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Performance Auditing

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Officials' Conference

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Presented by: James B. Pyers

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OVERVIEW

- Overview of Performance Auditing
- Governments and Performance Audits
- Performance Management Strategies



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The Nature of the Problem

- Current economic climate creates the need to reassess practices and service delivery
 - Declining or stagnant revenues
 - Escalating costs
 - Changes in local government funding



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Overview of the Performance Audit Section

- Creation of the Performance Audit Section was an initiative of the Legislature and State Auditor in 1995.
- Three primary sources of work:
 - Legislative requests
 - Local government requests
 - Professional services for fiscally distressed governments
- Current staff includes 47 professionals with various educational and work backgrounds.



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Let's Start with the Basics

The "Yellow Book" Definition of Performance Auditing:

- "An objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria..." GAO



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What is a Performance Audit?

- Economy and Efficiency Audits
 - Determine if an entity is making optimal use of available resources, at an appropriate level of quality.
 - Determine if an entity is accomplishing its goals with minimum resources and with the fewest negative consequences.
- Program Audits
 - Determine if the entity's activities or programs are effective, if goals are reached and if the goals are proper, suitable or relevant.
 - Focus on the relationship of program goals to the actual program outputs or outcomes.



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Difference between Financial and Performance Audits

Financial Audits

- Audits carried out under financial rules
- Audits financial statements
- Audits accounting practices



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Difference between Financial and Performance Audits

Performance Audits

- Oriented toward objectives
- Audits if use of resources is economic, efficient or effective
- Audit is analytical
- Takes into consideration cost versus outcome
- Requires indicators, standards and objectives to evaluate performance
- Audits the entire or part of an entity in relation to the 3 "Es"
- Takes into consideration past, current and future performance
- Aims at better resource allocation



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Who gets audited?

- Governments that request assistance
- Governments in fiscal oversight



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Why Choose a Performance Audit?

- Helps measure progress of performance management efforts
- Benchmarks operations for planning purposes
- Illustrates outputs and outcomes of expenditures
- Identifies areas for process improvement



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Why Choose a Performance Audit?

- Independent and objective professional resource
- Provides public validation and assurance
- Helps to prioritize and direct resources most effectively
- Tests internal control systems
- Detects waste, fraud, and abuse
- Defines appropriate service levels
- Demonstrates commitment to accountability



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Types of Performance Assessments

- Strategic Planning
 - It is thrifty to prepare today for the wants of tomorrow. *Aesop*
 - Good plans shape good decisions. That's why good planning helps to make elusive dreams come true. *L.R. Bittel*



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Types of Performance Assessments

- Service Efforts and Accomplishments
- Benchmarking Against Standards and Best Practices
- Peer Comparisons
 - One of the great mistakes is to judge policies and programs by their intentions rather than their results. *Milton Friedman*
 - If you cannot measure it, you cannot control it. *John Grebe*



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Common Program Areas Evaluated

- Financial Systems – Planning/Budgeting
- Program Offerings/Administration
- Opportunities for Collaboration/Consolidation
- Staffing Levels/HR Practices
- Revenues (incl. Collections)
- Public Safety and Public Works



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What are the Steps in the Audit Process?

- Initiating the Engagement
- Planning the Audit
 - Sharing the audit scope with management
- Conducting Fieldwork
 - Verifying data and information with client
- Writing the Audit Report
 - Obtaining review comments and response to audit from client
- Audit Release



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Audit Outcomes

- Preliminary Findings
 - Communicated verbally in meetings
 - Additional “how to” information provided upon request
- Final Audit Results
 - Communicated in writing
 - Response/planned resolution required and included in the final public report
 - Client credited with actions to date
 - Technical assistance provided during and after audit conclusion



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The Impact of Our Work

- 2,415 Noteworthy Accomplishments
- 13,286 Recommendations
- \$1.04 Billion in Potential Annual Savings
- \$124 Million in Cost Avoidances
- \$62.2 Million in One Time Revenue Enhancements
- \$47.6 Million in Annual Revenue Enhancements
- \$100 Million in recommended expenditures



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OHIO GOVERNMENTS AND PERFORMANCE AUDITS



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Variables in Local Government Performance Audits

- Population
- Wealth/Revenue
- Services Offered
- Geographic Location



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PERFORMANCE MANAGEMENT STRATEGIES



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Performance Management

- Options
 - Measure and reward effectiveness
 - Focus on causes
 - Use alternative approaches and tools
 - Be a copy-cat
 - Sacrifice sacred cows
- Use Performance Management to drive effectiveness and efficiency



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Performance Management

- Basic Techniques
 - Know what you do
 - Know how well you do
 - Know who does what



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Applicability to Local Government

- So are performance management techniques applicable?
- Can I use these basic principles in my government?



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Application

- Internal Consolidation
- Capacity
- Programs
- Energy Management (easy win)
- Service Sharing Opportunities
- **Scaling operations to available resources**



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Long-Term Outlook

- Take action now
- Implement strategies to reduce costs
- Apply leading practices and measurement to maintain or improve service delivery
 - Transform government to be more proactive



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QUESTIONS AND DISCUSSION



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