Evaluating Audit Office Performance

Drummond Kahn, City of Portland

March 2017

Pacific Northwest Intergovernmental Audit Forum
Seattle

The City of Roses -- Portland

Challenges and Need to Use Information

- We'll describe challenges to governments' effective use of performance measurement information about audit offices.

- No matter how good measurement information is, it needs to be used!

Performance Info Only Works When Used

- Performance reports about audit offices are like parachutes.
- They function only when open!
- Key to governance, but has to be used.

Techniques and Tools – Use What Works

- I will discuss an overture and set of concerns around assessing performance information about audit offices, as well as a "toolkit" of solutions to consider in your organization.

- Use what works for your organization in your situation.

Our Overture

- Conferences like this, and books, articles, and basic public opinion are getting the idea that performance data – whether used for audits or for budgeting, is critical.
- BUT accountants and auditors are often the first cut in budget reduction (they are not "line" employees).
- BUT decision-makers may not use or internalize the results.

Top Four Challenges

- The biggest challenges to using performance data to improve management in audit offices (as with any other organization) are:

- Absence of an "executive champion" to support and encourage measurement in your organization (or, alternately, the departure of someone who had acted as a champion for measures).

- Insistence of organizations to use traditional budget exercises (cuts and add-backs) rather than basing budget changes on performance information.

Top Four Challenges (Continued)

- Lack of integration between the budget and the performance information.

- (Potentially) Disconnect between the folks who prepare the measurement information and the folks who manage.

  - Remember – measurement information is for performance <u>management</u> holistically, not just for the budget process.

- Viewing measurement as a once-a-year effort rather than an ongoing process.

Top Four Challenges (Continued)

To summarize, performance management will probably fail if:

- It lacks an executive champion

- It occurs in an environment that does not use or appreciate it (and persists in traditional budget exercises) or integrate measurement with management

- It's led by employees not connected with or responsible for overall management

- It's a once-a-year exercise.

The "Executive Champion"

- It takes leadership to "coach" successes in any organization.
- Informed leaders use the tools at their disposal to study and make changes.
- Remember the "Plan, Do, Review" effort? TQM? MBO?

The "Two Percent Solution"

- Some organizations base next year's plans and budgets on what happened last year (plus or minus two percent).

- Enhanced management might consider other issues, like how much of that service is needed!
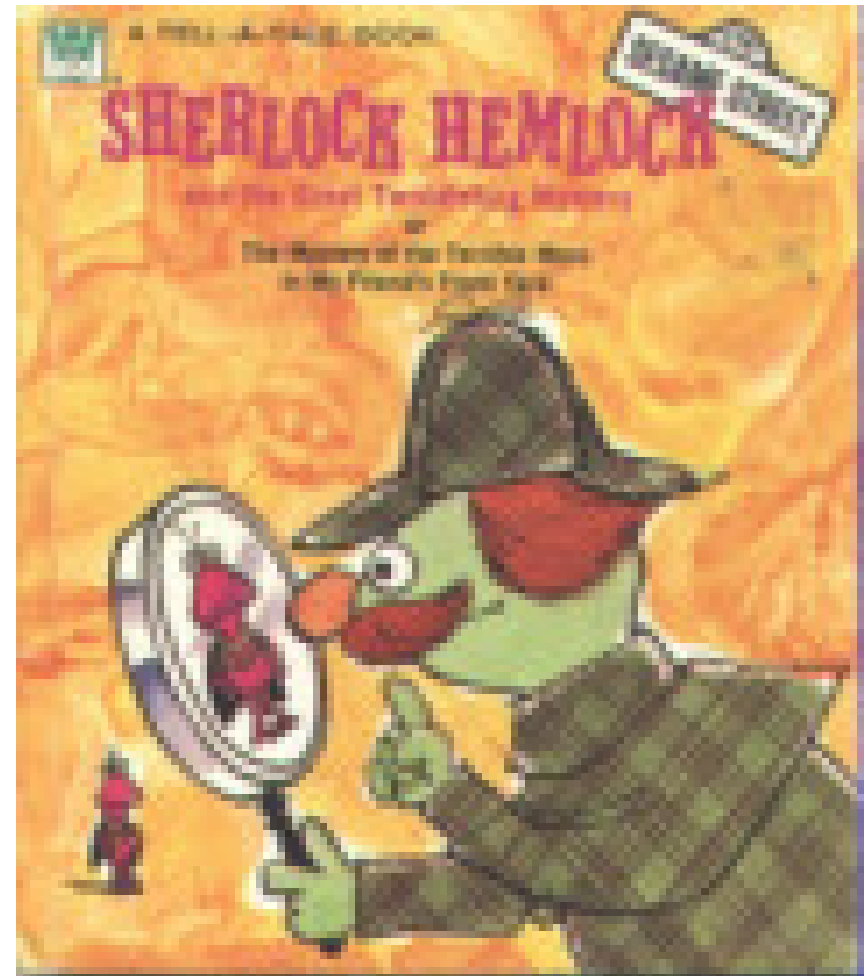
Across-the-Board Cuts Don't Work

"Typically the cost-reduction program aims at cutting a little bit – say, 5 or 10 percent – off everything. **This across-the-board cut is at best ineffectual; at worst, it is apt to cripple the important, result-producing efforts which usually get less money than they need to begin with.** But efforts that are sheer waste are barely touched by the typical cost-reduction program. . ."

Peter Drucker, <u>Managing For Results</u> (1964), p. 13.

Two Ships Passing in the Night

- If offices do not use and act on measurement information, they miss a chance.

- If measurers lose or temper their advocacy for governance based on measures, they miss a chance, too.

All The Time, Not Once A Year

- <u>Brigadoon</u> was the story about the Scottish village that appeared only once each century.
- Measure regularly!
- Make sure management uses the information regularly and not episodically.

But It's Not All "Doom and Gloom"!

- Measurement by itself can provide a critical public accountability and lens into government operations.

- Measurement helps transparency and accountability.

- Management may act on information later.

Options for Audit Office Measurement

- Number of audit reports/products issued per year
- Cost per "billable" audit hour
  - (Total office budget / number of charged audit hours)
- Cost per hour tracked over time, or compared to other offices/providers
- Percentage of audit recommendations implemented
- Others?

Number of Reports – Good and Bad

- Good
  - Tracks visible productivity
  - Tracks number of "touches" to decision-makers, media, and public
  - Can be tracked over time to see if the office is producing more or fewer reports
- Bad
  - Can cut audit work to make more reports, may not indicate underlying productivity
  - One great report that takes longer may be better than more shorter reports

Cost per Hour – Good and Bad

- Good
  - Adjusts for true time spent on audits, not complicated by leave, training, or other administrative time
  - Allows comparison to other offices/providers
  - Lets you show value and cost per audit based on hours and track over time
- Bad
  - Allows comparison to other offices/providers (this is good and bad if the comparison is not like-to-like)
  - May not accurately track all factors
  - Some factors (like benefits and other costs) beyond office's control, yet still impact cost per hour

% of Recommendations Implemented – Good and Bad

- Good
  - Shows whether audit recommendations are being implemented by your jurisdiction, can track over time
- Bad
  - May not track complexity or reasons why a recommendation was or wasn't implemented (did management disagree or just can't afford to do it?)
  - A great, value-added recommendation that management passes on would show up as "not implemented" but may be great audit work
  - A minor but agreeable recommendation would show up as "implemented" but may not be great audit work

Your Ideas?

- Other areas to measure?

- Other strengths/weaknesses of these measures?

- We'll cover other options with the panel and can summarize at the end of the session!

Thank You For Attending!

Please call or e-mail if you have questions!

Drummond Kahn

Director of Audit Services, City of Portland

(503) 823-3536

Drummond.kahn@portlandoregon.gov

www.portlandoregon.gov/auditor/auditservices

http://twitter.com/PortlandAudits