

Establishing Accountability and Transparency through Performance Auditing

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Austin, Texas The Live Music Capital of the World



Stephen "Stevie" Ray Vaughan statue on Lady Bird Lake

Austin's official motto is the "Live Music Capital of the World."

The music of Austin, Texas centers on 6th Street, Red River, and South Congress, where bars and clubs of every kind can be found. On any night hundreds of venues stage live music.

Presentation Outline

- I. Overview of Performance Auditing
- II. Measurement Based Approach to Performance Auditing
- III. Austin's High Impact Examples
- IV. Strengthening Government Performance Auditing
 - Auditor's Roles and Responsibilities
 - Auditor's Skills
 - Audit Process
 - Audit Environment

Performance Audit Process



Professional Organizations Provide Audit Guidance and Technical Assistance

- GAO issues professional standards updates and technical guidance through the “Yellow Book” website including regulatory updates.
- IIA publishes the International Professional Practices Framework— the “Red Book” and related papers, advisories, practice guides.

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Performance Auditing: A Measurement Approach (Second Edition)

Raaum and Morgan

(Order through www.theiia.org)

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Performance Auditing Enhances Accountability and Transparency

- High impact audit objectives are selected through risk/vulnerability assessment.
- Powerful conceptual models are used to “interpret reality.”
- Audit evidence is “triangulated.”

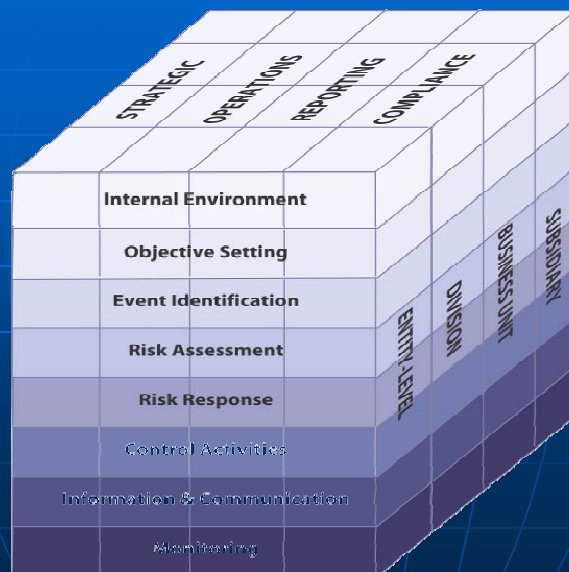
Performance Auditing Enhances Accountability and Transparency Cont.

- Significant findings are developed with quantified effects that decision makers care about.
- “Best practice” recommendations are made to the appropriate level.
- Robust follow up and follow through processes are established.

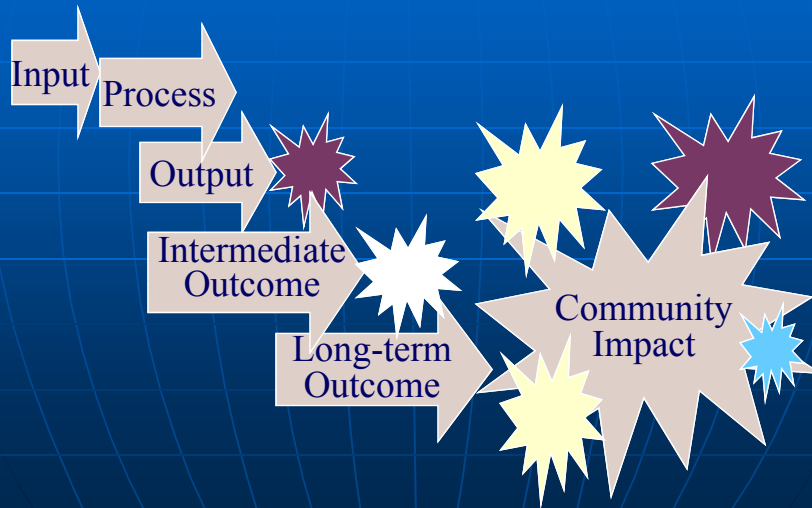
Measurement Based Approach to Performance Auditing

- COSO/ERM (Management)
- Input-Process-Output Outcome (Measurement)

COSO/ERM Model in Government



Measurement Based Approach: Define Government Program Before Measuring Performance



How to Conduct a Measurement Based Audit

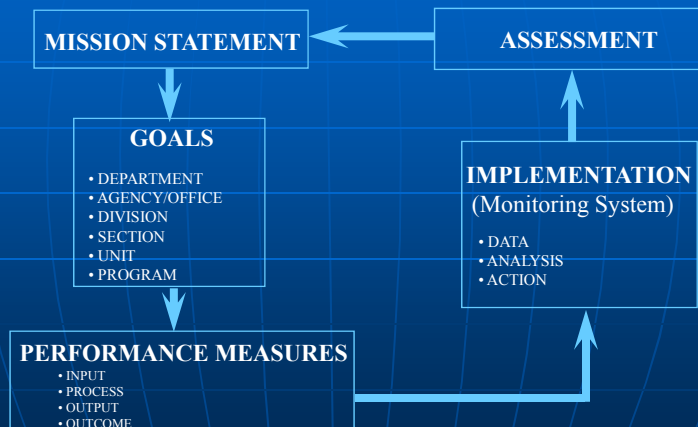
- Identify the program's inputs, processes, outputs, and outcomes
- Identify program's performance expectations and actual conditions
- Develop and prioritize performance audit objectives based on risk and vulnerability assessment
- Assess existing performance measurement system including relevance and reliability of measures

How to Conduct a Measurement Based Audit—Cont.

- Develop and implement “ad hoc” performance measurement system
- Using selected performance expectations as “criteria” and performance aspects or measures as “condition,” analyze program performance
- Identify causes of variances and develop audit recommendations

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Performance Measurement System



Government Performance Expectations

COMPONENTS OF PERFORMANCE ACCOUNTABILITY			
MISSION PERFORMANCE GOALS			
INPUT ECONOMY ♦ Financial - amount - timing ♦ Physical - quantity - quality - timing - price	PROCESS EFFICIENCY ♦ Productivity ♦ Unit Cost ♦ Operating Ratios	OUTPUT EFFECTIVENESS ♦ Quantity ♦ Quality - products - delivery ♦ Timeliness ♦ Price/Cost	OUTCOME EFFECTIVENESS ♦ Mission & Outcome Goal Achievement ♦ Financial Viability ♦ Cost-Benefit ♦ Cost-Effectiveness
CROSSCUTTING PERFORMANCE GOALS			
<div> <div>Compliance with Laws and Regulations</div> <div>resources - Safeguarding - infrastructure</div> <div>Continuous Improvement</div> <div>Reliability, Validity, & Availability of Information</div> <div>Underlying Values</div> <div>Customer and Stakeholder Satisfaction</div> </div>			

Source: Stephen L. Morgan, President,
EGAPP, Inc., Austin, Texas

Sources of Criteria for Verifying or Asserting Performance Expectations (“audit criteria”)

- Historical trends and baselines
- Program requirements or intent
- Customer expectations or demands
- Industry or sector standards
- Benchmarking within the organization
- Benchmarking outside the organization

Why Program Goals Are Not Accomplished

- Theoretical framework is flawed, i.e., no direct cause and effect relationship exists between program and desired outcomes
- Intervening or external variables which negate, deflect, or mask the program's effect, i.e., GASB's emphasis on explanatory information
- Management systems/processes are deficient
- Program goals are unrealistic/unattainable
- Inputs/resources are inadequate
- Fraud or unethical behavior gets in the way
- Act of providence intercedes

Performance Auditing in Austin

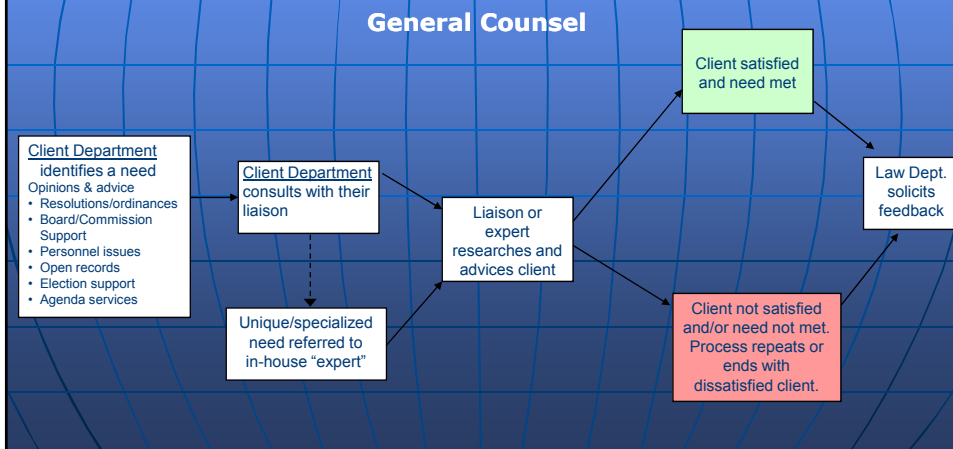
- Council/Manager form of government
- \$3.0 billion budget with large enterprise and public safety departments
- City Auditor's Office reports to seven member City Council through Audit Committee chaired by Mayor and comprising Council majority
- Other internal audit offices located in Austin Energy, Austin Water Utility, and Aviation

Austin' Office of the City Auditor

- Mission: Make Austin better and more accountable
- Audit and Integrity Services
- \$3.0 million; 25 positions
- Funds for hiring outside experts to assist internal auditors and investigators

Example: Measuring the Performance of a Government Program - Law Department Audit

Identify the program's inputs, processes, outputs, and outcomes



Example: Measuring the Performance of a Government Program - Law Department Audit

Assess existing performance measurement system including relevance and reliability of measures

PERFORMANCE MEASURE	TARGET	ACTUAL
Percent of clients reporting that advice provided by attorneys was clear, relevant and timely	85%	82%
Number of defined legal services and related documents provided	57,000	57,790
Average cost per hour for defined legal services and related documents	\$40	\$38

Survey response rate
between 30 and 40 percent

Based on "tick marks" kept
by each attorney

Example: Measuring the Performance of a Government Program - Law Department Audit

If needed, develop and implement an "ad hoc" performance measurement system

- Surveyed all 30 client departments about satisfaction with timeliness and quality of services provided.
- Worked with Law Department executive team to identify needed information and pilot a time and output tracking system.
- Compared the Law Department to best practice staffing models.

Example: Measuring the Performance of a Government Program - Law Department Audit

If needed, develop and implement an "ad hoc" performance measurement system

Comparison of General Counsel Outputs in Texas Cities
Using Pilot Data

	AUSTIN	HOUSTON	SAN ANTONIO	FORT WORTH
Department Budget (FY09)	\$6.9 M	\$10.8 M	\$5.7 M	\$3.6 M
Department FTEs (FY09)	79.5	160.5	101.0	42.0
Number of opinions - annual	--	550	487	--
Number of opinions - average per week	9	11	9	--
Number of contracts - annual	--	1300	--	929
Number of contracts - average per week	28	25	--	18

Example: Measuring the Performance of a Government Program - Law Department Audit

If needed, develop and implement an "ad hoc" performance measurement system

Comparison of Law Department Staffing to Industry Benchmarks

Municipal Law Department Benchmark Ratios		
RATIOS	AUSTIN	BENCHMARK
Supervising Attorneys to Attorney	1 per 7 attorneys	1 per 8 to 10 attorneys
Total Support Staff per Attorney	1 per 2 attorneys	1 per 1 attorney
Legal Secretaries per Attorney	1 per 4 attorneys	1 per 2 attorneys
Paralegals per Attorney	1 per 6 attorneys	1 per 4 attorneys

Example: Measuring the Performance of a Government Program - Law Department Audit

Using performance goals as "criteria" and measures as "condition," analyze program performance

- Relatively high ratings of satisfaction by users indicate that most clients are satisfied with services received.
- Clients are less satisfied with the timeliness of services than the quality of services.
- Department measures do not provide sufficient information to manage general counsel activities.
- Our assessment of performance based on newly developed measures indicates that general counsel is performing well when compared to other cities.
- The department does not have sufficient support staff.

Example: Measuring the Performance of a Government Program - Law Department Audit

Identify causes of variances and develop audit recommendations

We recommended that:

- The department implement a more robust way of capturing program inputs and outputs.
- The department implement one or more mechanisms to capture the time it takes to respond to requests.
- The department explore ways to have an independent party administer the client survey in person to secure a higher response rate.
- The department use new input and output data to identify staffing needs.

Example: Measuring the Performance of a Government Program - Law Department Audit

Law Department Audit successes:

- **Partnering with department management for ad hoc measurement; using audit expertise combined with management's in-depth understanding**
- **Achieving outcomes that improve accountability while providing needed information to the department**

Other Example Performance Audits

- **On call/call back (input economy)**
- **Health clinics (unit costs)**
- **Police staffing levels and crime rates (cost/ benefit)**
- **Recreation center utilization levels (outputs)**
- **Revenue audits (collection rate effectiveness)**

Strengthening Government Performance Auditing

- Auditor's Roles and Responsibilities
- Auditor Skills
- Audit Process
- Audit Environment

What are the Five Roles Auditors Play in Government Performance Measurement?

- Role 1 – Auditing Performance and Performance Management Systems
- Role 2 – Assessing the Quality of Performance Information or Performance Reports
- Role 3 – Developing Performance Measures or Measuring Performance Outside the Traditional Audit Process
- Role 4 – Planning, Designing, Improving, or Advocating for Performance Management Systems and Their Use
- Role 5 – External Reporting, Capacity Building, or Advocacy for the Use of Performance Information

Self Assess or Audit Performance Measures Using Asserted Criteria

- **Relevance**—Measures should be aligned, complete, and useful
- **Reliability**—Each measure and its data should be accurate, valid, and consistent

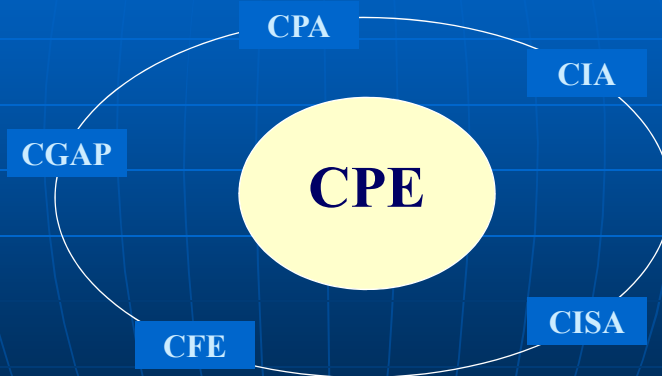
www.AuditorRoles.org

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Current Sloan/IIA Performance Measurement and Reporting Project

- Funding from the Sloan Foundation to the Institute of Internal Auditors for “Bridging the Gap from Research to Practice: Advancing Auditor Roles in Government Performance Measurement”
 - Website—www.auditorroles.org
 - Free and low cost training
 - Conference presentations
 - Broadly disseminating the roles and practices
 - Identification of additional practice examples
 - Reaching out to non-audit officials to encourage and support auditors in playing these roles

Certifications Support Auditor Growth and Development



Auditor of the Future – “Integrated” Skills

- Performance
- Financial
- Information Technology
- Human/Management

Audit Services and Processes

- Assurance/Accountability
- Consulting/Assistance
- Integrity
 - Deterrence
 - Detection
 - Investigation
 - Follow Up and Follow Through

Issues in the Audit Environment

- Auditor Reporting Structures
- Ethical Cultures in the Workplace
- Ethics/Governance Audit Issues
- Auditing Standards Issues
- Effective training/development
- Advocacy and Stakeholder Relationships: Engendering Trust

Conclusion: Where Are We Going in the Government Auditing World?

- University level, interdisciplinary auditing curricula
- Intergovernmental and global partnerships
- Manage and audit the “virtual workforce”
- Impact of technological innovation
- Auditors without “adjectives”