

# Best Practices

WINTER ISSUE 2011 | [www.auditor.state.oh.us](http://www.auditor.state.oh.us)



Dear Colleague,

Our first couple of months in office have flown by, and our staff wasted no time getting down to business. In this our first issue of *Best Practices*, I will outline the revised focus of the Ohio Auditor of State's office, give you an update on our transition and share information about our priority initiatives.

Our mission is threefold: to strive for clean, accountable and efficient governments for those we serve, the people of Ohio; to work under objective standards, driven by numbers and facts without regard to politics; and to work to achieve truth in a smarter, streamlined government.

Our office is responsible for auditing more than 5,600 state and local government agencies. We work in partnership with government officials to deal effectively with financial, accounting and budgetary issues. As Auditor of State, I am committed to protecting taxpayer's dollars and ensuring open and responsible government.

This job is more important now than ever with the harsh reality of Ohio's disastrous fiscal environment. Both state and local government agencies face enormous budget challenges and will need to make tough decisions in the coming months. The Auditor of State's office can play a key role in helping agencies work through their financial struggles.

One tool our office provides that is particularly effective in streamlining operations is the performance audit. These specialized audits "skinny down" government by helping agencies identify waste, inefficiency or duplication of services.

Performance audits are a hot topic right now in the Statehouse with both the House and Senate recently passing bills on the floor that require the Auditor of State to conduct performance audits of certain state agencies each biennium.

I voiced my support for both bills and look forward to the enactment of legislation that will make these audits a priority for state government.

To emphasize my commitment to performance audits, the first performance audit of a state agency initiated during my tenure will be of my own operations at the Auditor of State's office. We distributed a request for proposals to identify an outside firm to conduct the audit, and I am eager to learn where we can streamline our current way of doing business.

Therefore, it seems fitting to focus on performance audits in this issue of *Best Practices*. Inside, we outline the key role performance audits can play in promoting government efficiency and accountability and detail the legislative process already on the fast track. You also will find information about how performance audits are conducted and the benefits they can bring to our local government partners.

I hope you find this issue of *Best Practices* informative and helpful as you go about the business of serving the people of Ohio. I look forward to working with all of you as we address the difficult budget challenges ahead and put Ohio back on the path to fiscal stability.

Sincerely,

A handwritten signature in blue ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

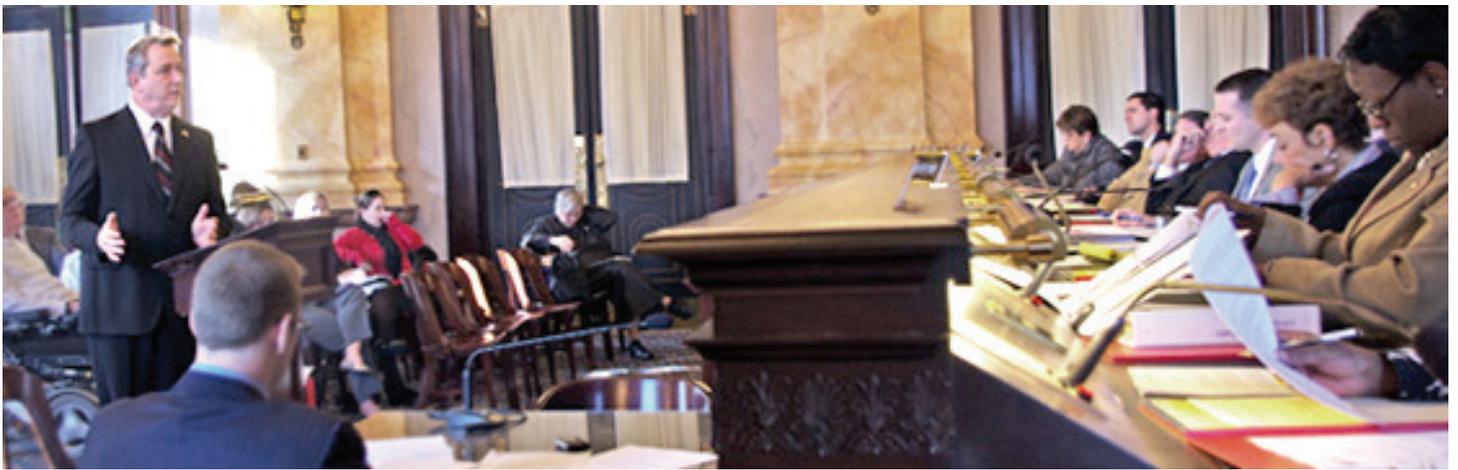
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# Performance Audit Legislation: A Priority for 129th General Assembly

*By Kevin Holtsberry – Public Affairs Staff Writer*

## Priority Legislation Focused on Performance Audits

With the State of Ohio facing an unprecedented budget crisis, finding ways to make state government more efficient and effective is a high priority for legislators in the newly convened 129th General Assembly.



*Auditor Yost Testifies on SB 4 Before Senate State & Local Government & Veterans Affairs Committee*

As a result, a policy proposal supported by Auditor of State Dave Yost is an early focus for the legislature. House Bill 2, introduced by Representatives Todd Snitchler (R-Uniontown) and Peter Stautberg (R-Anderson Township), and Senate Bill 4, introduced by Senator Tim Schaffer (R-Lancaster), require the Ohio Auditor of State to conduct performance audits of select state agencies on a biennial basis.

The idea of requiring performance audits for state agencies has been debated for some time. Similar

legislation was introduced in the previous session (128th General Assembly) by Reps. Snitchler and Stautberg (HB65) in the Ohio House of Representatives and by Senator Schaffer (SB 4) in the Ohio Senate. Former Senator and Representative Fred Strahorn also sponsored a bill in the 127th General Assembly. This session, however, the proposal is a priority for both the House and Senate.

Auditor Yost voiced his support for both bills and their priority status. In his testimony supporting the legislation, he

echoed this sense of urgency and stressed the important role performance audits can play.

“Performance audits provide a tool from outside the bureaucracy to do what the profit motive does for the private sector: to drive better, leaner performance based on objective measurements,” Yost said. “In this disastrous fiscal environment, state government will be cut back. Performance audits are a critical tool to intelligent cuts.”

Auditor Yost also praised the establishment of the Leverage for Efficiency, Accountability and Performance Fund (the L.E.A.P. Fund), a \$1.5 million fund that would advance to state agencies and local governments the costs of a performance audit to be repaid from the savings. This proposal was included in both bills at the suggestion of Auditor Yost.

Struggling governments or agencies that could benefit the most from a performance audit are often those that can least afford to have one conducted. The L.E.A.P. Fund addresses this need. State agencies or local governments seeking to borrow money could do so by making application to the Auditor of State. Repayment would be due one year from the date of the completion of the audit.

In addition to Auditor Yost, a variety of organizations voiced support for the legislation. These included the Ohio Chamber of Commerce, the Ohio Manufacturers' Association, the National Federation of Independent Businesses – Ohio Chapter, the Ohio Society of CPAs, the Ohio Farm Bureau, Greater Ohio, the Ohio Township Association, the County Commissioners' Association of Ohio and the County Auditors' Association.

Hearings were held on House Bill 2 in both the State

Government and Elections Committee and the Finance and Appropriations Committee of the Ohio House of Representatives. Both committees favorably recommended the bill for passage, and it was subsequently unanimously passed by the Ohio House of Representatives.

Similarly, the State and Local Government and Veteran Affairs Committee of the Ohio Senate

held hearings on Senate Bill 4 before recommending its passage and sending it on to successful unanimous passage on the floor of the Ohio Senate.

Senate Bill 4, likely the legislative vehicle for enactment, is now being considered before the House State Government and Elections Committee. ■

## Other 129th General Assembly Bills of Note

There are a number of other bills the Auditor of State's office is monitoring. Below are some high priority bills of note:

- **Senate Bill 2** (Sen. Hughes)  
Aimed at reforming the rules process and eliminating unnecessary roadblocks to business development and growth. Hearings were held, including testimony from Lt. Governor Mary Taylor, and the Senate Government Oversight Committee recommended passage. Passed the Senate floor 33-0.
- **House Bill 12** (Rep. Sears)  
Implements recommendations from a 2006 Auditor of State report based on a performance review of Ohio's Medicaid program. Hearings are being held in the House Health and Aging Committee.
- **House Bill 66** (Rep. McGregor)  
Requires the Auditor of State to develop and implement a fraud reporting system. Auditor's Office offered proponent testimony in House State Government & Elections Committee in February.
- **House Bill 69/Senate Bill 3** (Rep. Wachtmann/Sen. Faber)  
Focused on reforming and shoring up the solvency of the state's five public pension systems. House Bill 69 has been referred to the Pension Reforms Subcommittee of the House Committee on Health and Aging where hearings continue. Hearings are ongoing for Senate Bill 3 in the Senate Government Oversight Committee.

# Performance Audits: Promoting Government Efficiency & Accountability

By Kevin Holtsberry – Public Affairs Staff Writer

Jim Penning – Chief Auditor, Performance Audit Section



Leaner, more effective services should be the goal of all successful organizations, including government at every level. However, in difficult economic times and when facing significant budget shortfalls, efficiency is not just a laudatory goal, it is a necessity. Today, reality requires and citizens demand greater efficiency and accountability from the schoolhouse to the Statehouse.

Performance audits are an important tool available to state and local leaders seeking to meet this expectation and deliver the streamlined government Ohioans want and deserve. Performance measurement has been employed for several decades, but the importance of performance information in management decision-making has grown as budgets shrink. With this as a backdrop, performance audits are once again a focus for policymakers in Columbus and across the state.

Under current law, the Auditor of State may conduct performance audits of governments in fiscal watch or emergency. Any public or quasi-public entity in Ohio that receives funds from or through the state may request a performance audit. Additionally, the Auditor of State may initiate a performance audit when it is in the public interest to do so.

Ohio is now poised to bring this important tool to bear more directly on state agencies with the introduction of House Bill 2 and Senate

Bill 4. Under the proposed legislation, the Auditor of State would be required to conduct performance audits of certain state agencies each biennium (*See Performance Audits Legislation: A Priority for 129th General Assembly, page 2 of this issue*).

Whether at the state or local level, performance audits have the potential for big impact by providing an outside tool that can drive better, leaner performance based on objective measurements.

## Performance Audits: How do they work?

Performance audits are formally defined by the Generally Accepted Government Auditing Standards (GAGAS), as providing “. . . objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.”

There is no one-size-fits-all performance audit. An audit can be customized to specific needs and the unique challenges each entity faces. It can recommend improvements across the full scope of an organization or look only at specific components.

The audits are collaborative and take about four to six months to complete. Performance audits follow a series of distinct stages:

### Preliminary Planning

Performance auditors meet with agency leadership to develop the scope of the audit, plan time frames and determine cost.

### Field Work

The audit team collects information, observes activities, reviews and tests agency data, and evaluates results. The process requires varying degrees of input and participation by agency staff, including interviews and other requested information.

During the field work, the audit team meets regularly with agency officials to review and discuss major issues and findings and present preliminary recommendations. Agency officials are encouraged to discuss the preliminary conclusions with the auditors and present any clarifying information.

### Report

After field work is complete, a draft report is compiled and sent to the agency for review. The agency is given ample time to review and comment on the draft report and provide a response. Agency comments are analyzed carefully and used, when appropriate, to modify the report. The audit staff then notifies the agency of the release date for the report.

## Benefits

There are clear benefits to performance audits:

- **Performance audits preserve valuable programs while promoting efficiency.** Recommendations focus on maximizing program or service results, eliminating outdated or duplicative services, identifying efficiencies and highlighting best practices that should be duplicated.
- **Performance audits help governments avoid waste.** AOS performance auditors review management and administrative practices to ensure they are cost efficient. Recommendations focus on streamlining operations, as well as strengthening safeguards and accountability.
- **Cost savings identified by performance audits lead to sustainable, balanced budgets.** A dollar saved by a performance audit is a dollar earned. Performance data can help determine the “right cuts” and “right investments” to produce the necessary cost savings. Since the beginning of 2007, the Auditor of State’s office has conducted 106 audits recommending up to approximately \$169 million in annual cost-saving measures. That is a \$24.00 potential return on investment for every \$1.00 spent to conduct an audit. These savings not only lead to effective and efficient operations, but also to sustainable, balanced budgets.

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Save the Date: April 6 & 7, 2011

Auditor of State Dave Yost Presents

## Annual Local Government Officials Conference

### Hyatt Regency Columbus

On-line registration at  
[www.auditor.state.oh.us/conferences](http://www.auditor.state.oh.us/conferences)



Conference attracts more than 600 participants and provides a valuable continuing education opportunity for fiscal officers and other local officials to further develop their

expertise in government accounting, budgeting and financing, legal compliance, ethics requirements and Ohio's open government laws.

#### Conference topics include:

- Improvements for Winter Roadway Maintenance
- Presenting Financial Information to the Public
- Employment Tax Update
- Ohio Minimum Wage Law
- Health Insurance Plans After National Healthcare Reform
- Ohio Budgetary Law
- Records Management, Disposal, and Preservation
- Complete list of topics online:  
[www.auditor.state.oh.us/conferences](http://www.auditor.state.oh.us/conferences)

April 5, 2011 • 3:00 pm to 6:15 pm  
**Certified Public Records Training**

The Auditor of State's Office will be conducting an optional three hour certified public records training the night before the start of conference. You may register for this training through the LGOC online registration. Space is limited and all classes are a first come first serve basis.

This three-hour training program is in accordance with Ohio's Public Records Act, which now requires Public Records Law training for all elected officials and/or their appropriate designees. The program will examine in-depth the responsibilities of elected officials and public offices, along with a review of the rights of the public records requester. The Public Records Act, Open Meetings Act, and Records Retention laws will be discussed, including but not limited to (1) new changes in the law, (2) key definitions, exemptions, practical compliance with public records requests, and (3) the remedies and penalties that may be imposed upon a public office for failure to comply. A certificate will be given at the completion of the training program to document compliance with the training requirement.



## Performance Audits: Promoting Government Efficiency and Accountability

Continued from page 5

### L.E.A.P. Fund

One of the challenges of performance audits is it takes time, effort and funds to perform these audits and implement the resulting recommendations. Cost can be a significant hurdle for those seeking to utilize performance audits.

It is for this reason that Auditor Yost worked with the legislature to create the Leverage for Efficiency, Accountability and Performance Fund (the L.E.A.P. Fund), a \$1.5 million fund that would advance to state agencies and local governments the cost of a performance audit to be repaid from the savings.

Not only would the L.E.A.P. Fund remove funding as the most serious barrier to using performance audits, it also would provide additional incentive for the agency or government to implement the findings and recommendations.

### “Skinnying” Down Government from the Schoolhouse to the Statehouse

The overarching reality for policy makers at the state and local level has been called the budget “gap,” but it might better be termed the budget “abyss.”

In order to face this challenge and position Ohio for economic competitiveness in the future, leaders need to make tough choices about spending taxpayer dollars. Every level of government must account for how those dollars are spent.

Performance audits are an indispensable tool in this effort. Performance audits,

however, are not just a tool to help governments face a budget crisis.

While balanced and sustainable budgets can be a direct benefit of performance audits, these audits also can help produce effective and efficient government that delivers on its promises to its citizens over the long haul. By measuring a program’s performance, leaders ultimately manage that performance more effectively.

*And that is what public service is all about: better services and opportunities for all Ohioans. ■*

If your agency is considering implementation of a performance audit, the following resources may be helpful:

- Performance Measurement Resources for Local Government (GFOA and ICMA)  
<http://icma.org/Documents/Document/Document/246>
- Performance Measurement in Practice (ICMA)  
<http://icma.org/Documents/Document/Document/242>
- Performance Measurement Documents - especially *Establishing an Integrated Performance Measurement System* (Oak Ridge Associated Laboratories)  
<http://www.orau.gov/pbm/documents/documents.html>
- Painful but Productive Discoveries: From Performance Measurement to Performance Management (Harvard Business)  
[http://ww3.harvardbusiness.org/corporate/demos/hmm10/performance\\_measurement/get\\_started.html](http://ww3.harvardbusiness.org/corporate/demos/hmm10/performance_measurement/get_started.html)



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