

PEER REVIEW

STATE OF SOUTH CAROLINA
LEGISLATIVE AUDIT COUNCIL



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NATIONAL CONFERENCE *of* STATE LEGISLATURES

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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, Colo., and Washington, D.C.

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INTRODUCTION

Peer Review Purpose

The South Carolina Legislative Audit Council (LAC) follows *Government Auditing Standards* (i.e., the Yellow Book, or GAGAS) 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 a peer review is to identify whether the South Carolina Legislative Audit Council's system of quality control provides reasonable assurance of compliance with *Government Auditing Standards* and professional best practices as determined by peer reviewers with respect to performance audit engagements. The office contracts with private accounting firms to complete its financial auditing activities.

NCSL/NLPES Peer Review Methodology

The South Carolina Legislative Audit Council contracted with the National Conference of State Legislatures (NCSL) to perform its 2016 peer review to assess the office's system of quality control and overall quality of reports in a sample of performance audits completed during the period from 2013 to 2016 (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 Louisiana and Montana (see Appendix B).

As noted above, the South Carolina Legislative Audit Council 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 Yellow Book requirements 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 and independence 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) Stakeholders and users of LAC's products are satisfied with the quality of work performed.
- 6) Staff is competent to perform work required.

An onsite visit was held Oct. 10-14, 2016. A meeting of the peer review team and entire Legislative Audit Council staff also was held during this time period. During the meeting, everyone introduced themselves and provided short descriptions of their backgrounds, including education and relevant work experience.

The peer review team reviewed documentation relating to the function of the South Carolina Legislative Audit Council, its audit-related 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 2013 and 2016 (Appendix A). Each peer review team member took lead responsibility for review of 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.

The peer review team conducted interviews with the five public members of the Legislative Audit Council Board.

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

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.

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 South Carolina Legislative Audit Council 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 *Government Auditing Standards* for the period reviewed. Based on its professional judgment, the peer review team gives a rating of “pass” to the South Carolina Legislative Audit Council.

Independence. The Legislative Audit Council is established by statute. Its statutory authority provides the LAC with considerable assurance that the office can function independently and exercise its responsibilities in conformity with the Yellow Book. This includes statutory access to documents, records and people within other branches of government; broad audit authority; and protection of work paper confidentiality.

The LAC Board has five, voting public members and four, non-voting legislators. This structure facilitates independence from the legislature, yet allows the legislature to be informed about LAC’s audit work.

The office has implemented a process for internal disclosure of potential impairments to independence on the part of staff assigned to audits. During the course of audit engagements, the staff completes and updates independence statements.

Credibility/Effectiveness. The LAC is an effective performance audit organization. The Legislative Audit Council Board is engaged. Board members interviewed by the peer review team expressed satisfaction with the work of LAC staff and confidence that the information and

conclusions in LAC reports are accurate, complete, and well-supported. They also indicated they value LAC's work and have a positive working relationship with the staff.

Reliability/Quality Control and Assurance. The office has established procedures for planning audits, supervising staff, obtaining evidence and documenting and reporting that ensure its reliability. LAC's audit manual follows the order of and is referenced to the *Government Auditing Standards, 2011 Revision*. The manual is easy to read and is user friendly. The organization and indexing of work papers is easy to follow. Good referencing is very helpful from a quality assurance or outside review perspective.

Objectivity/Professional Judgment. Auditors use professional judgment in planning and performing audits and LAC's collective work process provides an assurance of professional judgment.

Competence. The office includes experienced, well-educated staff. The staff assigned to perform audits collectively possess adequate professional competence for the tasks required.

Competence may be maintained through a commitment to continued learning and development. Training is available both in-house and through many outside resources, including the National Conference of State Legislatures and the National Legislative Program Evaluation Society. Every two years, LAC staff complete at least 80 hours of continuing education. The LAC's electronic system for continuing professional education has streamlined its CPE tracking process.

Suggestions for Improvement. As noted above, the peer review team found positive aspects of LAC's work. During its review, the peer review team also offered additional technical and procedural suggestions for management of the South Carolina Legislative Audit Council to consider. The suggestions were not criticisms of the office; rather, they were provided as opportunities to further refine its practice of the audit profession and do not affect the peer review team's overall judgment of the office or its compliance with *Government Auditing Standards*.

APPENDIX A. PERFORMANCE AUDITS REVIEWED

A Review of the Small Business Development Centers Program, Report No. 15-4, July 2016.

S.C. Department of Disabilities and Special Needs' Process to Protect Consumers from Abuse, Neglect, and Exploitation, Administrative Issues and A Follow Up to Our 2008 Audit, Report No. 12-4, June 2014.

A Review of S.C. First Steps to School Readiness, Report No. 12-2, June 2013. [partial review]

A Review of the S.C. Dept. of Health and Environmental Control's Regulation of Abortion Clinics, Report No. 14-3, May 2015. [partial review]

APPENDIX B: PEER REVIEW TEAM

Diedra Murray

Diedra Murray is an audit manager with the Montana Legislative Audit Division, where she has worked since 2004. During her time, she has conducted and managed a variety of performance and information system audit projects across the state's agencies. These audits have improved the State of Montana's risk management and governance processes and resulted in increased efficiencies and legislative changes. She received a bachelor of science degree in business administration with emphases in accounting, management and international business from the University of Montana—Missoula.

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Emily Wilson

Emily Wilson is a performance audit manager with the Louisiana Legislative Auditor, where she has worked since 2003. During this time, she has conducted and managed a wide variety of performance audit projects at many of the state's executive branch agencies. These audits have resulted in cost savings, improved efficiencies, increased transparency, and legislative changes. She is a certified internal auditor and a certified government auditing professional. She also has a certification in risk management assurance from the Institute of Internal Auditors. She received a master's degree in business administration, a bachelor of science degree in psychology and a bachelor of science degree in elementary education from Louisiana State University.

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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. She 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 32 years. Before joining NCSL, she worked for the Minnesota House of Representatives for five years. She received her bachelor's degree in math from Bemidji 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 legislative sunset, audit or 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 sunset, audit or program evaluation office can provide objective information without taking a position on results of its use. It 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. South Carolina has had a performance audit function in place since 1975.

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 South Carolina Legislative Audit Council 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. With 20 staff, the South Carolina Legislative Audit Council falls into the first category.