

PEER REVIEW

STATE OF NEBRASKA
LEGISLATIVE AUDIT OFFICE



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NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

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Subject: 2015 Peer Review of the Nebraska Legislative Audit Office

At your request, and under the terms of a 2015 contract executed with the National Conference of State Legislatures (NCSL), we reviewed the system of quality control of the Nebraska Legislative Audit Office (LAO) in effect for the compliance period from May 2012 to December 2015.

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, LAO's quality control system provides reasonable assurance that its products meet core characteristics of government auditing standards for the period reviewed. Based on its professional judgment, the peer review team gives a rating of "pass" to the Nebraska Legislative Audit Office.

The team's assessment is based on observations made during an onsite visit conducted Nov. 29-Dec. 2, 2015. During this visit, the team reviewed the office's audit-related policies and procedures, four performance audits and continuing professional education records. Team members also interviewed key legislators, other legislative staff agency directors and LAO 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.

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INTRODUCTION

NCSL Peer Review

The Executive Board of the Legislative Council (Executive Board) contracted with the National Conference of State Legislatures (NCSL) to review and assess the Nebraska Legislative Audit Office’s system of quality control and overall quality of reports in a sample of performance audits completed during the period from May 2012 to December 2015 (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 two experienced and respected program evaluators from Kansas and Mississippi (see Appendix B).

Peer Review Purpose

The Nebraska Legislature recognizes the importance of a peer review for ensuring the quality of its legislative audit work. Nebraska Revised Statute sec. 50-1205.01 requires the LAO to conduct its performance audits in compliance with the auditing standards for performance audits contained in the Yellow Book. These standards require the office to undergo a peer review every three years.

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

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, LAO’s quality control system provides reasonable assurance that its review processes and products meet core characteristics of government auditing standards for the period reviewed. Based on its professional judgment, the peer review team gives a rating of “pass” to the Nebraska Legislative Audit Office.

History of the Nebraska Legislative Audit Office

The Nebraska Legislature has had a performance audit function in place since 1991. Over the years, the Legislature has expanded its performance audit function from a small two-person unit located within the Legislative Research Office to an independent legislative agency called the Legislative Audit Office.

The LAO is responsible for performance audits and other work assigned by the Legislative Performance Audit Committee. Performance audits of business tax incentives are required by statute.

Methodology

By statute, the Nebraska Legislative Audit Office is required to conduct its performance audits in accordance with the *Government Auditing Standards* (i.e., the Yellow Book) 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 LAO 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) Stakeholders and users of LAO's products are satisfied with the quality of the work performed.
- 6) Staff is competent to perform work required.

The peer review team reviewed documentation relating to the function of the Legislative Audit Office, its 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 May 2012 and December 2015 (Appendix A). Each peer review team member took lead responsibility for review of one of the performance audits. This included reviewing the performance audits in depth, reviewing the supporting working papers and interviewing current LAO staff who worked on the performance audit.

To determine the extent to which stakeholders and users of LAO's reports are satisfied, the peer review team conducted interviews with four members of the Legislative Performance Audit

Committee as well as the clerk of the Legislature, the legislative fiscal analyst and the director of the Legislative Research Office.

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

The peer review team discussed its preliminary conclusions with the legislative auditor.

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.

LEGISLATIVE AUDIT OFFICE 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, LAO’s quality control system is suitably designed and followed, providing reasonable assurance that the office is performing and reporting performance audits 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 Nebraska Legislative Audit Office.

LAO’s authority is established in statute. This statutory authority provides the office with considerable assurance that it can function independently. LAO also has statutory access to properties, equipment, facilities, files, records and accounts of any entity being audited.

Nebraska Revised Statute sec. 50-1205.01 specifically requires the office to perform its audits in conformity with *Government Auditing Standards*. As a result, LAO 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. LAO contracted with NCSL to perform peer reviews in 2008, 2012 and 2015.

The competence standard addresses technical knowledge requirements for analysts assigned to audits. Technical knowledge is defined broadly to include any specialized subject matter. LAO analysts appear to be well-qualified. They hold a variety of advanced degrees. The staff’s diverse backgrounds and skill sets are beneficial to the office.

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. LAO has procedures in place to help ensure that its analysts meet CPE requirements, and the office has a system to document CPE hours. All analysts received the required CPE hours for the two-year period reviewed.

The peer review team found that LAO analysts are held in high regard by legislators and legislative staff who were interviewed. The members of the Legislative Performance Audit Committee are engaged in the office's work and complimentary of staff and their performance audits.

During its review, the peer review team provided suggestions for management to consider. The suggestions were provided as opportunities to enhance its practice of the audit profession. For example:

- Documentation should be formalized and standardized. Yellow Book standards do not require review and signature on every piece of evidence, but a competent, independent, third party who is reviewing a report should be able to understand supporting documentation without assistance from LAO staff.
- The LAO is co-located with another legislative agency on the 11th floor of the capitol. The peer review team noted that, while its location may be outside of LAO control, this layout of office space may not be conducive to maximum confidentiality.

The LAO already is working on peer review team suggestions to improve its processes. The LAO has built a strong reputation and the trust of legislators, and it is taking the necessary steps to maintain this reputation.

APPENDIX A. PERFORMANCE AUDITS REVIEWED

Nebraska Department of Correctional Services: Disciplinary Process, Programs, and Commitment Processes, November 2014.

Nebraska Department of Revenue: An Examination of Nebraska Advantage Tax Incentive Programs, February 2013.

Nebraska State Treasurer: Utility and Effectiveness of the Long-Term Care Tax Savings Plan, November 2015.

Nebraska Department of Health and Human Services: Efficiency and Effectiveness of ACCESSNebraska, December 2013 [partial review].

APPENDIX B: PEER REVIEW TEAM

James Barber

James Barber presently serves as the executive director of the Mississippi Joint Committee on Performance Evaluation and Expenditure Review (PEER), where he has been employed since 1978. During his tenure with PEER, he has directed many reviews and evaluations on a broad range of topics. Mr. Barber holds bachelor of science and master of business administration degrees from the University of Southern Mississippi, with majors in management. He also attended the Legislative Staff Management Institute in 1992, which then was co-sponsored by NCSL and the University of Minnesota. Mr. Barber is active in the National Legislative Program Evaluation Society. He served twice as the NLPES Executive Committee chair and was editor of the NLPES newsletter for nine years. Mr. Barber has served as a team member for peer reviews of the King County (Washington) Auditor's Office and the Program Evaluation Section of the Wyoming Legislative Services Office. He also served as the team leader for the 2014 peer review of the Washington Joint Legislative Audit and Review Committee.

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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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Kristen Rottinghaus

Kristen Rottinghaus began working for the Kansas Legislative Division of Post Audit in early 2012. She is a senior auditor and has supervised or worked on performance audits on a variety of topics such as economic development, tax exemptions, sales tax and revenue bonds, and juvenile corrections. Prior to her time at the division, Ms. Rottinghaus worked as a research analyst for Labor Market Information Services, a division of the Kansas Department Labor. She holds a bachelor's degree in economics and a master of public administration degree from Kansas 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 sunset or 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 sunset or 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.

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. The Nebraska Legislature has had a performance audit function in place since 1991.

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 Nebraska Legislative Audit Office 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, and with eight staff, the LAO falls into this category.