

PEER REVIEW

STATE OF SOUTH CAROLINA LEGISLATIVE AUDIT COUNCIL



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.

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- 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.

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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 2019 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 2016 to 2019 (see Appendix A). The National Legislative Program Evaluation Society (NLPES) and the NCSL staff liaison to NLPES organized a peer review team consisting of two experienced and respected program evaluators from Mississippi and West Virginia (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 took place Oct. 14-18, 2019. 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 2016 and 2019 (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 two 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 but allows the legislature to be informed about LAC’s audit work. The Legislative Audit Council Board is engaged, and the members interviewed by the peer review team expressed satisfaction with the work being done by LAC staff.

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, staff complete and update independence statements. Independence statements are taken seriously; in instances where any bias was noted, the peer review team found evidence that it was addressed.

Reliability/Quality Control and Assurance. The office has procedures for planning audits, supervising staff, obtaining evidence and documenting and reporting that ensure its reliability. The peer review team found that supervisory review is clearly evident.

LAC’s audit manual is referenced to the *Government Auditing Standards, 2011 Revision*. The office is updating its audit manual to reflect new standards set forth in the *Government Auditing Standards, 2018 Revision*.

The office has a paper system for organizing and indexing of work papers, and it is testing a system for electronic work papers. The peer review team found that a working paper reference within a multi-page source is highlighted. Good referencing is very helpful from a quality assurance or outside review perspective.

The peer review team found reports to be very thorough and easy to read. They felt the placement of recommendations within reports is well done.

Competence. The office includes experienced, well-educated staff. The staff assigned to perform audits collectively possess adequate professional competence for the tasks required. The peer review team found that staff competency is clearly set forth.

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 uses an electronic system to track its continuing professional education records.

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

South Carolina's Use of Education Lottery Account Funds, Report No. SCEL-17a, June 2018.

A Review of the S.C. Conservation Bank, Report No. 16-2, February 2017.

So. Carolina Education Lottery, SCEL-17B, June 2019.

Review of Adult Protective Services, Report No. 16-3, July 2017.

APPENDIX B. PEER REVIEW TEAM

David Pray

David Pray is a principal analyst with the Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER). He has been with PEER for almost 25 years, and he also is a certified public accountant. Prior to joining PEER, Mr. Pray worked as an internal auditor in the banking industry for 14 years. He has been an adjunct accounting instructor at Belhaven University since 1994 and currently teaches advanced accounting and forensic accounting.

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John Sylvia

John Sylvia is the director of the West Virginia Performance Evaluation and Research Division (PERD). He has been with PERD for 25 years. He also worked in Indiana for eight years, where he conducted revenue forecasts and performance audits. Mr. Sylvia received his bachelor's degree in economics from the University of Massachusetts-Boston and his master's degree in economics from Indiana 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, Washington Joint Legislative Audit and Review Committee, and West Virginia Post Audit Division. 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 35

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, about a fifth of the

states have offices with 10 or fewer staff. More than three-fourths of audit offices have 11 or more evaluation staff, and with 16 staff, the South Carolina Legislative Audit Council falls into this category.