

Performance Audit Frameworks

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What are performance audits?

- Yellow Book describes performance audits as “...an objective and systematic examination of evidence...of the performance of a government organization, program, activity, or function.”
- AEA: “....provide decision-makers with systematic and credible information that can be used in the creation, management, oversight, change, and occasionally abolishment of programs.”

Typical questions in performance audits

- Is this program accomplishing what it's supposed to? (program results)
- Are the procedures adequate or sufficient to...? (process results)
- Does it have to cost this much? (program/service efficiency)
- Is this agency doing what's required? (compliance)
- Is the agency handling resources responsibly? (compliance/efficiency)
- What really happened? (investigation)
- How much, how many, what if...? (information)

Why do we need performance audits?

- No profit motive
- Little long-term planning or oversight
- Complex rules and funding streams
- Agencies not keeping track
- Spin versus truth
- Ambiguous rewards/sanctions focused on individual change, not institutional change
- Politics determines mission, resources, practice

Performance audits provide...

Performance audits provide policymakers with timely, accurate and unbiased information.

- Complexity of government makes it difficult to craft effective legislation or policy.
- Unique challenges facing policymakers:
 - **Fragmented options** – programs are rarely managed from a statewide perspective.
 - **Biased information** – stakeholders often have a vested interest.
 - **Ambiguous bottom lines** – success is more difficult to measure.

Performance audit framework

A framework to guide your thinking in performance auditing.

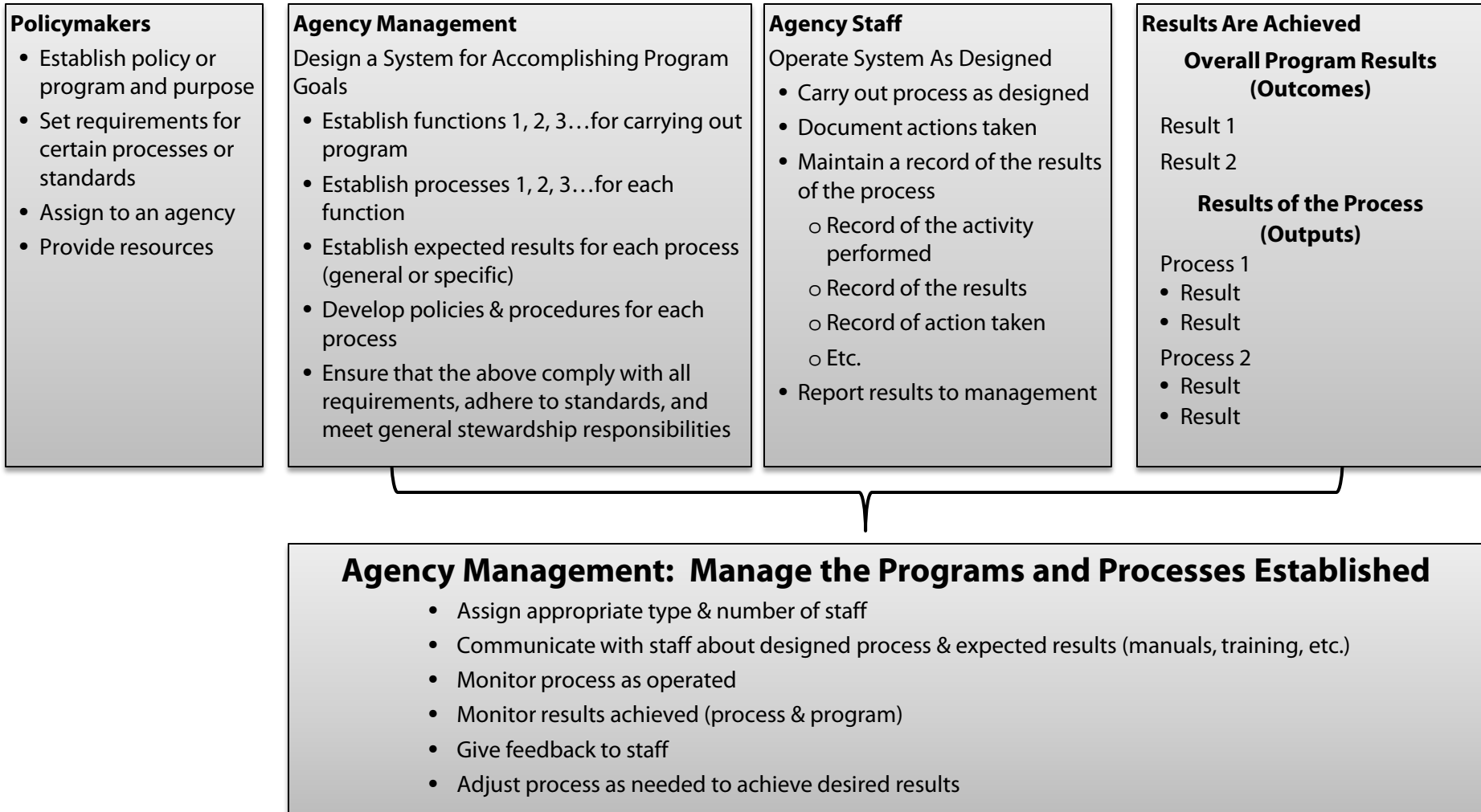
- Sets up a systematic approach for assessing the adequacy of an agency's "way of doing business."
- Allows audits to be done as effectively and efficiently as possible.
- Improves auditors' logic and conceptualization skills.

General Framework for Government

- Understanding the general make-up of government programs and processes.

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Magic Page 1: General framework for government

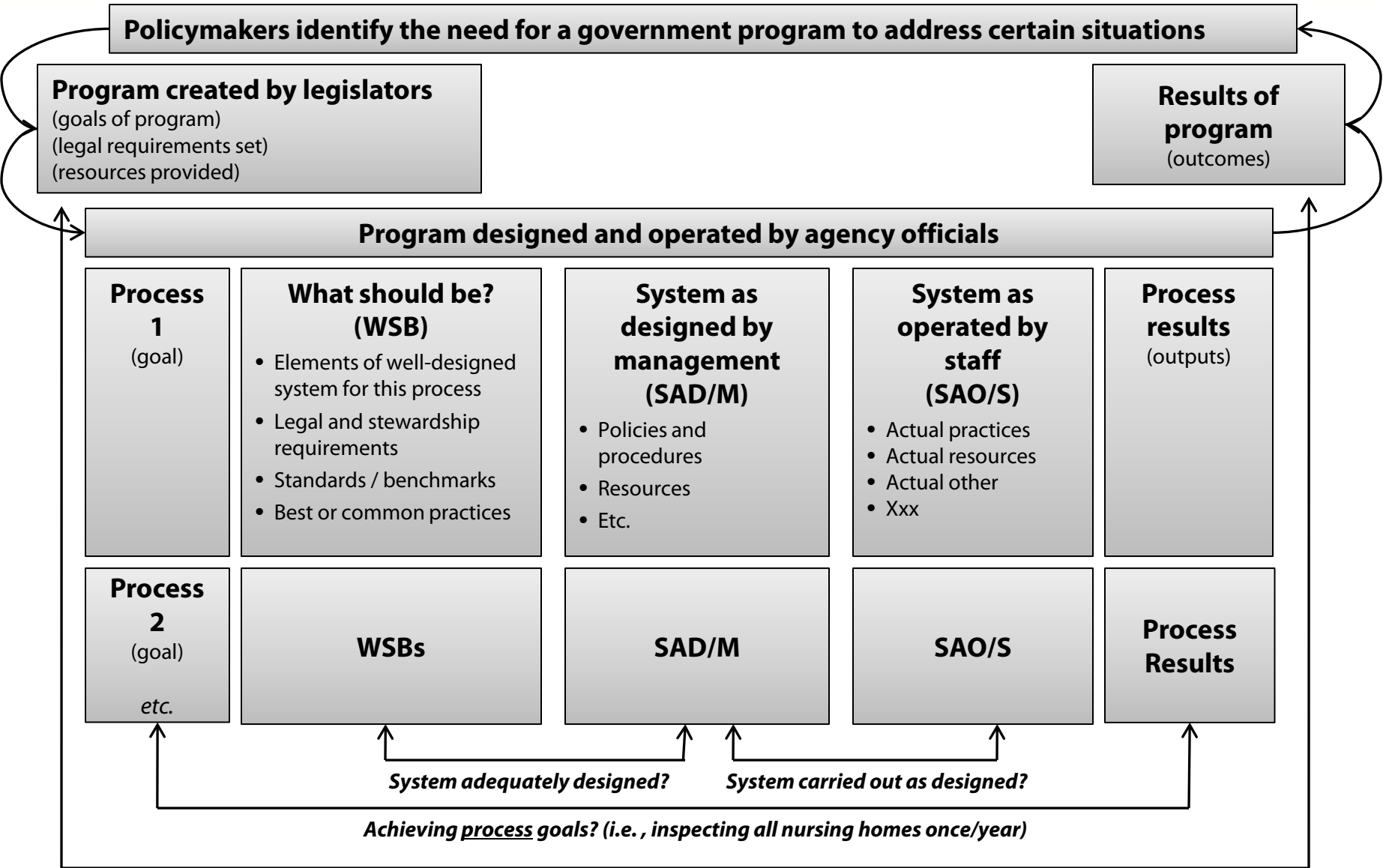


Basic audit structure

- What should be? —————→ **Criteria**
- What is? —————→ **Condition**
- Is there a difference? —————→ **Finding**
- What's the cause? —————→ **Cause**
- So what? —————→ **Effect**
- What should be done? —————→ **Recommendation**

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Magic Page 2: Framework for auditing



Achieving program goals? (i.e., reducing the number of deaths in nursing homes)

Basic types of performance audits

- **Effectiveness audits**

Evaluating how well programs are working.

- **Efficiency audits**

Evaluating how economically/productively programs are operating.

Effectiveness audits

- How well is it working?
- As it achieving results?
- Is it meeting targets?

Effectiveness audits: framing the audit

1. Selecting the activities/processes to audit.
2. Identifying key drivers.
3. Identifying key criteria.
4. Considering possible reasons or causes for things.

1. Selecting the activities/processes to audit

Knowing which functions or processes exist gives you a better basis for:

- Deciding which ones you care about.
- Planning and carrying out your audit work.
- Reporting your audit findings.

Activity: Contracting for services

Key processes:

- Developing contract plan
- Deciding to contract
- Setting performance requirements
- Issuing an RFP
- Awarding the contract
- Contracting with service provider
- Monitoring the contract
- Handling change orders
- Closing out the contract

Activity: Regulating entities/industries

Key processes:

- Setting standards
- Gatekeeping
- Licensing/permitting
- Monitoring
 - Inspections
 - Complaints
- Enforcement
- Reporting

2. Identifying key drivers (cost drivers)

- What factors are most likely to affect program costs, contribute to a decline in revenue, explain differences in expenditures, etc.
- What's within or outside the agency's control.

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Exercise

Magic Page 3: Identify key cost drivers

Audit Question: What factors have contributed to the high cost of drug treatment programs and what options exist for controlling these costs?

Issues to Consider:

- What's driving these costs?
- What's within the agency's control?
- What's outside the agency's control?

What are the key cost drivers?	What's within the agency's control?	What's outside the agency's control?
Number of people getting services	Serving only people who are "eligible"	The number of people who meet eligibility
Amount of services they receive	Providing only the services they need	The number of people with increased needs
Cost of those services	Paying only what the agency can afford	The amount those services actually "cost"
Types of services	Providing only needed services that are "allowed" (i.e., preauthorized)	The increased need for certain types of services

3. Identify key criteria

The laws, regulations, contracts, grant agreements, standards, measures, expectations of what should exist, leading practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings.

- Exercise

4. Possible reasons/causes for things

Why aren't all apartments inspected each year?

- Not enough inspectors overall or by region
- Management doesn't require annual inspection
- Inspectors unaware of annual requirement, not sure what needs to be inspected, don't care
- No consequences for not inspecting annually
- Inspectors being bought off, don't want to inconvenience apartment owners, etc.
- Inspectors don't feel safe going to certain parts of town

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Magic Page 4: Common causes of audit findings

Areas where “what is” may differ from “what should be”

System as designed

The system as designed (SAD) has gaps or is not adequate or appropriate


System as operated


The system isn't being operated the way it should be


Results achieved

The program or process results aren't being achieved

Sample factors that may contribute to differences between “what is” and “what should be”

- 
- Inadequate qualification/training of staff who set up processes and procedures
 - Management's lack of understanding of the program's purpose
 - Management's lack of commitment to establishing adequate systems
 - Complex, unworkable, requirements (laws, rules or regulations at various levels of government)
 - Resource constraints
 - Unsuitable processes and procedures for achieving the objectives

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- Unqualified or poorly trained staff
 - Staff turnover or loss of key employees
 - Failure to document or communicate processes and procedures or actions taken
 - Lack of management commitment
 - Lack of adherence to established control procedures
 - Resource constraints
 - Staff attitudes
 - System design that is impossible to adhere to or inappropriate

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- Inadequate system design
 - Noncompliance with the system as designed
 - Resource constraints
 - External Factors:
 - The economy, acts of God
 - Public attitude
 - Changes in requirements that management cannot yet be expected to have addressed
 - Ill-conceived or inadequate originating legislation
 - Unreasonable expectations for the desired results

Efficiency audits

- Why does it cost this much?
- Would it cost less if ...?
- What if class sizes were increased?

Efficiency audits: Framing the audit

1. Consider the two sides of efficiency
2. Identify efficiency measures
3. Sample factors that can impact an agency or program's efficiency
4. Sample ways that agencies and programs can be more efficient

1. Consider the two sides of efficiency

- Doing the same for less (economy)
 - Reducing costs per activity
 - Focus on “inputs” – e.g. cost/meal served
- Doing more with the same (productivity)
 - Increasing the number of things done per person/machine
 - Focus on “outputs” – e.g., number of meals served/worker per day

2. Identifying the efficiency measures

If the activity performed is...

...Measures of how efficiently the agency carried out that activity include...

<p>...maintain public habitat for hunters →</p>	<ul style="list-style-type: none">▪ The cost per acre of habitat maintained▪ The number of acres of habitat maintained/ employee/year
<p>...teaching students →</p>	<ul style="list-style-type: none">▪ The cost per student▪ The number of students taught/teacher/class period
<p>...inspecting bridges →</p>	<ul style="list-style-type: none">▪ The cost per bridge inspection▪ The number of bridges inspected/inspector/year

3. Sample factors

Sample factors that can impact an agency or program's efficiency.

- Where it is housed
- How its is structured/organized
- Number, type, and mix of activities that are performed
- Number, type, and mix of resources used
- Policies, processes, and procedures followed
- Targets/standards set for number of things to be done

4. Sample ways that agencies and programs can become more efficient.

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Magic Page 5: The efficiency framework

Reduce costs by increasing economy or productivity (Doing more with the same or doing the same with less)

Use less (Quantity)

Reduce the number of people/things used per activity

For example:

- Reducing the quantity of soup served at lunch from 24 oz. to 16 oz. (a 33% reduction in quantity).
- Reduce the square footage of office space for regional inspectors from 22,000 to 2,000 (a 91% reduction in office space).
- Reducing the number of clerks who file 2,000 inspection reports/year from 12 to 9 (a 25% reduction in the number of clerks).

Pay less per (Rate)

Reduce the amount of dollars spent per person/thing used per activity

For example:

- Reducing the price you pay for laptop computers from an average of \$2,200 to \$1,800 (an 18% reduction in price).
- Reducing the average labor rate paid/audit hour from \$200 to \$150 (a 25% reduction in hourly rate).
- Reducing the annual price for single employee health care coverage from \$6,700 to \$3,700 per year (a 45% reduction in price).

Do more per (Productivity)

Increase the number of things done or produced per person/thing used (need fewer people/things)

For example:

- Increasing the number of students being taught/teacher/class from 8 to 16 (a 100% increase in class size)
- Increasing the number of inspections conducted/inspector/ year from 10 to 11 by reducing the amount of time it takes for each inspection (a 10% increase in inspections/inspector).
- Increasing the # of potholes being filled from 15/day to 20/day by reducing the # of hours spent per pothole.

Reduce costs without increasing efficiency (doing less with less)

Reduce the overall number of activities done and the resources used to do them (No change in efficiency)

For example:

- Reducing the number of entities inspected from 100 to 90, and reducing the number of inspectors from 10 to 9.
- Reducing how often entities need to be inspected from once every 12 months to once every 24 months, and reducing the number of inspectors from 10 to 5.

Doing more per person can also result in needing fewer people for that activity

Resources:

- Dollars spent
- People/things used
- How it's spent
- Equipment

Activities:

- Things done
- Things produced

Use less

Use less: Reduce the quantity of things they need to achieve their mission and goals.

- Don't use more resources than they need.
- Eliminate duplication of services and effort.
 - Share or consolidate services.
 - Share or consolidate administrative functions.
 - Consolidate within or across agencies or units.

Pay less per

Pay less per: Reduce the price they pay for things to achieve their mission and goals.

- Buy and spend competitively.
- Partner with their “neighbors.”
- Control the rate or price they pay for direct labor.
- Control the rate or price they pay for other direct-cost items.

Do more per

Do more per: Increase the number of things done or produced by each resource used to achieve their mission and goals

- Increase productivity to target levels for peer groups, norms, or highly efficient organizations (workload per time period).
- Restructure, streamline and automate processes.

Reduce cost

Other ways to reduce costs without changing efficiency

- Don't do it anymore.
- Let others do it.
- Use a risk-based approach to meet goals.
 - Do less where the risk is less.
 - Do the same or more where the risk is greater.

# entities to be inspected	Inspect once every...	# inspections done per year	# inspectors needed (10/inspector)	Salary costs for inspectors (@ \$50,000 ea)
120	12 months	120	12	\$600,000
120	18 months	80	8	\$400,000
120	24 months	60	6	\$300,000

Cover costs

Other ways to cover their costs without changing efficiency.

- Set fees or charges for services they perform.
- Set rates so that charges and fees cover costs.
- Adjust charges and rates periodically.

Balancing efficiency and effectiveness

Accomplishing the Legislature's or agency's goals using the fewest resources needed to do the job well.

Efficiency and effectiveness must balance:

- The most efficient class size for an elementary school with 350 students is 350 students/teacher.
- The most effective class size is one student/teacher.

Questions?

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