National Legislative Program
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Peer Review Program

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Background: The Role of Peer Review in Legislative Evaluation and Audit Organizations

State legislatures have a fundamental responsibility to oversee government operations and ensure that public services are delivered to citizens in an effective and efficient manner. This accountability role is a critical part of our constitutional system of separation of powers and is essential to ensuring the trust that citizens place in government.

To assist in fulfilling this oversight responsibility, most state legislatures have created specialized units that conduct research studies and evaluate or audit state government policies and programs—i.e., legislative auditors, state auditors, or oversight committees. The general goal of these units is to improve government operations and accountability.

What is Peer Review?

Periodically, legislative program evaluation and audit units often undergo an external assessment—peer review—of their processes and products to identify areas that need improving or strengthening. The term peer review is commonly used to describe the formal process for monitoring CPA firms and governmental audit organizations by experienced peers that work in similar organizations. The process is also known as a quality control review or quality assessment review.

A peer review team is engaged by the CPA firm or governmental audit organization to perform the review. Each member of the peer review team is required to be independent of the CPA firm or governmental audit organization and must be qualified to perform the review. The peer review team evaluates the firm’s or organization’s internal quality control policies and procedures and selects audits and attestation engagements to evaluate whether the firm or organization followed its internal quality control policies and procedures when performing those engagements. The results of the peer review team’s evaluation are submitted in a peer review report. The reviewed CPA firm or governmental audit organization responds in writing to the peer review team’s comments on matters in the peer review report and/or in the letter of comments. The response describes the actions taken or planned with respect to each matter in the report and/or the letter.

Development of the Peer Review Process and Professional Standards

The accounting profession’s first uniform peer review program was created in 1977 by the American Institute of Certified Public Accountants (AICPA). The program required all member firms conducting attestation functions to adhere to a single set of generally accepted auditing standards. The most important requirement—peer review every three years—would monitor adherence to those standards. The peer review process was initially designed as an educational and remedial program to prevent recurrences of problems and correct deficiencies in the practices of member firms.

The Government Accountability Office (GAO), established in 1921 as the General Accounting Office, promulgated Government Auditing Standards ("Yellow Book"), which has been adopted in the peer review process. The GAO disseminated the first Yellow Book in 1972. The Yellow Book requires offices to receive a peer review at least once every three years but does not require a peer review to be conducted by any specific organization.

In 1991, the National Association of Local Government Auditors (NALGA) established a peer review program to assist member organizations in complying with Yellow Book standards. NALGA expanded the peer review program in 2005 to include peer reviews for audit organizations utilizing International Standards for the Professional Practice of Internal Auditing ("Red Book"), adopted by the Institute of Internal Auditors (IIA). For Red Book reviews, audit
organizations are required to have an external assessment completed at least once every five years.

As of July 2008, forty-one states have NLPES member offices that conduct performance evaluations and audits. Over half of the offices—twenty-six—follow the Yellow Book. Others use the Red Book, Guiding Principles for Evaluators issued by the American Evaluation Association, or Program Evaluation Standards issued by the Joint Committee on Standards for Educational Evaluation. Approximately 25% of NLPES member offices have not formally adopted standards but use a combination of standards promulgated by the organizations and associations previously mentioned.

Recent Peer Reviews of NLPES Member Offices

Since 2002, the National Conference of State Legislatures (NCSL), with assistance from fourteen performance evaluators and auditors from NLPES member offices, has conducted five peer reviews—Florida Office of Program Policy and Government Accountability (2002 and 2006); Hawaii Office of the Auditor (2007); Washington Joint Legislative Audit and Review Committee (2007); and Nebraska Legislative Performance Audit Section (2008).

While the Florida office uses the Program Evaluation Standards, the Hawaii, Washington and Nebraska offices use the Yellow Book. All four offices requested peer reviews coordinated by NCSL to provide perspectives regarding their operations.
Overview of NLPES Peer Review Program

Purpose of NLPES Peer Review Program

As noted previously, audit and evaluation entities that follow Yellow Book or Red Book standards are required to have to periodic peer reviews to be considered in compliance with such standards. State laws governing some member offices require that the offices undergo peer review. Also, in some cases, member offices schedule a peer review to focus on certain aspects of their operations in order to improve the efficiency or effectiveness of their work.

Given the recent interest among NLPES member offices regarding peer reviews, the NLPES Executive Committee made the decision in July 2008 to establish a peer review program for member offices that choose to participate. The NLPES peer review program is similar in design and implementation to the peer reviews coordinated by NCSL in the past. While the NLPES peer review program has several distinct advantages—reviews conducted exclusively by legislative evaluators or auditors, relatively low cost, no required membership fee—the program is not designed to compete with or replace peer review programs offered by other national organizations or other entities such as private CPA firms. The NLPES peer review program is simply an option available to member offices, particularly those offices that are not members of organizations that provide peer review services.

Focus of an NLPES Peer Review

Generally, a peer review (whether conducted by NLPES or another external reviewer) determines whether the member office’s system of quality control is suitably designed and whether the member office complies with that system, resulting in products that conform to applicable professional standards. At a minimum, an NLPES peer review could address these areas of a member office’s operations.

In an effort to make peer reviews most beneficial to member offices, NLPES will consult with senior managers of a member office during the planning phase of the review to identify specific areas or issues to be included within the scope of the peer review. For example, in one peer review coordinated by NCSL, the member office requested that peer reviewers assess the office’s staff training program in addition to reviewing the office’s quality review process. NLPES’s flexible approach to peer review planning allows for more in-depth assessments of managerial and programmatic areas that go beyond the traditional peer review.

Standards Used by NLPES Peer Reviewers

Because NLPES offices vary greatly with regard to their use of professional standards for conducting their work, NLPES reviewers will use as their criteria the member office’s adopted standards—e.g., Yellow Book, Red Book, or office standard operating procedure manual.
Process for Conducting an NLPES Peer Review

When NLPES peer reviews are conducted, the following tasks must be performed by the office requesting the peer review, certain members of the NLPES Executive Committee, and volunteer peer reviewers from other member offices.

Responsibilities of NLPES Member Office Requesting a Peer Review

- **Assess the office’s readiness for a peer review:** Prior to scheduling a peer review, the office requesting the review should analyze its operations to assess its readiness for a peer review—i.e., the office should conduct a self-assessment to determine compliance with its adopted standards and/or operating procedures. Once an office determines that it is ready for a peer review, a representative of the office should contact the NLPES Peer Review Liaison (designated by the NLPES Executive Committee) to gain an understanding of NLPES’s peer review program.

- **Schedule the review:** The NLPES Peer Review Liaison and office representative will discuss a timeframe during which the office would prefer the peer review to be conducted. After the Liaison staffs the peer review, the Liaison and representative of the office to be reviewed will finalize exact dates for the peer review, including dates for on-site fieldwork.

- **Determine the review period:** The review period establishes the scope of the peer review, since the peer review team selects for review reports issued during the period. While an office’s adherence to Yellow Book or Red Book standards dictates the frequency of peer review (at least once every three or five years, respectively), those offices that have not adopted any specific set of standards must decide the frequency for being peer reviewed and identify the timeframe to be included. The period under review generally covers one year, but the office requesting the review would have the option to choose a longer period to be covered by the peer review.

- **Execute review agreement:** After scheduling the review, the office to be reviewed and NLPES will enter into a formal review agreement that will detail the purpose and scope of the peer review, list the names of individuals who will conduct the review, provide the dates for conducting the review, and describe how expenses will be handled. In drafting the review agreement, the NLPES Peer Review Liaison will utilize a standardized review agreement and consult with a representative of the office to be reviewed to include any state-imposed contracting requirements unique to that office.

- **Make travel arrangements:** Staff of the office to be reviewed will coordinate with the NLPES Peer Review Liaison to make travel and hotel arrangements.

- **Provide background information:** The office to be reviewed will provide each review team member with standardized background information needed to plan the peer review. Such information will include: operations manual, standards utilized by the office to conduct performance evaluations or audits (Yellow Book, Red Book, or other), description of the office’s quality control system, brief history of the office, list of reports issued within the designated period of review, reports from previous peer reviews (if any), actions taken on recommendations from previous peer reviews, organization chart, and staff names, position titles, qualifications, and supervisory assignments during the review period. The office to be reviewed will be responsible for providing to review team members the necessary information at least six weeks prior to the scheduled on-site work by peer reviewers.

- **Provide workspace:** The office to be reviewed is responsible for providing review team members with adequate workspace, including desk or cubicle space, basic office supplies, as well as access to a photocopier, telephone and access to the Internet.
Review team members should also be provided conference room space in which to conduct private discussions.

- **Participate in entrance conference:** Prior to beginning on-site fieldwork, the Peer Review Team Leader and team members will meet with representatives of the office to be reviewed to discuss the scope of the peer review and other programmatic and administrative issues.

- **Make staff, reports, and workpapers available to reviewers:** The office undergoing the review will ensure that requested staff and workpapers are available to review team members in a timely manner. Prior to the on-site work, the Peer Review Team Leader will notify a representative of the office undergoing the review as to the reports that team members will review to ensure that relevant project workpapers are located on-site rather than at an off-site storage facility.

- **Discuss preliminary observations and recommendations with reviewers:** Prior to the conclusion of on-site fieldwork, the Peer Review Team Leader will schedule a meeting with representatives of the office undergoing the review to discuss the team’s “Notable Observation” worksheets and proposed recommendations. The primary purpose of the meeting will be to identify potential errors and to gain further insight as to the office’s position on or interpretations of the preliminary observations. This meeting will be a working session and not the formal exit conference for the peer review.

- **Participate in exit conference:** At the conclusion of the on-site work, the review team will formally brief management of the office undergoing review regarding the team’s final observations and recommendations. Team members will also share the draft report outline with office representatives during the exit conference. Office representatives will be provided an opportunity to provide additional information or comments during the conference.

- **Compile written response to draft report:** Management of the reviewed office will prepare a written response to the draft report outline and provide it to the Peer Review Team Leader within one week of the exit conference. The office’s response will be appended to the review team’s final report prior to submission to the NLPES Peer Review Liaison.

- **Provide payment for the review:** As provided for in the review agreement, the reviewed office should comply with the financial arrangements for the peer review in a timely manner.

- **Complete evaluation survey:** Within two weeks of receiving the final peer review report from the NLPES Peer Review Liaison, management of the reviewed office should complete a “user satisfaction” evaluation survey to provide feedback to the NLPES Executive Committee regarding the office’s peer review experience.

- **Archive workpapers:** The reviewed office will be responsible for archiving the hardcopy workpapers for the peer review. At a minimum, workpapers should include: a copy of the signed agreement, copies of the reviewers’ independence statements, summaries of major items discussed during the entrance and exit conferences, work plan, “Notable Observation” worksheets, draft report outline, and final report. Within two weeks of receiving the final report, staff of the reviewed office will be responsible for scanning the workpapers onto a CD-ROM or DVD and provide such to the NLPES staff section liaison at NCSL.

**Responsibilities of NLPES Executive Committee**

- **Designate Peer Review Liaison:** The NLPES Executive Committee will designate a Peer Review Liaison to coordinate and facilitate peer reviews requested by member offices.
• **Select peer review team coordinator and members:** Through a survey of NLPES member offices, the Peer Review Liaison has identified staff members who are willing and qualified to serve as peer review team members (and Peer Review Team Leaders [team leaders]). Peer review team members should be senior-level staff possessing a minimum of eight years of experience in conducting performance evaluations or audits with at least four of those years at a supervisory or managerial level. Qualifications and credentials of potential peer reviewers are maintained on file with the Peer Review Liaison. The Peer Review Liaison will designate the Team Leader for each review. The Team Leader should be an individual who has served as a team leader or team member on a prior peer review.

Typically, peer review teams will be composed of four individuals—a Peer Review Team Leader and three reviewers. The exact size of a review team could vary depending on the size of the office being reviewed and scope of the peer review. At the time an office requests a peer review, the Liaison will examine the pool of NLPES members who have volunteered and been qualified as peer reviewers, identify potential reviewers, and consult with the office requesting a review regarding the final selection of review team members. The office requesting a review may also suggest the names of individuals who could be considered by the Liaison for selection as a reviewer. Team members should collectively possess the qualifications and experience to conduct the scope of peer review requested by the office. To help ensure the broadest possible set of experiences on the review team, no two members of the team should come from the same office or state. Once the Liaison has selected the review team members, the Liaison will provide the office requesting the peer review with the names and qualifications of the peer review team.

• **Execute review agreement:** After scheduling the review, the office requesting the review and NLPES will enter into a formal review agreement that will detail the purpose and scope of the peer review, identify individuals who will conduct the review, provide the dates for conducting the review, and describe how expenses will be handled. In drafting the review agreement, the NLPES Peer Review Liaison will utilize a standardized review agreement and consult with a representative of the office requesting the review to include any state-imposed contracting requirements unique to the office undergoing a review.

• **Complete independence statements:** The Peer Review Liaison will ensure that the individuals selected as peer review team members complete standardized independence statements. The statements will attest that review team members are independent of the office undergoing the review, its staff, and projects selected for the peer review. Once completed, the Liaison will provide copies of the independence statements to the office undergoing the review and maintain copies in the workpapers for the peer review.

• **Coordinate travel arrangements:** The Peer Review Liaison will provide a representative of the office undergoing a review with requested departure and arrival time information for peer review team members. The Liaison will serve as a clearinghouse to resolve travel issues encountered by the office undergoing a review.

• **Review background information:** The office to be reviewed will provide each review team member with the requested background information at least six weeks prior to the team’s on-site fieldwork. Team members will be responsible for reviewing the information, specifically the member office’s standards for conducting its work and its operations manual. Through conference calls and e-mails, the Peer Review Team Leader will coordinate with team members the development of a work plan, as well as checklists and other analytical tools needed to conduct on-site fieldwork.

• **Select reports for review:** The Peer Review Team Leader will be responsible for selecting the reports for review. Typically, the team will review the same number of reports as there are reviewers, with one report being assigned to each review team member—e.g., four reviewers, four reports. The reports would be a reasonable representation of the types of projects undertaken by the office during the review period.
Care would be taken to select reports that were supervised or managed by evaluators or auditors who are still employed by the office. In addition, the selected projects would reflect the work of various project managers or supervisors within the office. Unless the office requesting a peer review defined the scope of the review to include specific managerial or programmatic areas, the peer review should be sufficiently comprehensive to provide a reasonable basis for concluding whether the office complied with its quality control system and whether the system provided reasonable assurance that the office’s work complied with its adopted standards.

• **Conduct planning for review:** The Peer Review Team Leader will conduct a planning meeting with team members the evening prior to the scheduled entrance conference with representatives of the office to be reviewed. The purpose of the planning meeting is to orient team members, finalize the work plan, make assignments, and establish a timeline for conducting the review. Team members will meet at the conclusion of each day of on-site fieldwork to discuss their progress in completing the work plan within the schedule agreed upon. The Team Leader will be responsible for ensuring that the team has a laptop computer available into which review information will be entered.

• **Conduct entrance conference:** Prior to beginning on-site fieldwork, the Peer Review Team Leader and team members will meet with representatives of the office being reviewed to discuss the scope of the peer review and other programmatic and administrative issues.

• **Conduct on-site fieldwork:** Under supervision of the Peer Review Team Leader, team members will conduct their assigned portions of the work plan and compile appropriate workpapers to document their work. (Team members will complete workpapers to the extent possible while on-site.)

• **Document notable observations:** While conducting on-site fieldwork, team members will complete standardized “Notable Observation” worksheets documenting issues that should be considered by the review team for reporting—e.g., instances of noncompliance with the office’s adopted standards or operations manual, “best practices.” Analysis of the “Notable Observation” worksheets will allow team members to draw conclusions as to the office’s quality control system and adherence with adopted standards.

• **Conduct meeting with management:** Prior to the conclusion of on-site fieldwork, the Peer Review Team Leader will schedule a meeting with representatives of the reviewed office to discuss the team’s “Notable Observation” worksheets and proposed recommendations. The primary purpose of the meeting will be to identify potential errors and misunderstandings and to gain further information as to the office’s position on or interpretations of the preliminary observations. This meeting will be a working session and not the formal exit conference for the peer review.

• **Develop draft report outline:** After refining and finalizing their “Notable Observation” worksheets, team members will organize their observations and recommendations into a draft report outline using a standardized template.

• **Conduct exit conference:** At the conclusion of the on-site work, the review team will formally brief management of the reviewed office regarding the team’s final observations and recommendations. Team members will also share the draft report outline with office representatives during the exit conference. Office representatives will be provided an opportunity to provide additional information or comments during the conference. Office representatives will be requested to provide a written response to the draft report within one week of the exit conference.

• **Compile and disseminate final report:** After considering comments made by representatives of the office under review, team members will organize their observations and recommendations into a final report using a standardized template. The Peer Review Team Leader will be responsible for providing the office and the Peer Review
Liaison with an electronic version of the final report within four weeks of the exit conference. The response of the office will be appended to the final report document.

NLPES considers the final peer review report of a reviewed office to be public information. However, the Peer Review Liaison will consult with representatives of the office regarding the reviewed office’s state laws regarding confidentiality of the draft report outline, workpapers, and other documents associated with the review.

**Conclusion**

The desire of the Executive Committee is that the NLPES peer review program encompass all of NLPES’s primary purposes, which are:

- to promote the art and science of legislative program evaluation;
- to enhance professionalism and training in legislative program evaluation; and,
- to promote the exchange of ideas and information about legislative program evaluation.

An objective review of a member office by external reviewers should assist that office in improving its operations. Also, individuals who serve as peer reviewers may learn new techniques and processes from staff of the office being reviewed as well as from their fellow peer reviewers. In summary, the peer review program should be valuable to member offices and enhance their role in the legislative process.
## ATTACHMENT

### Peer Review: Task List and Responsible Parties

<table>
<thead>
<tr>
<th>Task</th>
<th>Member Office</th>
<th>Peer Review Team</th>
<th>NLPES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Request review</td>
<td>Contacts NLPES Executive Committee’s Peer Review Liaison to request review</td>
<td>Peer Review Liaison selects team leader, facilitates selection of team members and confirms dates</td>
<td></td>
</tr>
<tr>
<td>Execute review agreement</td>
<td>Reviews and signs</td>
<td>Team leader reviews agreement</td>
<td>Peer Review Liaison executes agreement and forwards copies to member office and team members</td>
</tr>
<tr>
<td>Complete independence statements</td>
<td>Receives copies to confirm team members’ independence</td>
<td>Team leader ensures members complete independence statements</td>
<td>Peer Review Liaison receives independence statements and provides copies to member office</td>
</tr>
<tr>
<td>Make travel arrangements</td>
<td></td>
<td>Receives travel arrangement information from NLPES Peer Review Liaison</td>
<td>NLPES Peer Review Liaison coordinates with team members to make travel and hotel arrangements</td>
</tr>
<tr>
<td>Provide background information</td>
<td>Prepares and sends to review team members six weeks before site visit</td>
<td>Team leader identifies background information necessary to plan the review. Team members review background information and prepare for site visit</td>
<td>Peer Review Liaison available for consultation with team members</td>
</tr>
<tr>
<td>Conduct planning for review</td>
<td></td>
<td>Team leader and team members plan work, develop necessary templates for on-site fieldwork and identify reports for review</td>
<td>Peer Review Liaison available for consultation with team members</td>
</tr>
<tr>
<td>Conduct entrance conference</td>
<td>Discusses questions and concerns</td>
<td>Introduces team and describes process</td>
<td></td>
</tr>
<tr>
<td>Conduct on-site fieldwork</td>
<td>Makes staff, reports, and workpapers available</td>
<td>Executes work plan, interviews pertinent staff, reviews reports and supporting workpapers</td>
<td>Peer Review Liaison available for consultation with team members</td>
</tr>
<tr>
<td>Compile workpapers</td>
<td></td>
<td>Team members compile workpapers during on-site fieldwork</td>
<td></td>
</tr>
<tr>
<td>Document notable observations</td>
<td></td>
<td>Team members complete “Notable Observations” worksheet(s) based on interviews and reviews of selected projects</td>
<td>Peer Review Liaison available for consultation with team members</td>
</tr>
<tr>
<td>Conduct meeting of management and reviewers</td>
<td>Responds to review team’s preliminary observations, provides additional information and documentation as needed</td>
<td>Briefs management on preliminary observations</td>
<td>Peer Review Liaison available for consultation with team members</td>
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<tr>
<td>Develop draft report outline</td>
<td></td>
<td>Members reach agreement on observations and recommendations and develop draft report outline</td>
<td>Peer Review Liaison available for consultation with team members</td>
</tr>
<tr>
<td>Conduct exit conference</td>
<td>Discusses draft report and recommendations</td>
<td>Share draft report outline</td>
<td>Peer Review Liaison available to answer questions</td>
</tr>
<tr>
<td>Compile written response</td>
<td>Prepares and delivers to team leader within one week of exit conference</td>
<td>Team leader available to answer questions</td>
<td>Peer Review Liaison available to answer questions</td>
</tr>
<tr>
<td>Compile final report</td>
<td>Receives electronic copy of final report, which includes member office’s written response</td>
<td>Team members compile final report. Team leader provides member office and Peer Review Liaison with electronic version of the final report within four weeks of the exit conference</td>
<td>Peer Review Liaison receives final report</td>
</tr>
<tr>
<td>Complete evaluation survey</td>
<td>Completes evaluation survey form and sends to Peer Review Liaison within two weeks of receiving the final report</td>
<td></td>
<td>NLPES Executive Committee reviews to assess whether process is working as intended and to identify training topics</td>
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