

PEER REVIEW

STATE OF WASHINGTON JOINT LEGISLATIVE AUDIT AND REVIEW COMMITTEE



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COMMITTEE



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 ensure state legislatures a strong, cohesive voice in the federal system.

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INTRODUCTION

Peer Review Purpose

The Washington Joint Legislative Audit and Review Committee (JLARC) 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 Washington Joint Legislative Audit and Review Committee'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.

NCSL/NLPES Peer Review Methodology

The Washington Joint Legislative Audit and Review Committee contracted with the National Conference of State Legislatures (NCSL) to perform its 2017 peer review to assess the office's system of quality control and overall quality of reports in a sample of performance audits and tax preference performance reviews completed during the period from 2014 to 2017 (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 experienced and respected program evaluators from Maine, Minnesota and Nebraska (see Appendix B).

As noted above, the Washington Joint Legislative Audit and Review Committee 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 JLARC's products are satisfied with the quality of work performed.
- 6) Staff is competent to perform work required.

On April 10, 2017, a conference call was held for the peer review team, the JLARC director, deputy director, audit supervisor and peer review coordinators. During the call, background about JLARC office operations and the NCSL/NLPES peer review process was provided.

Prior to the onsite visit, the team received and reviewed JLARC's mission, vision and values statement, its annual report, an outline of its study process, the project management section of the employee handbook, the quality control systems document, rules of procedure, enabling statutes, staff organization chart and short descriptions of staff backgrounds, including education and relevant work experience.

An onsite visit was held May 1-5, 2017. During the onsite visit, the peer review team reviewed documentation relating to the function of JLARC, its audit-related policies and procedures, three performance audits and two tax preference reviews. The audits were selected by members of the peer review team from a list of audits released between 2014 and 2017 (Appendix A). Each peer review team member took lead responsibility for one or two reports. This included studying the performance audit or tax preference review in depth, reviewing the supporting working papers and interviewing current staff who worked on the performance audit.

The peer review team conducted interviews with three members of JLARC's Executive Committee, the chair of the Citizen Commission for Performance Measurement of Tax Preferences, four legislative staff from outside JLARC, and JLARC office managers and selected staff. The peer review team also met with the entire JLARC staff twice during the onsite visit.

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 JLARC director, deputy director, audit supervisor and peer review coordinators.

Appendix A lists the performance audits and tax preference reviews 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 Washington Joint Legislative Audit and Review Committee 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 Washington Joint Legislative Audit and Review Committee.

Independence. The Washington Joint Legislative Audit and Review Committee is established by statute. Its statutory authority provides the JLARC 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 confidentiality protections for its work while audits are underway.

The office has a process for internal disclosure of potential impairments to independence on the part of staff assigned to audits. The process is set forth in JLARC’s project management handbook and the quality assurance system document. The legislative auditor reviews and assesses the independence of staff when assigning them to an audit project. During the course of audit projects, the staff completes and updates independence statements.

Credibility/Effectiveness. The JLARC is an effective performance audit organization. JLARC Executive Committee members, the Citizen Commission chair and others interviewed by the peer review team expressed satisfaction with the work of JLARC staff and confidence that the information and conclusions in JLARC reports are accurate, complete and well-supported. They also indicated they value JLARC’s work and have a positive working relationship with the staff.

Reliability/Quality Control and Assurance. Revised Code of Washington Section 44.28.065 specifically requires the office to perform its audits in conformity with *Government Auditing Standards*. As a result, JLARC is required by statute to undergo external quality control reviews at regular intervals. These reviews must be conducted by an independent organization that has experience in conducting performance audits. JLARC contracted with NCSL to perform peer reviews in 2007, 2011, 2014 and 2017.

The office also has established internal procedures for planning audits, supervising staff, obtaining evidence, and documenting and reporting that ensure its reliability. JLARC's project management handbook and quality control system are referenced to the *Government Auditing Standards, 2011 Revision*. The written guidance materials are clear and comprehensive. The project checklist is a good tool for staff. Work paper summaries and bridging documents are well organized. There is strong supervisory involvement.

Objectivity/Professional Judgment. Auditors use professional judgment in planning and performing audits. JLARC's work process provides for the application of collective professional judgment of the office.

Competence. The office includes experienced, well-educated staff. The staff's diverse backgrounds and skill sets are beneficial to the office. 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. An internal staff training committee surveys JLARC staff about training needs. 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. An office goal is to hold an all staff training once per quarter.

Every two years, JLARC staff must complete at least 80 hours of continuing education. The JLARC's electronic system for continuing professional education has streamlined its CPE tracking process. All but one analyst received the required CPE hours for the two-year period reviewed. For the analyst who missed hours, the reason and actions taken were documented.

Suggestions for Improvement. As noted above, the peer review team found positive aspects of JLARC's quality assurance process and the staff's work. During its review, the peer review team also offered additional technical and procedural suggestions for JLARC managers 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*.

In 2006, legislation was enacted establishing the Citizen Commission for Performance Measurement of Tax Preferences. The Citizen Commission is required to develop a schedule to

review each tax preference at least once every 10 years. The law also requires JLARC staff to perform the tax preference reviews for the Citizen Commission. During the first 10-year cycle, JLARC staff completed an average of 26 tax preference reviews per year. In certain cases, the analysis was limited due to unclear policy objectives for the tax preference, the volume of tax preferences to be studied each year, or limited JLARC staff resources that could be transitioned from other performance audit work to this assignment.

The peer review team members from Maine, Minnesota and Nebraska have experience with evaluating tax preferences in their respective states. Based on these experiences, the peer review team makes the following observations.

1. JLARC did an admirable job in completing as many reviews as it did during the first cycle of tax preferences given the resources available.
2. As JLARC heads into the second cycle of tax preference reviews, it is poised to build on what it learned in the first cycle and apply more in-depth and sophisticated analysis in deriving results and generating conclusions on individual preferences.
3. However, more in-depth reviews that include more complex analyses, while still adhering to professional standards, are very likely to take considerably more time or resources than the current 10-year cycle allows for within JLARC's current resource levels.

The peer review team notes that the ability to perform high level, quantitative analysis is not necessarily compatible with short turnaround times or increased workload.

Consequently, if the Washington Legislature and the Citizen Commission desire more in-depth reviews and enhanced tax preference reports, they may wish to consider adjusting or providing more flexibility in the review cycle to reduce the number of reviews JLARC is required to complete each year. For example, tax preferences with less impact might be reviewed less frequently and/or with a more limited scope, while tax preferences with greater impact might be reviewed more often and/or in greater depth. Alternatively, the Legislature may consider providing JLARC with additional resources to conduct its work.

APPENDIX A. PERFORMANCE AUDITS REVIEWED

Unemployment Insurance Training Benefits Phase II, Report No. 16-1, April 2016.

Unaccompanied Homeless Youth Performance Measures and Population Estimates, Report No. 17-03, January 2017.

Second Sunset Review of UW's Alternative Process for Selecting Medical Facility Construction Contractors, Report No. 17-01, January 2017.

2016 Tax Preference Performance Reviews, Report No. 17-02, January 2017. [partial review; the two sections noted below were reviewed]

—*Trade-Ins | Sales and Use Tax*

—*Data Center Equipment | Sales and Use*

APPENDIX B: PEER REVIEW TEAM

Beth Ashcroft

Beth Ashcroft has more than 26 years of performance auditing experience and holds the professional designation of Certified Internal Auditor. She currently is the director of the Maine Legislature's Office of Program Evaluation and Government Accountability. She has held this position since the office was created in 2005. Before joining OPEGA, Ms. Ashcroft worked at Maine's largest electric utility for almost 22 years, mostly in internal auditing. She has been a well-received presenter and trainer on auditing and management topics at many local, regional and national conferences. Ms. Ashcroft earned both her Master's and undergraduate degrees in business administration from Thomas College in Waterville, Maine.

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Martha Carter

Martha Carter has worked for the Nebraska Legislature for 28 years. She currently is the Legislative Auditor, a position she has held since 2006. She earned her Bachelor of Arts degree from University of Redlands. Ms. Carter is active in the National Conference of State Legislatures and the National Legislative Program Evaluation Society. She served on the NCSL Executive Committee from 2013 to 2016, and she served as the chair of the NLPES Executive Committee in 2005. Ms. Carter participated on the 2010 NCSL/NLPES peer review of the Wyoming Legislative Service Office Program Evaluation Section.

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Brenda Erickson

Brenda Erickson is a program principal in the Legislative Staff Services 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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Jody Hauer

Jody Hauer coordinates program evaluations for the Minnesota Office of the Legislative Auditor, where she has worked since 1994. As a project manager, she leads all phases of evaluating state programs and agencies—planning evaluations, conducting research, synthesizing data, and writing and editing reports. She also presents results to legislators and tracks impacts of reports released in past years. 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 annually serves as a mentor for graduate students from the Humphrey School of Public Affairs at the University of Minnesota. She also participated on the 2012 NCSL/NLPES peer review of the Nebraska Legislative Audit Office.

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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. The Washington Legislature created the Legislative Budget Committee in 1951, and throughout the 1970s, the Legislature increased the budget committee’s responsibilities to include management surveys, program reviews, performance audit and sunset reviews. In 1996, the Legislature updated its performance audits statutes, and the agency was renamed as the Joint Legislative Audit and Review Committee.

To help ensure that they produce high-quality work, audit 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 Washington Joint Legislative Audit and Review Committee 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 2015 *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 21 staff, the Washington Joint Legislative Audit and Review Committee falls into the first category.