

# Bob Behn's Public Management Report

An occasional (and maybe insightful) examination of the issues, dilemmas, challenges, and opportunities in leadership, governance, management, and performance in public agencies.

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On why it is necessary to set

## Expectations for Performance Audits

Six months ago, I was in Olympia, Washington, the state capitol, when parts of my schedule were canceled. So naturally, I went to a hearing conducted by the Joint Legislative Audit and Review Committee on a recent performance audit of the state's Department of Transportation.

This "performance audit," prepared by Ernst & Young for the state auditor, made eleven recommendations on six aspects of "administration and overhead operations." For Human Resources the audit recommended that the department "centralize personnel administration processing" in headquarters. For Payroll/Time Reporting, it proposed "a bank lockbox for department-wide cash receipts."

These recommendations, which focused "largely on streamlining and centralizing operations," would produce an estimated five-year cost savings of \$18,193,059 to \$23,575,669. Over five years, the bank lockbox would, alone, save \$651,147—not a penny less or a penny more.

One legislator noted that, for a proposed change in the payroll system, he could not find any mention in the report of any costs to make this change. "Do you see no one-time costs for system modifications?" he asked. "I would say that you do have a cost to changing the system especially when you're dealing with a system built in 1981," admitted Ernst & Young. "It's fairly old."

This "performance" audit had nothing to do with improving transportation performance. It was all about the savings—as measured precisely to the nearest dollar. Yet, when asked about the costs to upgrade computer software to implement one of the recommendations, Ernst & Young could only observe that there would be some costs. Indeed, to some questions, Ernst & Young could only answer "I'm not really sure" and "I don't have the technical people here." The audit cost taxpayers \$659,100.

Government agencies are populated with all sorts of professionals—

from engineers to forest rangers. Who would have thought that one of the professions to go entrepreneurial would be the auditors? They must have found the financial stuff too boring. Today, any self-respecting government auditor has his or her own performance-auditing unit.

There is, however, a key difference between auditing finances and auditing performance. The expectations for behavior on which any financial audit is based reflect generally accepted political norms that are well-codified in law. Such laws tell public managers that they cannot steal the money. The appropriation legislation specifies the purposes and activities on which an agency can spend its funds.

For a performance audit, what is the equivalent of the financial rules? Who has set what expectations for performance for which the auditors can check? Without explicit performance targets, how can an auditor evaluate an agency's performance?

This very specific legislation establishes the expectations. It provides the basis for a financial audit—for determining whether the money has been spent according to the rules.

For a performance audit, however, what is the equivalent of the financial rules? Who has set what expectations for performance for which the auditors can check?

The U.S. Government Accountability Office, in its "Yellow Book," establishes *Government Auditing Standards*. In it, GAO says that the objectives of a performance audit "may vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analysis [about the future]." That's quite a broad list; indeed GAO lists 32 different examples of audit objectives—from "assessing the extent to which

legislative, regulatory or organizations goals and objectives are being achieved" to "determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations." Who said auditors couldn't be entrepreneurial?

That certainly gives the performance auditor a lot of room to maneuver. Most importantly, it permits the auditors to establish their own, personal standards about what does or does not constitute good performance.

The *Auditor General of Arizona* asserts that "Performance audits are designed to determine whether an agency is achieving the objectives established by the Legislature and managing its resources in an effective, economical, and efficient manner." Effective, economical, efficient? No one is against any of that, which is why the "performance audit," of the Washington Department of Transportation focused on saving money.

But Arizona's definition assumes something that is truly rare: That the legislature established clear objectives—objectives that are specific enough to be audited.

When it comes to determining what *performance targets* a public agency should achieve, legislatures are quite allergic to specificity. After all, by proposing a very explicit performance target to be achieved, a legislator can easily alienate allies who have slightly (or significantly) different performance priorities. Yet, without such specificity—without explicit performance targets—how can an independent auditor evaluate an agency's performance? **B**

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