



National Conference of State Legislatures

Peer Review

State of Nebraska Legislative Performance Audit Section

July 2008



National Conference of State Legislatures



NATIONAL CONFERENCE
of STATE LEGISLATURES

The Forum for America's Ideas

July 31, 2008

Ms. Martha Carter
Legislative Auditor
P.O. Box 94945
Lincoln, NE 68509-4945

Dear Legislative Auditor Carter:

At your request, and under the terms of a 2008 contract executed with the National Conference of State Legislatures, we have reviewed the quality assurance system employed by the State of Nebraska's Legislative Performance Audit Section (LPAS) for its performance audit engagements for the period from July 1, 2005 to June 30, 2008. We reviewed the Section's quality assurance system, the overall quality of the Section's audits, and the qualifications of the Section's staff.

In our opinion, the Section's quality assurance system was designed and employed effectively during the period reviewed. Consequently, we provide reasonable assurance that the Section was in conformance with applicable quality assurance, report quality, and staff competency standards, as defined in the United States Government Auditing Standards issued by the Comptroller General of the United States, during the period reviewed. We found overall report quality to be high and the staff to be competent.

We base our assessment on observations made during an on-site review conducted, June 2 – 6, 2008. We note that the conduct of our review was not impaired in any way. We were granted full access to relevant reports, working papers and other supporting documentation, and Section staff.

We discuss our conclusions in more detail on the following pages. We appreciate the courtesy and cooperation extended to us in conducting this review.



National Conference of State Legislatures

Sincerely,

Keenan Konopaski

Kent Rice

John Turcotte

Bob Boerner



Peer Review

State of Nebraska Legislative Performance Audit Section

INTRODUCTION

NCSL Peer Review

Nebraska Revised Statute sec. 50-1205.01 requires the Legislative Performance Audit Section to conduct its performance audits in compliance with the auditing 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”). Those standards require the Section to undergo a peer review every three years. The Section began formally claiming full compliance with these standards on July 1, 2005, which meant the peer review had to be conducted before June 30, 2008.

The Executive Board of the Legislative Council (Executive Board) contracted with the National Conference of State Legislatures (NCSL) to organize a team of peers from around the nation to review and evaluate the Section’s quality assurance system and staff competency. NCSL organized a peer review team consisting of three highly experienced and respected program evaluators from Montana, North Carolina and Washington and the National Legislative Program Evaluation Society staff liaison (see Appendix B for names, addresses and qualifications of the peer review team).¹

The peer review team members were required by terms of the peer review agreement to assess the Section’s quality assurance system including the following items: independence, quality control, professional judgment, technical knowledge, competence, and continuing professional education.

¹ In this report, the terms “performance audit” and “program evaluation” are used interchangeably as are the terms “auditor” and “evaluator.”



In addition, the peer review team members determined if the Section's quality assurance system ensured the following items were in place for the compliance period, including how they were applied on a selection of reports: planning, supervision, evidence, audit documentation, report form, report contents, report quality elements and report issuance and distribution.



History of the Legislative Performance Audit Section

The Legislative Program Evaluation Unit, now called the Legislative Performance Audit Section, was created in 1991. The Section was part of the Legislative Research Division, which also contained legislative research and library staff. The Director of Research was in charge of all division staff. In 2004, the Director designated Martha Carter as the Audit Manager to help coordinate day-to-day audit activities. In 2006, the Nebraska Legislature passed LB 956. Under LB 956:

- The Legislative Research Division was renamed the Legislative Audit and Research Office, and
- The Legislative Auditor position was created
- The Legislative Auditor is mandated to conduct performance audits in compliance with generally accepted government auditing standards, which includes a requirement for periodic peer review.

In September 2006, the Executive Board appointed Martha Carter as Legislative Auditor. Logistically, no change in office space was made following the passage of LB 956. The performance audit, research and library staff currently remain in one office.



METHODOLOGY

The Section is required by Nebraska law to use the Government Auditing Standards issued by the Comptroller General of the United States as the standards by which it performs work. In its review, the peer review team assessed the Section's adherence to those standards.

The peer review team consulted the Government Auditing Standards for conducting performance audits and examined Section procedures and the Section audit workbook. Three reports completed by the Section during the compliance period were selected for review. The reports were selected by the peer review team from a listing of reports prepared by the Section and released during the review period. Reports were selected to achieve representation across the Sections' staff members (see Appendix A for a listing of reports reviewed).

Each peer review team member took lead responsibility for one of the reports. This included reviewing the report in depth, reviewing the supporting working papers, and interviewing the current Section staff who worked on the report. The team members also met with Senator DiAnna Schimek, Chair of the Legislative Performance Audit Committee, Cynthia Johnson, Director of Research, and Michael Calvert, Legislative Fiscal Analyst. The peer review team discussed its preliminary conclusions with the Legislative Auditor and Section staff.



LEGISLATIVE PERFORMANCE AUDIT SECTION QUALITY ASSURANCE SYSTEM

The Section produces quality work products that provide research, objective analyses, and useful information to members and legislative staff of the Nebraska Legislature.

The Section meets or exceeds the standards for program evaluation that guide its work. One goal of legislative program evaluation is to provide a legislature useful, objective, and timely information about the extent to which desired program results are being achieved. This information is intended to facilitate legislative and executive actions to improve state government and make possible the consideration of policy alternatives to current programs. The Section achieves this critical goal. Following are the specific conclusions reached by the peer review team for each outlined Government Auditing Standard.

Independence - The peer review team determined the Section is free both in fact and appearance from personal and external impairments to independence. However, there are some concerns about the extent to which the current organizational structure for the Section may pose future problems for external independence as defined in auditing standards.

The auditing standards relating to independence from external factors require that auditors be free from influences that “may restrict the work or interfere with the auditors’ ability to form independent and objective opinions, findings, and conclusions.” The peer review team found no evidence that the independence of Section’s work had in any way been impaired. However, it also found that the existing office structure contains the potential for risks to actual impairments and the appearance of such impairments. Reorganization and structural changes in facility space could minimize those risks. (This issue is discussed more on page 14.)

Quality Control - Recognizing the limits of the small staff size of the Section, the peer review team determined quality assurance tools are employed. Each project has clearly defined objectives and methodologies are clarified in scoping meetings. Quality assurance is an overarching value that is built into all report research and writing.

Professional Judgment - The peer review team determined that Section audit staff exercise reasonable care and diligence and observe the principles of serving the public interest and maintaining the highest degree



National Conference of State Legislatures

of integrity, objectivity, and independence in applying professional judgment to all aspects of their work.

Technical Knowledge – The peer review team determined that Section staff collectively possess the technical knowledge, skills and experience necessary. They collectively 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 program evaluations being completed.

Competence - Based on interviews with all Section staff and a review of personnel information (including performance evaluations), the peer review team determined that Section audit staff, have combined skills and education to competently complete reports. The staff appear to be well-qualified and bring with them a high caliber of legislative familiarity and a variety of undergraduate and advanced degrees.

Continuing Professional Education – The Section is currently in compliance with the continuing professional education requirements outlined in the Government Auditing Standards. Section staff attend both live training sessions and audio conferences.



SUMMARY OF OVERALL FINDINGS

Based on interviews and observations made during the on-site review and a review of reports, working papers and the audit workbook produced by the Section, the peer review team concluded the Section is in compliance with the Government Auditing Standards. The team also made the following conclusions:

1. The Section “connects” to the Legislature; it ascertains and accommodates legislators’ information needs.

The Section staff provides the Legislature with an independent, objective source of information. The peer review team concluded their reports are easily readable, well-written, fair, professional, relevant and thorough. The reports are clear, concise and succinct. One knowledgeable individual interviewed by the peer review team reported that Section staff are very well prepared for Performance Audit Committee presentations and that there is a great deal of respect and trust in the Legislature for the Section.

2. The Section staff are attentive to legislative intent.

As in other legislative program evaluation offices, the Section staff must be able to produce work quickly, yet be thorough. They must be realistic and pragmatic, yet avoid the appearance of responding to political pressures. The peer review team concluded Section staff do a good job of balancing these challenging interests. The Section staff thoroughly research the intent of legislation before issuing conclusions about how well auditees have complied with requirements. And, the peer review team concluded the audit workbook, which contains the Section’s internal policies, provides good direction on this for Section staff and is an improvement over an earlier version.

3. The Section staff exhibit a good team atmosphere.

The peer review team recognized the Legislative Auditor is involved during all phases of each completed report (including scoping, fieldwork and quality review). The Legislative Auditor is updated on each project including whether there is sufficient evidence to make reported findings and recommendations. And, due to the Section’s small size, a senior auditor or a performance auditor provides overall daily direction of each report. The Section exhibits a culture of self-initiation and team spirit. The peer review team encouraged this collegial and professional team



atmosphere. The team also suggested that if the staff size of the Section continues to grow it will be critical to provide more formality in the supervision process in order to demonstrate who approved project deliverables.

The peer review team recognized the Section for its mentorship process and the use of experienced performance auditors in mentoring new performance auditors.

4. The Section staff effectively use technology.

The peer review team concluded Section staff effectively use technology tools in the preparation of audits and in the issuance of reports. Some Section staff are developing specific expertise related to technology, and the acquired knowledge is disseminated to other Section staff. In addition, Section staff are using existing software to create and maintain electronic documentation related to audit procedures and analysis.

5. The Section staff are both thorough and diligent.

The peer review team concluded Section staff maintain personal and professional objectivity in their work, carefully plan and implement their work and write and disseminate audits that are readily understood and used by legislators.



LEGISLATIVE PERFORMANCE AUDIT SECTION QUALITY ASSURANCE SYSTEM – ADDITIONAL OBSERVATIONS

Overall, the peer review team concluded that the Section met all the Government Auditing Standards reviewed. Following are the specific conclusions reached by the peer review team for each outlined Government Auditing Standard.

Planning - Work is adequately planned.

Supervision - Staff is properly supervised.

Evidence - Sufficient, competent, and relevant evidence is obtained to provide a reasonable basis for the evaluators' findings and conclusions.

Audit Documentation - Evaluators prepare and maintain audit documentation. Audit documentation related to planning, conducting, and reporting on the audit contain sufficient information to enable an experienced auditor, who has had no previous connection with the audit, to ascertain from the audit documentation the evidence that supports the evaluators' significant judgments and conclusions. Audit documentation contain support for findings, conclusions and recommendations before evaluators issue their report.

Report Form - Evaluators prepare audit reports communicating the results of each audit.

Report Contents - The audit reports 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; the views of responsible officials; and, if applicable, the nature of any privileged and confidential information omitted.

Report Quality Elements - The audit reports are timely, complete, accurate, objective, convincing, clear, and concise.

Report Issuance and Distribution - Evaluators submit audit reports to the appropriate officials of the audited entity and to the Legislature. Copies are available to the public.



STAFF COMPETENCY

Based on interviews with all Section staff and a review of personnel information (including performance evaluations), the peer review team determined that Section audit staff, have combined skills and education to competently complete reports. There is an array of available training opportunities, both in-house and by multiple outside resources for staff. These resources include: Association of Government Accountants, Department of Administrative Services, Institute of Internal Auditors/MIS Training Institute, National Conference of State Legislatures, National Management Association, National Program Evaluation Society, Nebraska State Historical Society and Southeast Community College. In-house training classes are offered in full variety; from internal training on audit standards to evidence.

The peer review team encourages the Section to continue the current practice of including professional training objectives in all staff members' formal goals.

The peer review team determined the current Section staff are in compliance with their continuing professional education requirements. The Section staff complete, every two years, at least 80 hours of CPE that directly enhance the evaluators' professional proficiency to perform evaluations. And, the Section maintains documentation of CPE completed.

The average program evaluation office in the United States has 19 staff. The median is 14, which means that half the offices have fewer than 14 staff and half of them have more than 14 staff. The Section staff size of five auditors is below the national average 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 that edit or review reports. Due to its smaller staff size, the Section staff may need to consider contracting out on an as-needed basis for technical support and when completing reports that require specialized professional expertise.



LIST OF RECOMMENDATIONS

1. The Nebraska Legislature should provide for a free-standing and organizationally independent Legislative Performance Audit Section.

The peer review team found no actual impairments or disharmony among the research, library, and audit sections. However, a free-standing and independent Legislative Performance Audit Section would remove the future potential for actual impairments or the appearance of such impairments. Consistent with the organization of the audit function in other state legislatures, we believe the Legislative Auditor should have the same managerial authority and degree of delegation as all other division directors.

In September 2006, the Executive Board appointed Martha Carter as Legislative Auditor. Logistically, no change in office space for the Legislative Performance Audit Section was made following the passage of LB 956. The performance audit, research and library staffs currently remain in one open office with employees of each section occupying individual cubicles that are not clustered by employee function. The Legislative Auditor also occupies one of the cubicles. This does not appear to the peer review team to be a sustainable situation and is risky given the confidential nature of the work of legal research staff as well as of legislative auditors. A physical reorganization of the Section's office layout, as planned for in September 2008, should be completed as scheduled; however, we respectfully suggest that the Legislature continue toward total separation of research and audit functions. This separation is common in other state legislatures.

Current research, library, and audit staff work together well and respect each other's independent duties and requirements. However, creation of a free-standing and independent Section would avoid the possibility that future conflicts could arise under different staff. An organizational separation would appear to be consistent with actions already taken by the Legislature to recognize the importance of independence, and it would help clarify the distinctions and organizational parity between the Legislature's Performance Audit Section and the State Auditor in the executive branch. The separation would also assure confidentiality and restricted access to files, and enhance security and privacy for both the research and audit sections.



2. The Legislative Performance Audit Section should operationalize high-level plans.

The peer review team recommended the Section should add schedule dates to its internal audit workbook, incorporate informal working documents into electronic files, incorporate milestones in its internal audit plans, and ensure that its comprehensive electronic files are referenced as formal work papers.

3. The Legislative Performance Audit Section should implement more formal documentation of supervisory review by the Legislative Auditor or the Legislative Auditor’s designee.

Formalizing documentation of supervisory review will help ensure continued compliance with Government Auditing Standards. While standards do not require review and signature on every piece of evidence, documented review of project phase deliverables is especially critical. The need for more formalized documentation increases as an organization grows in staff size. Should the Section grow, the Legislative Auditor will not be able to conduct all supervisory reviews, so a designee will need to assist in completing these tasks. A more formal process will help with this transition.

4. The Legislative Performance Audit Section should give consideration to determining the minimum amount of evidence necessary to be “sufficient” when planning and gathering evidence.

In some cases, the peer review team believed that the Section may have gathered more evidence than was necessary. The peer review team recommended the Section should weigh the pros and cons of continuing to gather evidence to help determine when enough evidence exists to support findings; consider focus groups and surveys in lieu of extensive and lengthy interviews; take into account that the new edition of the Government Auditing Standards clarifies risk to be taken into account when collecting evidence; and recognize the benefits of the suggested approach to work planning and meeting deadlines.

5. The Legislative Performance Audit Section should use bridging documents to clarify reasoning behind audit findings and to improve supervision and training.

Hard copy working papers reviewed did not consistently contain “bridging documents” that summarized the basis for findings supported by multiple pieces of evidence.



Within the audit profession a “bridging document” is sometimes necessary to explain the analysis of evidence used to support a finding or a recommendation. Bridging documents may be in the form of a footnote, separate working paper, or a margin note in a working paper index or directly on a working paper. These auditor comments do not appear in the published version of the report. Bridging provides a “roadmap” to pieces of working paper evidence in the published report. The narration within a bridging document also explains the auditor’s logic for determining a finding from available evidence when pieces of evidence are not self-explanatory. Bridging is essential when a finding contains a total number resulting from a series of calculations using numbers obtained from different documents.

Based on observations of Section electronic files, it appears bridging documents are being utilized by Nebraska legislative auditors but only on an informal basis.

Bridging documents will also make it easier for staff to locate supporting documentation during fieldwork and after the report is published should auditors need to explain the basis of the findings to legislators. Bridging simplifies supervisory review, and the process of converting audit evidence efficiently into findings during the report drafting process.

The Section includes an annotated report in work papers as an index to working papers such as interview write ups and excerpts from agency documents. A more formalized bridging process would improve the usefulness of the annotated report as an index to both the logic and evidence supporting the audit.

6. The Legislative Performance Audit Section should more clearly differentiate between Section Findings and Recommendations vs. those from the Committee, to clarify independence.

Adding explanatory language to Section reports will help clarify that the Section’s findings and recommendations were determined independent from the Committee. However, the peer review team members noted they observed no infringement of independence during their review.



Appendix A - Reports Reviewed

Committee Report, Vol. 13, No. 1

The Public Employees Retirement Board and the Nebraska Public Employees Retirement Systems: An Examination of Compliance, PIONEER, and Management

August 2006

Committee Report, Vol. 13, No. 2

The Lincoln Regional Center's Sex Offender Services Program

August 2006

Committee Report, Vol. 14, No. 3

The Nebraska Information Technology Commission: An Examination of Statutory Compliance and the Project Review Process

November 2007



Appendix B - 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 attorney regulation, cable television regulation, telecommunications policy, constitutional law issues 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, a review of how Florida's Office of Program Policy Analysis and Government Accountability (OPPAGA) reports are used by key stakeholders, and the peer review of OPPAGA in 2002 and 2006; a 2007 peer review of the Hawaii Office of the Auditor and a 2007 peer review of the Washington Joint Legislative Audit and Review Committee. He supervises NCSL's program to facilitate peer reviews of legislative program evaluation offices. He has been a member of the Colorado Bar since 1989.

Bob Boerner
Program Principal
National Conference of State Legislatures
7700 East First Place
Denver, Colorado 80230
(303) 364-7700
E-mail: Bob.Boerner@ncsl.org

Keenan Konopaski

Keenan has eighteen years of experience analyzing and evaluating government programs. He is currently the Audit Coordinator for the Washington State Joint Legislative Audit and Review Committee (JLARC), where he helps oversee the audit and evaluation work of sixteen professional analysts. Prior to coming to work for JLARC in 2004, Keenan worked as a budget manager for Washington's Department of Corrections. He also worked for several years as a management consultant to government agencies, specializing in performance evaluation and financial analysis/modeling. Keenan also previously worked as a budget analyst for the Washington State Health Care Authority, the Transit Division of King County, and the Seattle Public Schools. Keenan has been a presenter on workload analysis and modeling techniques to the Governor's cabinet and the Public Sector Quality Conference. Keenan holds a master's degree in public administration from the University of



National Conference of State Legislatures

Washington and a bachelor's degree in mathematics from Whitman College.

Keenan Konopaski
Audit Coordinator
Joint Legislative Audit and Review Committee
P.O. Box 40910
Olympia, Washington 98504
(360) 786-5187
E-mail: konopaski.keenan@leg.wa.gov

Kent Rice

Kent has worked for the Montana Legislative Audit Division (LAD) since 1987 and has participated in a wide variety of performance audits. LAD audit work is conducted in accordance with audit standards set forth by the United States Government Accountability Office (Yellow Book). Montana has been nationally recognized by NLPES for its work in program evaluation including excellence and impact awards. In addition to audit projects, Kent is involved in various LAD special projects including reviewing published performance audit documents for substance and format. Kent was a team member for peer reviews conducted by the National State Auditors Association for the states of New York (1997) and Alaska (2001). Kent graduated from the Montana College of Mineral Science and Technology with a bachelor of science in computer science and a bachelor of science in mathematics.

Kent Rice
Senior Performance Auditor
Legislative Audit Division
Room 160, State Capitol
Helena, Montana 59620
(406) 444-3122
Email: krice@mt.gov

John Turcotte

John is a career legislative program evaluator who has now headed legislative program evaluation staffs in three states over a 35 year period. The Legislative Services Commission appointed John as the first Director of the Program Evaluation Division in June 2007 following his services as Project Manager of the NC General Assembly's Government Performance Audit Committee in 2006. John was CEO of Turcotte Public Administration Consulting and Training, LLC (TPACT) from 2003-2007. TPACT provided training and consulting for audit and other knowledge-based staffs at all



National Conference of State Legislatures

levels of government. From 1996-2003, John was Director of the Florida Legislature's Office of Program Policy Analysis and Government Accountability (OPPAGA). From 1977-1995, John served as Director of Mississippi's Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER). In Mississippi and Florida, John and his staffs produced over 753 technical reports and program evaluations. He was the National Staff Chair of the National Conference of State Legislatures in 1994. John has also been an Adjunct Professor of Political Science at Mississippi College and Millsaps College and an instructor of American Government at Hinds Community College in Jackson, Mississippi. He began his career as a math and science teacher in Mississippi. He received a BA in Political Science with Highest Honors and a MA in Political Science and American Government from the University of Southern Mississippi. He completed additional study at Millsaps College, the Federal Executive Institute, Mississippi State Executive Development Institute, and the National Conference of State Legislatures Legislative Staff Management Institute. In 1983, John was selected as one of the first group of Henry Toll Fellows of the Council of State Governments.

John Turcotte
Director
Program Evaluation Division
North Carolina General Assembly
Legislative Office Building, Suite 100
300 North Salisbury Street
Raleigh, NC 27603-5925
(919) 301-1404
Email: johnt@ncleg.net