



NATIONAL CONFERENCE
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The Forum for America's Ideas

PEER REVIEW

STATE OF SOUTH CAROLINA

LEGISLATIVE AUDIT COUNCIL



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The Forum for America's Ideas

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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.



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July 2, 2013

Mr. Perry Simpson, Director
South Carolina Legislative Audit Council
1331 Elmwood Avenue, Suite 315
Columbia, South Carolina 29201

Terie T. Norelli
Speaker
New Hampshire House
President, NCSL

Patsy Spaw
Secretary of the Texas Senate
Staff Chair, NCSL

William Pound
Executive Director

Dear Mr. Simpson:

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 South Carolina Legislative Audit Council (LAC) in effect for a three-year compliance period ending June 30, 2013.

Section 3.101 of the *Generally Accepted Government Auditing Standards, 2011 Revision* (i.e., the Yellow Book or GAGAS) by the Comptroller General of the United States establishes three peer review report ratings—pass, pass with deficiencies or fail.

In the peer review team's opinion, the South Carolina Legislative Audit Council (LAC) has a quality control system that is suitably designed and followed, providing reasonable assurance that the LAC is performing and reporting performance audit engagements in conformity with applicable generally accepted government auditing standards for the period reviewed. Based on its professional judgment, the peer review team gives a peer review rating of pass to the LAC.

The LAC, however, should address the following issues:

- 1) Update its audit manual and policies to reflect 2011 Yellow Book standards. In addition, LAC should modify its GAGAS compliance statement for all performance audits beginning on or after December 15, 2011, to state that work conducted was consistent with 2007 Yellow Book standards.
- 2) Maintain a three-year cycle for peer reviews. Reviewers acknowledge the LAC currently is using a modified GAGAS statement in reports to reflect that it has not had a timely external quality control review.
- 3) Clearly demonstrate in audit working papers that an assessment of internal control risk relevant to the audit objects is performed.

We base our assessment on observations made during an onsite visit conducted May 13-17, 2013. During our visit, we reviewed the LAC's audit-related policies and procedures, two performance audits and continuing professional education (CPE) records. We also interviewed the LAC board chair and randomly-selected LAC staff. We note that the conduct of our peer review work 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,

David Arner
Audit Manager
Georgia

Valerie Whitener
Audit Coordinator
Washington

Brenda Erickson
NLPES Liaison
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INTRODUCTION

NCSL Peer Review

The South Carolina Legislative Audit Council (LAC) contracted with the National Conference of State Legislatures (NCSL) to review and assess the South Carolina Legislative Audit Council's system of quality control and overall quality of reports in a sample of performance audits completed during a three-year period ending June 30, 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 two highly experienced and respected program evaluators from Georgia and Washington (see Appendix B).

Conclusion

Section 3.101 of the *Generally Accepted Government Auditing Standards, 2011 Revision* (i.e., the Yellow Book or GAGAS) by the Comptroller General of the United States establishes three peer review report ratings—pass, pass with deficiencies or fail.

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Peer Review Purpose

The South Carolina Legislative Audit Council follows Yellow Book auditing standards for performance audits. Those standards require the LAC to undergo a peer review every three years. The LAC 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 LAC meets Yellow Book standards and professional best practices as determined by its NCSL/NLPES peer reviewers.

History of the Legislative Audit Council

The South Carolina Legislative Audit Council was created in 1975 under S.C. Code sec. 2-15-10 *et seq.* The office conducts performance audits, focusing on issues that involve the efficiency and effectiveness of state agencies and programs. It does not conduct financial audits.

The LAC is governed by a board composed of five public members and four legislative members. The public members—one of whom must be a certified public accountant and one an attorney—are elected during a joint session of the South Carolina General Assembly and serve six-year terms. By law, no legislator—or anyone having served in the preceding two years—may be elected as a public member. Only public members may vote on issues relating to audits or personnel.

The legislative members of the board are the chairs of the Senate Judiciary Committee, Senate Finance Committee, House Judiciary Committee, and House Ways and Means Committee (or their designees). They serve *ex officio*.

The LAC director is appointed by the LAC board and serves four-year terms. Most audit staff have earned advanced degrees or professional certification with backgrounds in business, economics, law, public administration or policy analysis.

Methodology

The South Carolina Legislative Audit Council contracted with NCSL to perform its 2013 peer review.

The LAC 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 LAC 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 LAC'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 Council, its policies and procedures, and two performance audits. The audits were selected by members of the peer review team from a list of audits released between July 2011 and March 2013 (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 LAC staff who worked on the performance audit.

A meeting of the peer review team and entire LAC staff was held. During the meeting, everyone introduced themselves and provided short descriptions of their backgrounds, including education and relevant work experience. To evaluate LAC 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 LAC's internal quality assurance system.

The peer review team interviewed the chairman of the LAC board.

The team discussed its preliminary conclusions with the LAC director and deputy director.

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 COUNCIL COMPLIANCE WITH YELLOW BOOK STANDARDS AND BEST PRACTICES

Section 3.101 of the *Generally Accepted Government Auditing Standards, 2011 Revision* (i.e., the Yellow Book) by the Comptroller General of the United States establishes three peer review report ratings—pass, pass with deficiencies or fail.

In the peer review team’s opinion, the South Carolina Legislative Audit Council (LAC) has a quality control system that is suitably designed and followed, providing reasonable assurance that the LAC is performing and reporting performance audit engagements in conformity with applicable *Generally Accepted Government Auditing Standards* for the period reviewed. Based on its professional judgment, the peer review team gives a peer review rating of pass to the LAC.

Independence

In all matters relating to evaluation work, the LAC and the individual auditors are free from personal, external and organizational impairments to independence and avoid the appearance of such impairments. During the course of audit engagements, the staff completes and updates independence statements. Because the LAC does not perform other professional services, it has sufficient controls to ensure no breach of the independence standard. As an organization, the LAC is independent in its ability to carry out its work objectively and without undue influence.

Objectivity and Professional Judgment

Auditors use professional judgment in planning and performing audits and in reporting the results. The LAC’s collective work process provides an assurance of professional judgment.

Competence and Technical Knowledge

The peer review team determined that the LAC staff collectively possess the technical knowledge, skills and experience necessary to competently perform audits. They possess knowledge of Yellow Book standards, general knowledge of the environment in which audited entities operate, skills to communicate effectively and skills appropriate for the performance audits being completed.

Based on interviews with select LAC staff and a review of personnel information, the peer review team determined that LAC staff has the combined skills and education to complete performance audits competently. The office includes experienced, well-educated staff and seasoned leaders.

Continuing Professional Education

The peer review team determined the current LAC staff is in compliance with continuing professional education (CPE) requirements. Every two years, staff complete at least 80 hours of continuing professional education that directly enhances the auditors' professional proficiency to conduct performance audits. The LAC training coordinator maintains documentation of completed CPE courses.

Reliability

The peer review team determined that the LAC met the reliability standards for performance audits. Overall, the peer review team found that the audit documentation included adequate support for findings, conclusions, and recommendations. The LAC has established procedures for planning audits, supervising staff, obtaining and documenting evidence, and reporting to ensure the reliability of its audits. The LAC's work is adequately planned, staff are properly supervised, and reports are adequately referenced. Generally, audit documentation related to planning, field work and reporting contains sufficient information to enable an experienced auditor, who has had no previous connection with the audit, to ascertain from the documentation the evidence that supports the auditors' significant conclusions.

Quality Control and Assurance

The LAC has established a system of quality control that is designed to provide it with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements.

Report Contents and Issuance

The performance audits include the objectives, scope and methodology; the audit results, including findings, conclusions and recommendations, as appropriate; a reference to compliance with *Generally Accepted Government Auditing Standards*; and the views of responsible officials.

The LAC submits audits to the appropriate officials of the audited entity and to the South Carolina General Assembly. Copies are available to the public.

Suggestions for Further Consideration

The peer review team was impressed with several practices used by the LAC, including:

- The organization of its work papers.
- Its thorough and efficient CPE tracking system.

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

The LAC should address the following issues:

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- 3) Clearly demonstrate in audit working papers that an assessment of internal control risk relevant to the audit objects is performed.

The LAC has built a good reputation and earned the trust of its board and the legislature; it should take the necessary steps to maintain this reputation and trust.

APPENDIX A. PERFORMANCE AUDITS REVIEWED

A Limited Review of Medicaid Managed Care Rates and Expenditures and Other Administrative Issues at the Department of Health and Human Services, Report, LAC/11-2, July 2012.

A Management Review of Patriots Point Development Authority, LAC/11-1, December 2012.

APPENDIX B: PEER REVIEW TEAM

David Arner

David Arner has spent the last 19 years with the Georgia Department of Audits and Accounts, the state's nonpartisan agency responsible for ensuring effective oversight of state government operations. As deputy director of the Performance Audit Division since 2010, Mr. Arner is responsible for managing multiple audit teams, as well as managing various administrative tasks such as staff training and audit selection. Audits managed by Mr. Arner have resulted in cost savings, improved efficiencies, a greater focus on programmatic outcomes, fraud investigations and legislative changes. Previously, Mr. Arner served in a variety of roles within the Performance Audit Division, including team leader and audit manager. Prior to joining the Performance Audit Division, Mr. Arner spent six years as a corporate accountant with a regional grocery chain with over \$1 billion in sales. Mr. Arner's degrees include a Master of Business Administration and a Bachelor of Arts in Finance from the University of West Florida. Mr. Arner is also a certified public accountant (CPA) and a certified internal auditor (CIA).

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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 the 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 coordinated the 2012 peer review of the Nebraska Legislative Audit Office. She also has participated in 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.

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Valerie Whitener

Valerie Whitener was selected to serve as JLARC's Audit Coordinator in July 2011. She brings to JLARC 30 years of professional and management experience—more than 19 of which is in performance auditing and program evaluation of state and local government programs. Ms. Whitener previously worked for JLARC for more than 11 years. Prior to rejoining JLARC as its auditor coordinator, she worked in the King County Auditor's Office. Before her work at JLARC and King County, she served with the U.S. Fish and Wildlife Service and the National Oceanic and Atmospheric Administration in Washington, D.C., and Seattle. Ms. Whitener holds a Bachelor of Arts degree, with an emphasis in public policy and administration, from Evergreen State College and a Master of Interdisciplinary Arts and Sciences from the University of Washington.

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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 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. Most recently, in 2007, North Carolina created an entirely new Program Evaluation Division within its Legislative Services Office. The South Carolina Legislative Audit Council has been in existence for 38 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 South Carolina Legislative Audit Council staff of 19 is somewhat smaller than the national average for audit offices.



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