



NATIONAL CONFERENCE
of STATE LEGISLATURES

The Forum for America's Ideas



PEER REVIEW

STATE OF NEBRASKA

LEGISLATIVE
AUDIT OFFICE

PEER REVIEW

STATE OF NEBRASKA LEGISLATIVE AUDIT OFFICE



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. 20011
(202) 624-5400

www.ncsl.org

June 2012



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.



NATIONAL CONFERENCE of STATE LEGISLATURES

The Forum for America's Ideas

Stephen Morris
*Senate President
Kansas Senate
President, NCSL*

Michael P. Adams
*Director, Strategic Planning
Virginia Senate
Staff Chair, NCSL*

William Pound
Executive Director

June 28, 2012

Ms. Martha Carter
Legislative Auditor
Nebraska Legislative Audit Office
P.O. Box 94604
Lincoln, Nebraska 68509

Dear Ms. Carter:

At your request, and under the terms of a 2012 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 October 2008 to December 2011.

The Nebraska Legislative Audit Office conducts its performance audits in compliance with the *Generally Accepted Government Auditing Standards, 2007 Revision* (i.e., the Yellow Book) published by the Comptroller General of the United States. In our opinion, LAO's quality control system provides reasonable assurance that its products meet the core characteristics of government auditing standards for the period reviewed.

We base our assessment on observations made during an onsite review conducted May 20-24, 2012. It included a review of the LAO's audit-related policies and procedures, three performance audits and CPE records, as well as interviews with key legislators, other legislative staff agency directors and LAO 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 quality of your audits.

Sincerely,

Jan Yamane
Deputy Auditor
Hawaii

Justin Stowe
Deputy Legislative Post Auditor
Kansas

Jody Hauer
Principal Evaluator
Minnesota

Brenda Erickson
NLPES Liaison
NCSL

Denver
7700 East First Place
Denver, Colorado 80230
Phone 303.364.7700 Fax 303.364.7800

Washington
444 North Capitol Street, N.W. Suite 515
Washington, D.C. 20001
Phone 202.624.5400 Fax 202.737.1069

Website www.ncsl.org
Email info@ncsl.org

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 October 2008 to December 2011 (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 Hawaii, Kansas and Minnesota (see Appendix B).

Conclusion

The Nebraska Legislative Audit Office (LAO) conducts its performance audits in compliance with the *Generally Accepted Government Auditing Standards, 2007 Revision* (i.e., the Yellow Book) published by the Comptroller General of the United States. In the peer review team's opinion, LAO's quality control system provides reasonable assurance that its products meet the core characteristics of government auditing standards for the period reviewed.

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. Those standards require the LAO to undergo a peer review every three years.

The purpose of this peer review is to identify whether the LAO meets the standards set forth in the 2007 revision of the Yellow Book and professional best practices as determined by its NCSL/NLPES peer reviewers.

History of the Legislative Audit Office

The Legislative Program Evaluation Unit, now called the Legislative Audit Office, was created in 1991. The LAO originally was part of the Legislative Research Division, which also contained legislative research and library staff. The LAO began formally claiming compliance with Yellow Book standards on July 1, 2005.

In 2006, the Nebraska Legislature passed LB 956, which created the legislative auditor position and required the office to conduct performance audits in compliance with generally accepted government auditing standards, which includes a requirement for periodic peer review.

To meet statutory requirements and Yellow Book standards, a peer review of the LAO had to be conducted before June 30, 2008. The Nebraska Executive Board contracted with NCSL to perform the 2008 peer review.

In June 2011, the General Accounting Office agreed to adjust the LAO's peer review date from 2011 to 2012. The adjustment was requested because the LAO had no projects that were subject to Yellow Book standards in the third year of the peer review cycle. The LAO felt it would be more valuable to the office to obtain input on a more recent project. The Nebraska Executive Board contracted with NCSL to perform the 2012 peer review.

Methodology

The Nebraska Legislative Audit Office adheres to the *Generally Accepted 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 three performance audits. The audits were selected by members of the peer review team from a list of audits released between October 2008 and December 2011 (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 officers of the Legislative Performance Audit Committee and one standing committee as well as the Clerk of the Legislature and the Legislative Fiscal Analyst.

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. In addition, the peer review team presented its preliminary findings to LAO 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.

LEGISLATIVE AUDIT OFFICE COMPLIANCE WITH YELLOW BOOK STANDARDS AND BEST PRACTICES

The Nebraska Legislative Audit Office (LAO) conducts its performance audits in compliance with the *Generally Accepted Government Auditing Standards, 2007 Revision* (i.e., the Yellow Book) published by the Comptroller General of the United States. In the peer review team's opinion, LAO's quality control system provides reasonable assurance that its products meet the core characteristics of government auditing standards for the period reviewed.

The peer review team found that the LAO has outstanding legislative support, evidenced by the glowing reviews from legislators who were interviewed by the peer review team. The peer review team also was impressed with several practices used by the LAO, including:

- The excellent initial letter sent by the Legislative Performance Audit Committee to agencies; it includes "Legislative Performance Auditing: A Process Overview." This document provides for those being audited a clear and comprehensive description of LAO's audit process.
- Strong staff competence and independence statement forms.
- Good use of plain language in the final reports.
- Often-evident professional skepticism.
- Strong current audit policies; they offer detailed, useful guidance to audit staff.

Suggestions for Further Consideration

During its review, the peer review team provided suggestions for management to consider to enhance its practice of the audit profession. The suggestions were not criticisms of the LAO; rather, they were provided as opportunities for further refinement and do not affect the peer review team's overall judgment of the office. For example: the peer review team suggested that the LAO consider:

- Standardizing indexing by developing a numbering scheme for tracking each work paper.
- Expanding the use of bridging documents; use them to pull together documents, synthesize data, develop analysis, etc.—not just as a means to summarize quantitative data.
- Strengthening existing quality control to ensure that findings in an audit report are supported by appropriately documented audit evidence.

The peer review team also noted that the Nebraska Legislative Audit Office staff of four auditors is significantly smaller than the national average of 28 for performance audit offices (see in Appendix C). The current LAO staff size affects its ability to perform larger and more sophisticated audit projects. It is the opinion of the peer review team that even one or two additional staff positions could significantly help the LAO better perform its audit role.

The LAO has built a strong reputation and the trust of legislators, and it should take the necessary steps to maintain this reputation and trust.

APPENDIX A. PERFORMANCE AUDITS REVIEWED

The State Foster Care Review Board: Authority, Conflicts of Interest, and Management Practices, Committee Report, Vol. 15, No. 2, December 2008.

Community-based Behavioral Health: Funds, Efficiency, and Oversight, Committee Report, Vol. 16, No. 3, April 2010.

DHHS Privatization of Child Welfare and Juvenile Services, Committee Report, Vol. 17, No. 1, November 2011.

APPENDIX B: PEER REVIEW TEAM

Brenda Erickson

Brenda Erickson is a program principal in the Legislative Management Program at NCSL, specializing in legislative rules and procedures, constitutional amendment processes, administrative rules review and legislative auditing. Ms. Erickson serves as the NCSL staff liaison to NLPES and the Mason's Manual Commission. She has been the chief author of 10 editions of *Inside the Legislative Process*, a nationally-recognized source of comparative information on state legislative procedures. Ms. Erickson has participated on numerous assessments of legislative process and staffing, including studies in Arizona, Arkansas, Maine, Michigan, New Mexico, Oregon, Tennessee, Virginia, West Virginia and the District of Columbia. 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 of Science 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

Jody Hauer

Since 1994, Jody Hauer has worked as a project manager in Minnesota's Legislative Auditor's Office. For 10 years, she headed the office's program known as "Best Practices Reviews," which researched efficiencies and effectiveness in the delivery of local government services. Since 2005, Ms. Hauer has managed program evaluations on a broad array of subjects, from pesticide regulation to post-employment benefits for public employees, to community-based waiver services for people with mental retardation. Before this work, she analyzed government expenditures, state/local fiscal relationships, and property-tax reform strategies in the State Auditor's Office, which is one of Minnesota's three elected

constitutional offices. Prior to that, she worked as a researcher, analyst and writer for the Citizens League, a nonprofit public-affairs research organization in the Twin Cities.

Ms. Hauer earned a Master's degree in planning and public affairs from the Humphrey Institute of Public Affairs at the University of Minnesota. Her undergraduate degree in political science, with a concentration in communications, is from the College of St. Catherine in St. Paul, Minnesota. She is a lifelong resident of Minnesota, except for a half-year when she lived near Washington, D.C., for an internship with the U.S. Department of the Interior. The peer review of the Nebraska Legislative Audit Office is the first such review in which she has the privilege to participate.

Jody Hauer
Principal Evaluator
Office of the Legislative Auditor
658 Cedar Street,
St. Paul, Minnesota 55155
651-296-8501
jody.hauer@state.mn.us

Justin Stowe

Justin Stowe, a Kansas State University graduate, holds a Bachelor's degree in political science and a Master's degree in public administration. As part of his Master's work, he interned with the Kansas Legislative Division of Post Audit in the summer of 2006 and began working full-time with the division in October of that year. Mr. Stowe became the deputy post auditor in October 2010 and began managing performance audits, IT security audits and the division's data mining function. His specific work-related interests include promoting a flexible and autonomous office culture, incorporating new technology into audit work, statistical analyses, IT security and website design. Although Mr. Stowe has attended NASACT and NLPES conferences, this is his first peer review.

Justin Stowe
Deputy Legislative Post Auditor
Legislative Division of Post Audit
800 SW Jackson, Suite 1200
Topeka, Kansas 66612
785-296-7977
justin.stowe@lpa.ks.gov

Jan Yamane

Jan K. Yamane is deputy auditor/general counsel for the State of Hawai'i, Office of the Auditor. She participated as the team leader for the Washington Joint Legislative Audit and Review Committee (JLARC) peer review in 2011 and has been the lead staff for the Hawai'i Office of the Auditor's peer reviews in 2007 and 2010. She currently serves on the NCSL

Executive Committee and Legislative Staff Coordinating Committee. An active member of the National Legislative Program Evaluation Society (NLPES), Ms. Yamane served as an executive committee member from 2004 to 2010 and as the chair in 2008-2009. Ms. Yamane holds a Bachelor of Arts degree from Vassar College, a Master of Arts degree from Harvard University, a Juris Doctorate from the William S. Richardson School of Law, University of Hawaii at Manoa and a Master of Business Administration from Hawaii Pacific University. She has been a member of the Hawaii Bar since 1987. She also holds a management certificate from the Hawaii Leadership Academy, sponsored by the State Department of Human Resources Development and the U.S. Office of Personnel Management.

Jan Yamane
Deputy Auditor/General Counsel
Office of the Auditor
485 South King Street, Room 500
Honolulu, Hawaii 96813-2917
808-587-0800v
jyamane@auditor.state.hi.us

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 program evaluations, policy analyses 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. 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 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 the offices have existed for at least 25 years, and some for more than 40 years. In 2003, the Maine Legislature created an entirely new program evaluation office. The Nebraska Legislature restructured its legislative audit staff to create the Legislative Audit Office in 2006. More recently, in 2007, North Carolina created an entirely new Program Evaluation Division within its Legislative Services Office.

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. The offices can be classified into four major groups. About a fifth of the states have relatively small offices with 10 or fewer staff, although most offices in this category have at least seven staff. Over a third of the offices are medium-sized, with 11 to 25 staff. Another third have between 26 and 50 staff, and the remaining states have large offices with more than 50 employees. On average, the typical legislative program evaluation office responding to the Ensuring the Public Trust survey has about 28 employees. The Nebraska Legislative Audit Office staff of four auditors is significantly smaller than the national average for audit offices.

