

POLICY NOTE

Local governments should use performance audits to improve budget accountability and performance

by Jason Mercier, Director, Center for Government Reform
and Hon. Brian Sonntag, former Washington State Auditor

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Key Findings

1. *Since being approved by voters in 2005, performance audits have resulted in nearly \$1 billion in savings according to the State Auditor's Office.*
2. *Performance audits measure the economy, efficiency and effectiveness of government programs.*
3. *Performance audits are routinely utilized at the local level in King County, Pierce County, Snohomish County and Clark County, and the cities of Seattle, Tacoma and Vancouver.*
4. *Performance audits are effective and build public trust. It is time for them to be made part of the budget toolkit for all local governments in Washington.*

Foreword by former State Auditor Brian Sonntag

Governments at all levels are looking to meet the needs of citizens while striving to be efficient and cost effective.

There are many tools available to managers, directors and policy makers alike. When seeking an independent, objective examination of functions, programs, operations, management systems or delivery of services, a performance audit conducted under the standards of the American Institute of Certified Public Accountants (AICPA) will provide the analysis that can affect meaningful change.

In Washington state the citizens gave the State Auditor the authority to conduct performance audits of state and local governments. There are numerous examples of efficiency, cost cutting or better service delivery being recommended since the Initiative was passed in 2005. Examining motor pool operations, government contracting, providing public records to citizens, collecting on money owed to government agencies, the list of successes is extensive including nearly \$1 billion in savings since 2007.

Objectives of a performance audit might certainly include:

- Is there duplication or overlap between programs?
- Is the cost to administer a program outweighed by the benefits of such services?
- Are the legislative or organizational goals being achieved?
- Do policy-makers have adequate and complete information?

Using structured and professional methodologies, a performance audit will assess economy, efficiency and effectiveness of the agency being reviewed.

When examining a government agency to evaluate processes, systems and service, an audit is an essential tool. Financial, compliance and performance all are elements of a complete review.

The result is the opportunity to improve operations and service to citizens. That opportunity brings a responsibility to make a difference. Here is the tool to do the job.

What is a performance audit?

A performance audit is very different than the routine financial and accountability audits that governments conduct each year. Those audits focus on agency compliance with laws and regulations, and the tracking of public money to make sure taxpayer dollars can be accounted for.

What those types of audits do not do is ask and answer questions about the economy, efficiency and effectiveness of government programs. For example, is the program achieving measureable results and is it best structured to deliver the best return for taxpayer spending?

Performance audits measure effectiveness, not just compliance, and it is critical that they be part of the tool kit for government accountability. As noted by State Auditor Troy Kelley:¹

“Performance audits, when done right, can provide lessons of sound performance management to local governments across our state. They can help local leaders evaluate their programs and improve services using data-driven tools and techniques. Simply put, the rigorous evaluation provided by a sound performance audit can make government better.”

State law defines a performance audit as:²

“... an objective and systematic assessment of a state agency or any of its programs, functions, or activities by an independent evaluator in order to help public officials improve efficiency, effectiveness, and accountability. Performance audits include economy and efficiency audits and program audits.”

The Association of Local Government Auditors (ALGA) has produced a publication to help local governments understand this important budget accountability tool, called “A Government Official’s Guide to Establishing a Performance Audit Function.” According to ALGA:³

“Performance auditors measure program performance to assess whether and how programs can be improved. They may:

- 1. review program goals and objectives compared with actual results;*
- 2. analyze the efficiency and effectiveness of alternative methods of service delivery;*
- 3. determine whether programs comply with applicable laws, rules, regulations, or policies and procedures;*
- 4. assess whether management reports are accurate and reliable;*
- 5. determine whether assets are adequately safeguarded;*
- 6. work to detect fraud or abuse and assess controls and risks to reduce opportunities for corruption, and;*
- 7. identify emerging issues or risks before they become crises.”*

1 E-mail from Matt Miller, Deputy Auditor, Washington State Auditor’s Office, April 24, 2014, copy available on request.

2 RCW 43.09.430(5): Performance audits – Definitions at <http://app.leg.wa.gov/rcw/default.aspx?cite=43.09.430>.

3 “A Government Official’s Guide to Establishing a Performance Audit Function,” Association of Local Government Auditors at <http://algaonline.org/DocumentCenter/View/9>.

Initiative 900 authorized the State Auditor to conduct performance audits

In the past the independently-elected State Auditor was prohibited by law from conducting performance audits of state and local agencies. This changed in 2005 when 56% of statewide voters approved Initiative 900, granting the State Auditor the authority to conduct independent performance audits and creating a dedicated account to fund performance reviews.

According to the State Auditor's Office:⁴

"Since we issued our first performance audit in 2007, governments report they saved nearly \$1 billion as a result of implementing our recommendations. Over our standard four-year tracking period, agencies reported implementing about 84 percent of our issued recommendations, resulting in almost \$780 million of actual savings."

State law also authorizes local performance audits under the authority of the State Auditor:⁵

"If the legislative authority of a local jurisdiction requests a performance audit of programs under its jurisdiction, the state auditor has the discretion to conduct such a review under separate contract and funded by local funds."

While the State Auditor has the authority to conduct performance audits at the local level limited resources and limited time keep the majority of the focus on state programs. This situation is made harder because the legislature regularly diverts money from the dedicated performance audit account to fund programs in the General Fund budget.

This is why it is important for local governments to incorporate a performance audit function into their normal budget review process, to provide accountability and identify opportunities for reforms and best practices. Elected officials in several local governments in Washington are already doing this.

Performance audit testimonials from local auditors in Washington state

According to the state Municipal Research and Services Center, performance audits are currently part of the normal governance accountability structure for King County, Pierce County, Snohomish County and Clark County, and the cities of Seattle, Tacoma and Vancouver.⁶

Clark County Auditor Greg Kimsey says this about this importance of performance audits:⁷

"Auditors, and in particular performance auditors are a wise investment at any level of government. The Federal Government recognized this when it enacted the Inspectors General Act of 1978, which provides, among other things for performance audits of

4 "Annual Performance Audit Progress Report," Washington State Auditor's Office, November 19, 2013 at http://www.sao.wa.gov/generalinfo/Documents/PA_2013ProgressReport_ar1010777.pdf.

5 RCW 43.09.445: Performance audits — Local jurisdictions at <http://app.leg.wa.gov/rcw/default.aspx?cite=43.09.445>.

6 "Performance Audits and Performance Reporting," Municipal Research and Services Center, October 2013 at <http://www.mrsc.org/subjects/management/performanceaudits.aspx>

7 E-mail from Greg Kimsey, Auditor, Clark County, October 13, 2014, copy available on request.

federal agency programs and activities. Many states and local governments followed suit by establishing their own audit offices, or adding the performance audit function where audit offices already existed.

“In Clark County, the performance audit function was incorporated into the Clark County Code in 1999 . . . the audit function is a vital component of any government. The audit function serves to increase a government’s effectiveness, efficiency, accountability, and transparency. I like to think of our auditors, as the guardians of Clark County’s integrity, and in that respect, it is difficult to put monetary value on their contribution.”

Kimsey noted that a recent performance audit of the “county’s fleet operation found serious flaws in the implementation of county policy,” and that “there will most definitely be long-term financial benefits associated with the changes implemented.”

Franklin County is also beginning to pursue performance audits and recently hired the firm Clifton Larson Allen to conduct a performance audit of the TRAC (Trade, Recreation and Agricultural Center) facility in Pasco. As noted by Franklin County Auditor Matt Beaton:⁸

“As Auditor, I am the watchdog for taxpayers. Given the challenges that Franklin County has confronted Performance Audits are the best tool to deliver the actionable results we can use.”

Ben Thompson, Deputy County Auditor for King County says this about how elected officials use performance audits to build King County’s budget:⁹

“The King County Auditor’s Office has a long history of delivering a variety of benefits to the county and its residents. We do this by conducting performance audits and by providing oversight of many of the county’s large capital projects. Councilmembers and staff frequently use and reference our work as they make budget decisions for the county.”

According to Thompson, King County was able to significantly reduce capital and operating costs by not pursuing a new transfer station as a result of a performance audit.

Bill Vetter, Performance Audit Analyst for Pierce County describes the benefits of performance audits this way:¹⁰

“In general, we view performance audits as delivering the following benefits: (1) high-quality information, (2) improved effectiveness for the audited entity, (3) fiscal savings, and (4) increased revenue.”

Discussing the importance of linking the performance audits to the budget development process, Vetter highlighted that a “2011 independent analysis of Juvenile Court’s structure and functions resulted in the County Council reducing the budget appropriation for Juvenile Court by \$500,000.”

8 “Next step for safety tax: performance audits,” by Jason Mercier, *Tri-City Herald*, August 22, 2014.

9 E-mail from Ben Thompson, Deputy County Auditor, King County, October 22, 2014, copy available on request.

10 E-mail from Bill Vetter, Performance Audit Analyst, Pierce County, October 8, 2014, copy available on request.



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Hon. Brian Sonntag is a board member at Washington Policy Center and was the independently elected Washington State Auditor (1993-2013).

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Assistance from State Auditor's Office for performance reviews

Along with utilizing performance audits, another valuable resource for local officials is the State Auditor's Local Government Performance Center. Sheri Sawyer, Assistant Director of the Performance Center explains its purpose:¹¹

"Government leaders need information and data so they can make better decisions about how to spend fewer resources. The Local Government Performance Center within the State Auditor's Office offers training and technical assistance to local government elected officials, managers, and staff who want their organization to improve its performance, effectiveness, efficiency and transparency - all free of charge. Our courses and materials cover both basic and more advanced training that help local governments create, use, and analyze performance measures.

Our trainings can help those entities with little or no performance management experience (including performance audits) with the basics – tools and techniques to evaluate government programs to see if they are efficient and effective. For more sophisticated entities, we can help with a performance assessment – a deeper evaluation of a particular program or service."

While not a full-fledged performance audit, the "free of charge" services offered by the State Auditor's Local Government Performance Center can help local governments develop performance metrics that can then be used as a baseline for future performance audits.

This is exactly the type of assistance that is currently being offered by the State Auditor to Benton County officials, as county leaders build their performance accountability program for the recently voter-approved public safety sales tax ballot measure.¹²

The State Auditor's Office reports that since the Local Government Performance Center opened in June 2012 "the Center has provided assistance to over 2,300 local government staff and governments are reporting real improvements to their processes and customer service."

Conclusion

Whether in good or bad budget times, taxpayers demand accountability from their public servants for the money they provide to fund essential core functions of government. One important tool to help elected officials meet this citizen expectation is a performance audit. Ensuring that tax dollars are not only accounted for but are also showing measurable results is critical to building public trust.

The willingness to incorporate meaningful performance audits into a local government's routine budget structure communicates not only respect for the hard-earned dollars taxpayers provide, but also shows a commitment to ensuring government officials actually deliver important public services in the most economic, efficient and effective way.

Performance audits are effective and build public trust. It is time for them to be made part of the budget toolkit for all local governments in Washington.

¹¹ E-mail from Sheri Sawyer, Assistant Director Local Government Performance Center , Washington State Auditor's Office, October 15, 2014, copy available on request.

¹² "Next step for safety tax: performance audits," by Jason Mercier, *Tri-City Herald*, August 22, 2014 at <http://www.washingtonpolicy.org/publications/opinion/focus-next-step-safety-tax-performance-audits>.