and currently serves as a member of the NLPES Executive Committee.

Angus Maciver  
Deputy Legislative Auditor  
Office of the Legislative Auditor  
P.O. Box 201705  
Helena, MT  59620-1705  
406-444-3122  
amaciver@mt.gov

Brenda Erickson

Brenda Erickson is a program principal in the Legislative Management Program at NCSL who specializes in legislative processes and serves as the NCSL staff liaison to NLPES and the Mason’s Manual Commission. Ms. Erickson coordinated peer reviews for the Nebraska Legislative Audit Office and the South Carolina Legislative Audit Council. 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 more than 25 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.

Brenda Erickson  
Program Principal, Legislative Management Program  
National Conference of State Legislatures  
7700 East First Place  
Denver, Colorado 80230  
Phone: 303-856-1391  
brenda.erickson@ncsl.org
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 and performance audits—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 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 program evaluation office can provide objective information without taking a position on results of its use. 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 of the offices have existed for at least 25 years, and some have been in existence for more than 40 years. In 2003, the Maine Legislature created an entirely new program evaluation office. Most recently, in 2007, North Carolina created a new Program Evaluation Division within its Legislative Services Office. The Hawaii Office of the Auditor has been in existence for 48 years.
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.

Legislative program evaluation offices vary substantially in size, reflecting the diversity among states and legislatures. According to the 2012 Ensuring the Public Trust survey, the offices can be classified into four major groups:

- Ten or fewer staff. About one-fifth of the states have small audit staffs, although most offices in this category have at least seven staff.
- Eleven to 25 staff. More than one-third of the offices are medium-sized.
- Twenty-six to 50 staff. Another third fall into this category.
- More than 50 employees. The remaining states have large offices.

On average, the typical legislative program evaluation office has about 28 employees. The Hawaii Office of the Auditor staff of 26 is slightly smaller than the national average for audit offices.