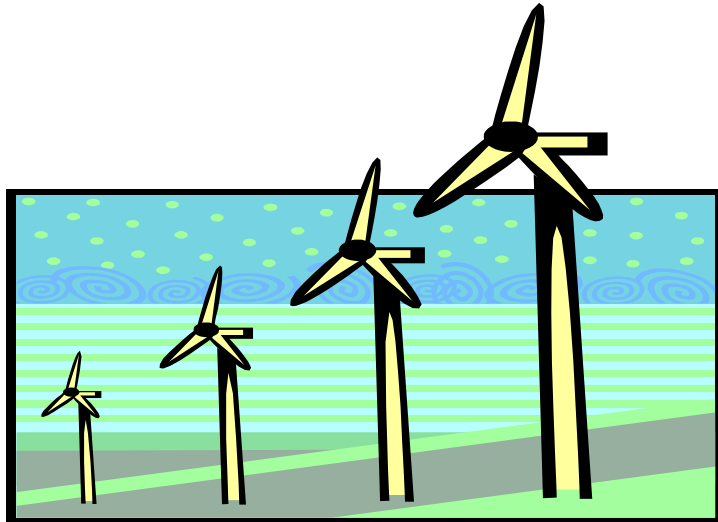


Internal Auditor Department

Internal Audit Program

HOP PHASE 1 PERFORMANCE MEASUREMENT ASSESSMENT AND EVALUATION



(Project No. 2003-P-02.13)

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Internal Auditor Department

Internal Audit Program

Phase 1 Assessment and Evaluation

An overview survey of the current state of performance measuring and the degree of linkage present among mission statement, organizational objectives, and specific performance indicators in the department

This publication contains the results of a structured process for evaluating the current state of program performance measurement in a county department. The process was designed and developed by the Management & Program Analysis Section of OFMB/Financial Management Division (MPA) to facilitate an agency-wide review of the county's performance measurement system. Harnessing Organizational Performance—or HOP—is a collaborative initiative with Palm Beach County's departments. The HOP methodology involves an initial evaluation of the current performance measuring system in a department, and assesses the system according to a common set of HOP criteria. In the process, the work incorporates national benchmark and subject-matter best practices into findings and recommendations concerning the department's existing performance measures. This initial phase of the project is intended as a diagnostic phase; subsequent phases will help guide the department into a re-structuring of its performance measurement program in contextually relevant ways. The long-term objective of the HOP initiative is to verify that the Palm Beach County performance measurement program is:

- A positive tool in gauging organizational achievements;
- An important management tool to aid decision-making;
- A way to connect staff-level activities to higher-level organizational missions and statements of objectives.

The methodology employed in the HOP initiative is designed to allow for a collaborative process of evaluation and assessment of the client department's current performance measurement system. To this end, MPA has created and

utilizes a Client Workbook to take a team consisting of the client representatives and the Budget Division representative through a series of facilitated workshops.

Following the four 2-hour workshops, a consensus point of view emerges concerning the current state of the client’s performance measurement system. In addition, the four HOP workshops provide the MPA consultant with useful operational insights and client-specific performance measurement information. The MPA consultant utilizes these insights and information to complete relevant best practices research.

Each of the HOP workshops covers a “level” of evaluation. Each level of evaluation utilizes a different criterion by which to gauge the current performance measurement system. The primary criteria utilized for this evaluation are 1) linkages between the clients’ mission statements, objectives and performance measures, 2) a balanced use of the HOP defined “types” of performance measures, and 3) a balanced use of the HOP defined business “perspectives” of performance measures. The HOP defined “types” and business “perspectives” are described in greater detail below.

The HOP performance measurement program concentrates on three types of performance measures.

Measurement “Types”	Output performance measures - represent the department’s workload, amount of service or production, not the consequences of performing or processing the workload.
	Efficiency performance measures – represent the ratio of <u>service unit output</u> to <u>resource input</u> ; usually cost per unit of service, or unit of service per resource (FTE’s or dollars expended).
	Outcome performance measures – represent the consequences or effects of specific actions or initiatives focused primarily on improving the citizen’s condition.

The HOP performance measurement program then employs four business “perspectives” by which organizational performance is to be guided.

Business Perspectives	Customer satisfaction perspective – performance measures that are created to indicate the customer’s perspective of “how they rate the county in the delivery of services” or those measures where the use of the service indicates the customer chooses the county service over other available options.
	Internal process (operational) efficiency perspective – performance measures that are created to “indicate” the efficient use of resources involved in the delivery of services.

Business Perspectives	Financial accountability perspective – performance measures that are created to “indicate” the financial accountability of the organization, stewardship of the public trust, or delivering services in a cost efficient manner.
	Employee learning & growth perspective – performance measures that are created to “indicate” employee development – development which will enable the organization to succeed in its mission and/or that increases employee productivity, employee retention, career enrichment, and job satisfaction.

This publication reports on the consensus assessment developed by the HOP Team and the best practices research conducted by the MPA consultants to document findings, observations and recommendations pertaining to the client’s performance measurement system.

The Management & Program Analysis Section is leading this effort, together with our partners from the Budget Division, to establish common performance concepts and an understanding of performance measurement purposes throughout all county departments and divisions. When the three-phase HOP program is fully implemented in mid-2006, specific outputs of the Harnessing Organization Performance initiative will be:

- Standardizing performance measurement terminology;
- Establishing a collaborative, interactive approach towards performance measurement;
- Recommending improvements to the current performance system to decrease time and effort required by the system, while improving its management usefulness.

PHASE 1: “EVALUATING EXISTING MEASURES”

This is the first phase of the HOP program. This report contains the results of the phase 1 evaluation and assessment of the Internal Audit Department mission statement, current year (FY2005 budget) objectives and performance measures. Current performance measures that cannot be linked to, or do not support, the mission statement or statement of objectives will not be required as part of the county’s official performance measurement program, although they can be maintained for departmental purposes, if desired. This phase also establishes the common terminology that will be used throughout the HOP project, as it relates to performance measures, linkages and relevant business perspectives. During this phase, the department will probably experience a reduction in the number of “required” performance measures, thereby reducing the time and effort spent in gathering and reporting on departmental performance.

PHASE 2: “MANAGING FOR HIGH PERFORMANCE”

The second phase will include communicating to every level of the department the linkage and relevancy among mission statement, objectives, performance measures, and stakeholder desires. Where the first phase is primarily a diagnostic step to establish the current state of the department’s performance measuring program, during the second phase a number of linked and highly relevant performance measures will be developed for the department’s future use.

PHASE 3: “PUTTING IT INTO PRACTICE”

Finally, in this stage of the project, the required performance management infrastructure is established to permit the meaningful tracking and reporting of the department’s performance. Formal guidelines will be developed and adopted regarding, (1) validation of acceptable measures, (2) reporting mechanisms and schedules, (3) accuracy verification techniques, (4) approval of goals, targets, and benchmarks, (5) incentive programs to reward the attainment of high performance, (6) internal financial control uses, and (7) ways and means of carrying out periodic reviews of performance indicators and targets to keep them current and relevant.

OVERVIEW OF PHASE 1 FINDINGS

The findings and recommendations summarized below provide an overview of the performance measurement program assessment conducted for the Internal Audit Department.

The performance measurement program consists of the department’s mission statement, objectives and performance measures, along with the processes for tracking and reporting on the department’s success in achieving those measures. The findings and recommendations are based on the evaluations of the HOP team, made up of the directors of the participating programs and/or their staff, and MPA consultants from OFMB/Financial Management Division. The HOP Team used the performance elements from the FY05 Annual Budget Book to perform the HOP Assessment & Evaluation.

The summary of findings and recommendations is followed by detailed findings and recommendations. The detailed assessment is based upon the structured, four levels of evaluation conducted by the HOP team. Each level of evaluation was accomplished by use of evaluation tools designed by the MPA Section expressly for that purpose. In addition to the conclusions reached by using the 4-level evaluative tools, the MPA consultants performed “best practices” research involving similar operations nationwide, and cited examples from this research which the program can use as a starting point for its own further efforts. That research also forms an important foundation and knowledge base for the work yet to come in phase 2 of the HOP project.

General Findings

- The current department mission statement meets the HOP criteria for identifying the purpose of the organization; there are two service topics that are easily identified. Structurally, the mission statement consists of one broad sentence identifying these two areas of operation. The mission statement does not effectively identify customer.
- The department mission statement, along with the Internal Audit program's "Definition of Programs and Services" fulfills the HOP criteria for describing the department's mission, thus enabling the program to create cohesive and linked program objectives and performance measures. The adjectives used to describe the mission focus concentrate on describing the department's external, end results services, "independent, objective reviews;" as such, there is an absence of internally descriptive statements such as, "cost effective," "ethical/high quality," "professional," or "practical" to communicate internal process emphasis.
- The department exhibits poor linkage between "mission topics" and objectives statements.
- The department exhibits poor linkage between the current "mission topics" and performance measures.
- The department exhibits good linkage between objectives statements and performance measures.
- The department's performance measures exhibit a fair balance among the performance measurement "types." Three of the participating program's five performance measures are output (workload) types, there are no efficiency types and there are two outcome types of performance measures.
- The department's performance measures exhibit a fair balance among the HOP defined "business perspectives." One of the five program performance measures was defined from the employee learning and growth business perspective and one from the customer satisfaction business perspective. No performance measures were defined from the internal process efficiency or financial accountability business perspectives.

General Recommendations

- Review the structure and content of the Internal Auditor department mission statement per the HOP defined criteria. Update the department mission statement as appropriate.

In addition, review the content of the "Definition of Programs and Services" of the Internal Audit program. If appropriate, update the content and terminology to reflect any changes made to the mission statement.

- Review the performance measure types (output, outcome, efficiency) with an eye toward adding efficiency measures.
- Determine which current performance measures can be restated (if any) to achieve a better balance across the four HOP business perspective categories.

Consider replacing those that cannot be meaningfully updated with new performance measures.

The following operational initiatives are generated from the FY 2005 submitted budget narrative and from input received from the department staff that participated in the HOP workshops. These initiatives are ideal starting places from which the program can develop meaningful objectives and linked performance measures. Displayed in brackets are the potential business perspectives that could be used in creating performance measures for the stated initiatives. Each performance measure should be created from primarily one business perspective.

Internal Audit:

- Implement the computer-assisted auditing techniques system (CAATs) to enable the Office to expand coverage through improved sampling techniques. [operational efficiency, financial accountability, customer satisfaction]
- The Office will increase its auditing coverage of management information systems. [customer satisfaction]
- The Office will explore the use of scanning technology for working paper preparation and for storage of audit data. [operational efficiency, employee growth and learning]
- There will be a new initiative to conduct a county-wide risk assessment. [customer satisfaction]

The detailed recommendations that follow are supported by references to the HOP Client Manual and to the best practices research. The recommendations are presented for each of the four levels of evaluation performed by the HOP Team. The Best Practices research is drawn from public sector entities that are recognized as leaders in their operational fields and in the measurement of performance. A listing of best practices Internet sites and contact information is included (Appendix A) to give the department a ready resource for assistance in developing modifications to its performance measurement program, should it wish to do so.

LEVEL 1 EVALUATION – INTERNAL AUDIT

A. Department Mission Statement: Content & Structure

The Level 1 evaluation begins by examining the content and structure of the published material that guides the Internal Audit department. The department’s mission statement offers this type of guidance, as does the program’s definitions of programs and services; both are published in the county’s annual budget document. From these two sources, the HOP methodology identifies “mission level topics.” These are macro-level, topical areas that communicate the direction or vision for the department. Objectives and performance measures flow from the mission level topics to ensure that Internal Audit operations strive to meet the mission.

For the purpose of the HOP evaluation, “mission level topics” are listed as the first component of the program’s over-all performance program, followed by objectives and performance measures. This allows a consistent approach to creating and defining departmental mission statements and programs and services descriptions throughout all county departments. The HOP Team determined that all “mission level guidance” currently listed as part the Internal Audit program’s definition of programs and services could fall under one of the two topical areas identified in the department’s mission statement.

Performance Component

Mission Statement

To serve the Board of County Commissioners, County agencies and departments, and the public by providing independent, objective reviews of County operations, identifying areas where efficiency and effectiveness can be improved, and providing assistance and advice to the Board and management when requested.

Recommendations

- Evaluate the content in regard to accuracy and meaningfulness and determine whether the department mission statement can be updated to provide improved departmental guidance. The convention of using the department’s name within the mission statement should also be incorporated in the published performance measurement documents, the annual budget book and semi-annual reports.
- Consider possible strategic uses of the department mission statement such as, 1) actively using the verbiage as the “measuring stick” for decision making, and 2) placing this macro-level statement of mission on the backside of business cards and on department letterhead or on other public forms. A concise, broad-termed department mission statement is easily used to promote the mission to employees, customer-citizens and other important stakeholders.

1

Finding and Observation	Recommendation
<p>The HOP Team made the following observations pertaining to the existing <u>content</u> of the department mission:</p> <ul style="list-style-type: none"> - The mission declaration, “identifying areas where efficiency and effectiveness can be improved,” describes the types of “independent, objective reviews of County operations” that are provided. These two parts of the mission are one topic. Therefore, the HOP Team identified only two primary mission topics, 1) Provide independent and objective “efficiency and effectiveness reviews” of county operations, and 2) provide assistance and advice to the Board of County Commissioners and county management. - The HOP Team felt that the declaration, “providing assistance and advice to the Board and management when requested” was both too general and occurs relatively infrequently in comparison to the other activities identified in the mission statement. 	<p>The current mission statement structure (broad, yet concise) is good. Review the current verb–noun mission topics. Determine if they can be stated in an even more concise way. Eliminate wordiness – see the first bullet point referenced in the finding. Only include mission topics that are a current emphasis.</p> <p>Eliminate the twelve word narrative “providing assistance...” if this is not a primary focus of the department. See the Best Practices examples for how other audit agencies have referenced this activity in a concise way.</p> <p>Update the mission statement utilizing the HOP definitions and concepts (pg 13 of the HOP Workbook)</p>

2

Finding and Observation	Recommendation
<p>The HOP Team made the following observations pertaining to the <u>content</u> of the department mission:</p> <ul style="list-style-type: none"> - The “public” is listed as a customer, even though there is no direct interaction with the public. The public could be considered an indirect customer of any county government department. - One customer that is not mentioned in the mission are the revenue generating “contracted agencies.” - The HOP Team made the observation that terminology related to “audits” or “reviews” or “projects” should be uniform throughout the performance program elements (mission statement – objectives–performance measures). 	<p>The mission statement should identify in broad terms the direct customers of the department.</p> <p>Incorporate “contracted agencies” into the mission if appropriate.</p> <p>Keep like terminology throughout each of the performance measurement program elements (mission statement, objectives, and performance measures) to facilitate linkage between elements.</p>

3

Finding and Observation	Recommendation
<p>The HOP Team made the following observations pertaining to the <u>content</u> of the department mission:</p> <ul style="list-style-type: none"> - The mission narrative does not contain descriptive narrative pertaining to employee development, ethical behavior, professionalism, objectivity, fiscal responsibility, public trust, oversight, timeliness, or customer satisfaction. - The specific “Government Auditing Standards” that are employed by the department are not highlighted in the mission statement. 	<p>Determine the applicability of including the descriptive narrative listed in the finding. Descriptive narrative can be effectively used as mission level guidance across a range of activities. If applicable, update the mission statement to include this type of broad mission level guidance. Review the best practices examples to see how other audit agencies have approached this issue.</p> <p>Determine if a statement such as, “In accordance with Government Accounting Standards...” provides a meaningful reference at the mission level.</p>

4

Finding and Observation	Recommendation
<p>The HOP Team made the following observations pertaining to the <u>structure</u> of the department mission:</p> <ul style="list-style-type: none"> - The mission statement identifies what the department does in a concise format with broad terms. - The name of the department is <u>not</u> specified within the body of the mission. - The mission statement leads off with a listing of the customers served prior to listing the activities of the department. 	<p>Keep the current broad, yet concise structure while updating the current content as recommended in the content recommendation boxes 1-3.</p> <p>Include the name of the department in the mission statement (see Best Practices examples).</p> <p>Re-examine the convention of leading with the customers (see Best Practices examples for alternatives, as well as example in the HOP Workbook, page 13).</p>

Resources

HOP Client Manual: Reference **Section IV. HOP Definitions and Concepts**, mission statement definitions and examples (page 13).

Best Practices Research: Examples of *concise*, but *broadly worded* department mission statements, clearly identifying the customer (underlined), and using **descriptive narrative** (in bold) are listed below.

Maricopa County, Arizona

- “The mission of the Internal Audit Department is to provide **objective, accurate, and meaningful** information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.”

City of Glendale, Arizona

- “(The Mission of Internal Audit is) to conduct **independent, objective** assurance and consulting activities that **add value** and improve citywide operations.”

Jackson County, Oregon

- “The Internal Audit program conducts independent appraisals of county programs, activities, subcontractors, and agencies receiving (county) funds; (with the purpose) of promoting positive change that improves the performance of county government and provides accountability to the public.”

City of Portland, Oregon

- “The mission of the City Auditor’s Office is to foster **open and accountable** government. This is accomplished by providing access to City information, and conducting independent and impartial reviews that promote **fair, efficient, and quality** services.”

City of Austin, Texas

- “The purpose of the Audit activity is to provide **independent and objective** information and recommendations to City Council and management to improve the performance (**results, efficiency, and compliance**) of City services and strengthen accountability for that performance.”

City of Toronto, Canada

- “To be recognized as a leading audit organization, respected by our (specify customers) for **excellence, innovation and integrity**, in supporting the City of Toronto to become a world class organization.”

Fairfax County, Virginia

- “The mission of the Internal Audit Office is to provide independent and objective assurance and management advisory services. We seek to **proactively** identify risks, evaluate controls, and make recommendations that will strengthen County operations.
- “(The mission of the Office of Internal Audit is) to assist senior management to **efficiently and effectively** implement County programs in compliance with financial policies and procedures as articulated and/or legislated by the Board of Supervisors by conducting **objective, useful, relevant, accurate and timely** internal audits.” (From a “goal” statement on the Office’s web site.)

City of San Jose, California

- “(The mission of the City Auditor) is, at the direction of the City Council, to conduct or cause to be conducted financial and program performance reviews of City departments, offices, and agencies in accordance with applicable auditing standards.”

City of Tampa, Florida

- “(The mission of the City Auditor) is to provide an independent appraisal function within the City and to assist members of the management team in the effective discharge of their responsibilities by furnishing appraisals, recommendations and pertinent, relevant information concerning the activities and/or areas under review.”

City of Nashville, Tennessee

- “Internal Audit provides **professional** auditing and other services using high standards to promote **effective** and **efficient** government services for the community.”

B. Statements of Objectives: Mission Linkage

The Level 1 evaluation next examined the linkages between the mission level topics and the program’s objectives. This ensures that there is continuity of purpose between these two important components of the performance program. An assessment of the content and structure of the statement of objectives was also performed.

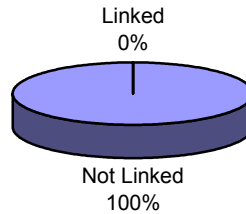
Performance Component

Mission Level Topics (From Department Mission Statement)	<ul style="list-style-type: none"> ➤ Provide efficiency and effectiveness reviews of County Operations to improve county operations ➤ Provide assistance to Board of County Commissioners and county management
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Performance Component

Objectives	<ol style="list-style-type: none"> 1. Maintain auditor administrative time to 2,500 hours per year or less. 2. Complete audits within 110% of budgeted hours. 3. Ensure each auditor completes a minimum of 40 hours of continuing professional education. 4. Achieve a customer satisfaction level of 3.5 on a scale of 1 through 5.
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**Internal Audit
Objectives
Linkages to Mission Level Topics**



As the chart indicates, none of the program’s objectives can be directly linked to a mission topic. This reflects the nature of the objectives. Three of four objectives are inwardly directed (auditor performance focused) as opposed to the mission topics that are outwardly focused (customer results focused). The general recommendations that follow address this point. The detailed findings/recommendation boxes concentrate on the HOP Team’s findings concerning the content and structure of the objectives statements.

Recommendations

- Increase the linkage between the mission statement and objectives by refining the focus of either. One way to increase linkage would be to add descriptive terminology to the existing mission statement (that would then more easily link to objectives), create additional mission topics or by creating a different focus in the published objectives. Three of the four existing objectives pertain to internal auditor performance. They could be combined into one general objective statement, allowing additional objectives statements to be created that link to the outward, result focus of the mission statement.
- Based on the new initiatives planned for the program in FY2005 (see page 6), three to four program objectives statements seem appropriate. Modify the current objectives statements or create anew using the HOP definitions for content and structure to guide development of objectives.

Examples of objectives statements that conform to HOP definitions concerning content and structure follow the findings and recommendations. An example of a HOP defined objectives statement is, “Increase the amount of audit related activities that can be performed online (the “what”) by upgrading the Internal Audit website (the “how”) to improve audit project lead-time and to standardize certain types of data gathering (the “why”).”

When reviewing the Findings and Recommendations below, please reference the HOP Client Manual: **Section IV. HOP Definitions and Concepts**, the objectives definitions and examples (page 14 and Example A on page 19).

5

Finding and Observation	Recommendation
<p>All four of the Internal Audit objectives are target statements. As such they do not indicate “why” each objective is an area of focus and they do not indicate “how” each objective will be accomplished.</p>	<p>Objectives statements should fully identify the important focus areas of the department. Enhance the objectives statements to provide why each objective is important and how each will be accomplished, through what means. By identifying the why and how, the objectives linkage to mission topics <u>and</u> performance measures can be better achieved.</p> <p>Communicate to the audit staff the rationale for the target numbers found within the objective statements.</p>

6

Finding and Observation	Recommendation
<p>A HOP Team member observed that the objectives did not link to the mission topics because both the mission and the objectives lacked the “qualifiers” such as “professional”, “efficient”, “constructive”, and “timely.”</p>	<p>The HOP Team member recommended that:</p> <ul style="list-style-type: none"> - The #1 objective include references to efficiency be associated with administrative time, - That efficiency and timeliness be associated with controlling the budgeted time for audits (objective #2), - That professionalism be integrated into the description of the objective dealing with CPE training classes (objective #3), and finally, - That some element of constructiveness be integrated into the customer satisfaction objective #4. <p>Review the best practices examples of objectives statements for the terminology used and subject matter of objectives statements used in other audit organizations.</p>

Resources

Best Practices Research: Examples of Internal Audit program objectives statements researched at best practices sites:

Maricopa County, Arizona

- “Internal audit will assist the County in its mission to provide fiscally responsible public services by completing 90% of the Board of Supervisors’ approved annual Audit Plan and reporting this objective, accurate, and meaningful information to the Board in a timely manner: no later than 90 days after the fiscal year-end.”
- “Internal audit will assist the County in its mission to provide fiscally responsible public services by providing objective, accurate, and meaningful information in a way that earns a 90% customer satisfaction rating each year from our primary customers, namely, the Board of Supervisors and the County Administrative Officer.”
- “Internal audit will assist the County in its mission to provide fiscally responsible public services (and facilitate positive organizational change) by

working with clients to ensure that 90% of audit report recommendations are implemented within three years of being reported.”

City of Glendale, California

- “Ensure audit recommendations are feasible and add value to the organization by ensuring audit reports address areas of risk identified by management.”

Jackson County, Oregon

- “(Improve the timeliness of the office’s investigation of allegations or indications of fraud and abuse, and of the reporting to appropriate officials of audit findings).” This objective is paraphrased.
- “Contain audit cost by closely monitoring the external audit contract and by coordinating internal audit work with external auditors in the areas of management controls, federal financial assistance, and compliance with laws and regulations.”
- “To meet the expanded audit role and the challenges of accessing electronic data, we will continue to increase the use of sophisticated automated audit techniques.”

City of Portland, Oregon

- “(To address budget shortfalls in targeted departments), complete eight audits that will help improve the City’s public accountability and identify opportunities for increased efficiency and effectiveness.”
- “(Expand the usability and effective use of the Audit web site.) Maintain and update the web site with current information (and customer feedback) on a weekly basis. Develop software that is more user friendly, cost efficient, and accessible to customers in a web-based environment.”
- “(To increase the efficiency of the office and to increase government transparency) develop and implement a plan and timeline for implementing the e-Files system on a Citywide basis. Install the e-Files system in the Mayor’s and Commissioner’s offices and train staff in its use.”
- “Conduct at least two policy reviews of police operations to identify any recommendations to improve police services.”

City of Toronto, Canada

- “(To reduce the city’s risk to increasingly frequent cyber attacks, perform a special review to determine) whether the City’s information technology infrastructure contains adequate controls and security.”
- “(Develop and implement a plan to) coordinate the financial audit activities with the external auditors of the City to ensure the efficient and effective use of audit resources.”

Fairfax County, Virginia

- “To audit 25 percent or more of the departments each year (efficiently conducting a mix of different types of audits to report on department’s compliance to county defined policies and procedures.)”
- “(Increase post audit support to agencies) to achieve an 80 percent implementation rate for audit recommendations.”

City of San Jose, California

- “(Develop and implement an audit work-plan that emphasizes) seeking ways to reduce costs or increase revenues. The Office will improve timeliness by issuing all audit assignments within 30 days of projected completion dates.”
- “(A new status reporting mechanism will emphasize the number of recommendations implemented by clients. The audit staff will work to improve the number of recommendations implemented by meeting with each client 60 days after each audit report is issued to discuss implementation scheduling.)” This objective is paraphrased.
- “(Improve County-wide delivery of services by increasing the amount of training that the Audit Office) provides to City employees on how to incorporate our audit approach into their management philosophy. Maintain the customer satisfaction of this training at 90%.”
- “(To better serve the client, to provide increased transparency, to utilize the electronic media and to improve the efficiency of the audit staff) the Office plans to expand the information on our website to include audit programs (and other technical innovation pioneered by the office) as well as complete text audit reports.”

City of Tampa, Florida

- “Conduct programs and use resources in an economical and efficient manner. Identify, measure, classify and report financial operating events in an accurate and timely manner. Perform audits within the assigned budget.”
- “Provide auditors with adequate training to remain current with the latest auditing practices in order to guarantee that adequate and effective internal controls are in place, that City assets are safe guarded, and City revenue sources are monitored.”

LEVEL 2 EVALUATION – INTERNAL AUDIT PROGRAM

Performance Measures: Mission Linkage

The Level 2 evaluation examined the linkages between the mission level topics and performance measures. This ensures that there is continuity of purpose between these two important components of the performance program.

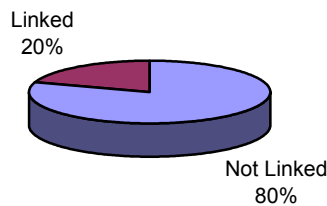
Performance Component

Performance Measures	<ol style="list-style-type: none"> 1. Administrative time for Audit Staff 2. Percent of budgeted hours per audit 3. Training per auditor (hrs) 4. Customer satisfaction level * 5. Audit reports issued <p>* Rating scale changed to 1-5</p>
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Performance Component

Mission Level Topics (From Department Mission Statement)	<ul style="list-style-type: none"> ➤ Provide efficiency and effectiveness reviews of County Operations to improve county operations ➤ Provide assistance to Board of County Commissioners and county management
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Internal Audit Performance Measures Linkages to Mission Level Topics



As the chart indicates, four of five performance measures are not directly linked to mission topics. This illustrates the point that the HOP Team concluded, that the performance measures were created to link to the objectives not to the mission statement. This was largely to be expected, as the Level 1 evaluation showed that there is poor linkage between the mission statement and objectives.

7

Finding and Observation	Recommendation
<p>The HOP Team directly linked performance measure #5 to the first mission statement topic.</p> <p>The majority of the performance measures indicate the “means” of the department, they are “roll-up” calculations of individual auditor performance (internally directed), while the mission topics emphasize departmental end results, externally directed.</p> <p>Some members of the HOP Team indicated a desire to publish a greater number of organizational performance measures related to the quality and impact of the department’s services (the externally directed results).</p>	<p>Review 1) the activities currently being measured and 2) the current mission statement topics that are currently concerned with the department’s “ends”.</p> <p>Bring these two performance program elements into improved alignment by a) measuring the “end” results that the department is striving to achieve, and/or b) by adding some level of emphasis in the mission statement applicable to “means” guidance or expectations. Review best practices examples from the Level 1 and Level 3 evaluations of this report.</p>

8

Finding and Observation	Recommendation
<p>The HOP Team made the following observations concerning the <u>content</u> and <u>clarity</u> of the current performance measures.</p> <ul style="list-style-type: none"> - The mission statement uses the terminology “reviews” to describe department output, while performance measure #5 uses the terminology “audits.” - “Efficiency and effectiveness” in the mission statement refers to the client agencies of Internal Audit, whereas the performance measures #1 and #2 indicate auditor performance. - The performance measure #2 is not as clear as it could be. Also, the team was unsure what was involved in the calculation of performance measure #4 “training per auditor.” - The current understanding of how performance measure #3 is calculated does not accurately measure its intended purpose. By using an <u>average</u> “training per auditor,” it does not indicate how well <u>each</u> auditor is progressing towards his/her required 80 hours of training every 2 years. 	<p>Use the same terminology to provide easy, direct links between performance elements.</p> <p>Performance measures are to communicate the performance of the organization (internal and/or external performance). Evaluate each performance measure for content and clarity. Examine each performance measure (and objective statement) from the customer or service recipient point of view to determine if the description is clear.</p> <p>State the performance measures in a way so that it is clear what calculation is made to indicate performance. For example, restate performance measure #2, “Percent of audits completed within 10% of original budgeted time estimate,” or “ratio of actual audit hours to budgeted audit hours.”</p> <p>Communicate the calculation methodology and use of each performance measure to the department staff.</p>

9

Finding and Observation	Recommendation
<p>The HOP Team made the following observations concerning the performance measurement and mission topic areas identified below.</p> <ul style="list-style-type: none"> - The performance measures (#1, #2, #3) that reflect auditor performance, those dealing with activities such as the amount of administrative time and percentage of projects “on budget” are often times outside the control of the auditor. - A careful review of the questions asked on the customer satisfaction survey (pertaining to performance measure #5) should be made due to the nature of the audit staff’s work. <p>Some members of the HOP Team indicated that the customer satisfaction survey (<u>performance measure #5</u>) is meant to link to the second mission topic dealing with the County Commissioners, but it is not clear from the current performance measure that this is the case.</p> <ul style="list-style-type: none"> - Another view expressed was that the mission topic concerning the Board of County Commissioners was too infrequent in occurrence to be listed in the mission statement. 	<p>Develop meaningful performance measures that will indicate organizational performance in areas of high focus or importance to the organization. If auditor performance is a major focus area, then a mission topic describing the level of service or auditor proficiency could be emphasized. Performance measures should be constructed to measure activities the audit staff can, to a large degree, control.</p> <p>Design performance measures that provide input into decision making or that communicates performance that customers/ citizens care about.</p> <p>Counting the number of audit reports issued (performance measure #5) tells one thing, measuring the number (or percentage) of recommendations agreed to or implemented tells another thing. Determine the most valuable measurement of high performance or high impact and measure the department’s performance in those areas!</p> <p>Review the current client satisfaction survey to ensure that there is objective evaluation criteria such as questions dealing with professionalism, timeliness, report recommendation clarity, etc.</p>

Resources

HOP Client Manual: Reference **Section IV. HOP Definitions and Concepts**, the performance measure definitions and examples (page 15).

Best Practices Research: Examples of Internal Audit program performance measures researched at best practices sites are provided at the end of the Level 3 Evaluation.

LEVEL 3 EVALUATION – INTERNAL AUDIT PROGRAM

Performance Measures: Objectives Linkage & Types

The Level 3 evaluation examined the linkages between statements of objectives and performance measures. This ensures that there is documented progress or success in achieving objectives. An assessment of the “types” of measures being used in the department was also performed.

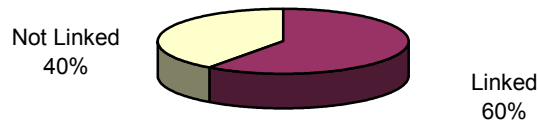
Performance Component

Performance Measures	<ol style="list-style-type: none"> 1. Administrative time for Audit Staff 2. Percent of budgeted hours per audit 3. Training per auditor (hrs) 4. Customer satisfaction level * 5. Audit reports issued <p>* Rating scale changed to 1-5</p>
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Performance Component

Objectives	<ol style="list-style-type: none"> 1. Maintain auditor administrative time to 2,500 hours per year or less. 2. Complete audits within 110% of budgeted hours. 3. Ensure each auditor completes a minimum of 40 hours of continuing professional education. 4. Achieve a customer satisfaction level of 3.5 on a scale of 1 through 5.
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**Internal Audit
Performance Measures
Linkages to Objectives**



Recommendations

- Evaluate existing performance measures and determine the importance of the information they convey in measuring the attainment of a stated objective. Update or replace those indicators that have lost importance or that do not provide meaningful input into decision making. Based on the concept of a “vital few” and the number of program objectives, a total of three to five performance measures appear adequate.
- Objectives should have at least one related/linked performance measure to indicate the success or status of the objective. Create linkages between performance measures and objectives to facilitate the proactive use of performance measures for decision making and/or communicating to stakeholders.

Resources

HOP Client Manual: Reference **Section IV. HOP Definitions and Concepts**, the performance measure linkages definition (page 15).

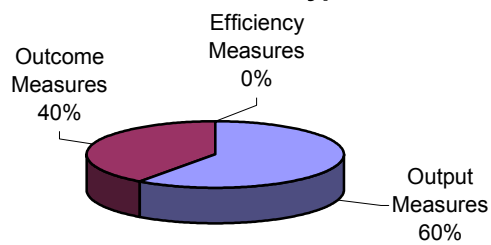
10

Finding and Observation	Recommendation
<p>The HOP Team was able to easily link performance measures #1, #2, and #4 to current objectives.</p> <p>The team found that performance measure #3, "training per auditor", was intended to indicate the achievement of the third objective, but because the objective was stated in terms of <u>each</u> auditor, and the performance measure is calculated as a <u>cumulative average</u> across the entire audit staff, the performance measure cannot directly indicate the achievement of the objective.</p> <p>In addition, a member of the HOP team commented that the training being measured was required training that must be accomplished, not a target to be attempted. Some members found the description "training" to not be specific enough to communicate accurately the training involved.</p> <p>The performance measure "audit reports issued" (#5) does not link to an objective, but it does link to the mission statement (see evaluation level 2).</p> <p>As mentioned in evaluation level 1, the current objective statements lack the meaningful description of "why" the objective is important and "how" or by what means the objective is to be accomplished.</p>	<p>The department has developed objectives and performance measures with the intention of linking performance measures to stated objectives. As identified in the first two evaluations, review any updates to the mission statement, review the meaningfulness of the current objectives (and the content and structure of each.)</p> <p>Choose to focus on inward staff performance or external output results, or a combination of both. Use the best practices examples to view what other internal audit agencies are measuring. Establish linked subject matter and use consistent terminology throughout the three performance program elements (the mission, objective, and performance measures).</p> <p>One member of the HOP Team suggested the following performance measures:</p> <ul style="list-style-type: none"> - Administrative time <u>per</u> audit (versus a total time), or - Percent decrease in administrative time. <p>Determine if the focus should be on tracking administrative time or on tracking total elapsed time to complete an audit (which is what the client probably cares about), tracking the result, not a component of the result.</p>

Evaluation Criteria

PM "Types"	<ol style="list-style-type: none"> 1. Output 2. Efficiency 3. Outcome
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**Internal Audit
Performance Measure "Types" Chart**



Recommendations

- Create a balanced mix of the three performance measure types by adding efficiency performance measures. Balanced use of the three types of performance measures creates complementary indicators of organizational performance.

Examples of performance measurement “types” conforming to HOP definitions would be “Percent of report recommendations that agencies agree to” is a performance measure indicating an amount of an occurrence = **output measure**); “Cost per project completed” or “Estimated savings generated per audit (resource or savings (\$) per unit of service = **efficiency measure**); “Percent increase in revenue generated (or “savings”) versus same time last year” (measuring change over time indicates the consequences of actions – e.g. indicates the result of changes in the audit strategy or number of audits performed or perhaps the types of audits performed, etc. = **outcome measure**).

11

Finding and Observation	Recommendation
The HOP Team classified performance measures #2 and #4 as outcome performance measures and #1, #5 as output types. The team viewed performance measure #3 concerning the internal training of the audit staff as an input into the department and therefore this indicator was seen as an “input ratio.”	Update or replace some of the current performance measures to indicate the efficiency of the internal audit resources. Use HOP criteria to revise and/or create performance measures that will achieve balance across the three HOP “types” of performance measures and effectively indicate achievement of the program’s focus areas or objectives.

Resources

HOP Client Manual: Reference **Section IV. HOP Definitions and Concepts**, the performance measure definitions and examples (pages 15-19).

Best Practices Research: Examples of performance measures researched at best practices sites:

Maricopa County, Arizona

- “Training dollars spent per employee” (E)
- “Percent of satisfied customers” (OC)

- “Percent of department employees reporting satisfaction with employment (or ‘training’) in department” (OC)
- “Percent of department employees reporting agreement with management practices of Department Management” (OC)
- “Percent of transactions completed electronically (as it relates to the auditing process)” (OP)
- “Percent satisfaction rating from the Board of Supervisors and the County Management with audit reports” (OC)
- “Percent of Internal audit recommendations implemented within three years after the report has been issued” (OC)
- “Number of department audits” (OP)
- “Number of Performance Measures reviewed” (OP)
- “Internal Audits overall (internal) cost per audit hour” (E)
- “Percent satisfaction rating from customers indicating consulting services delivered by Internal Audit helped them do their job more effectively” (OC)
- “Cost per consulting engagements delivered (cost/output)” (E)
- “Percent satisfaction rating from customers indicating training (delivered by the audit office) helps them do their job more effectively” (OC)
- “Number of persons completing training courses provided by Internal Audit each year” (OP)
- “Cost per training participant” (E)
- “(Percent increase in) number of Internal Audit web-site visits” (OC)

City of Portland, Oregon

- “Full cost per audit hour” (E)
- “Administrative costs as a percent of total budget” (OP)
- “Percent of report recommendations implemented” (OC)

City of Toronto, Canada

- “Audit costs as a percent of Municipal Operating Budget” (OP)

Fairfax County, Virginia

- “Number of audits conducted” (OP)
- “Percent of recommendations accepted” (OP)
- “Audits completed per auditor” (E)
- “Recommendations per auditor” (E)
- “Percent of audits completed on time” (OC)

- “Percent of (customers surveyed responding that) audit recommendations (will provide) for ‘Increased efficiency/effectiveness’” (OC)
- “Percent of (customers surveyed responding that) audit recommendations (will provide) for ‘Strengthened management controls’” (OC)
- “Percent of agencies audited” (OP)
- “Percent of recommendations implemented” (OP)

City of San Jose, California

- “Percentage of audit recommendations adopted by the City Council” (OP)
- “Percent of audit recommendations implemented within one year of adoption” (OP)
- “Estimated ratio of audit benefit to audit cost” (E)
- “Ratio of actual benefit to estimated benefit” (OC)
- “Percent of approved workplan completed or substantially completed during the fiscal year” (OC)
- “Percent of approved workplan completed within 30 days of the projected completion date” (OC)
- “Percent of City Council members rating the reliability, timeliness and value of audit services good or excellent” (OC)
- “Percent of auditees rating the reliability, timeliness, and value of audit services good or excellent” (OC)
- “Percent of business and sales tax customers rating professionalism of audit services good to excellent” (OC)
- “Number of audit reports per auditor” (E)
- “Number of audit reports issued” (OP)
- “Estimated audit benefits –ie. cost savings and revenue enhancements” (OP)
- “Number of audit recommendations adopted” (OP)

City of Tampa, Florida

- “Percent increase in special audit requests” (OC)
- “Percent increase in mandatory and discretionary audits performed” (OC)
- “Number of post audit reviews conducted” (OP)
- “(Percent of post audit reviews conducted versus planned)” (OC)
- “Percent of total auditor hours conducting: audits/post audit reviews/special projects” (OP)
- “Percent of total auditor hours conducting: administrative/training/miscellaneous” (OP)
- “Percent of direct time (audits, post audit, special projects) to available time” (OP)

City of Austin, Texas

- “Cost per project completed” (E)
- “Council satisfaction with (audit) services” (OC)
- “Number of projects completed” (OP)
- “Percent of recommendations management agrees to implement” (OP)
- “Percent of tested recommendations for which status was certified as reported by management” (OC)
- “Percent of auditors that have satisfied GAS continuing education requirements” (OP)

LEVEL 4 EVALUATION – INTERNAL AUDIT PROGRAM

Performance Measures: Business Perspectives

The Level 4 evaluation examined performance measures as they relate to defined business perspectives. This ensures that there is a balanced approach in defining and utilizing performance measures to maintain high performance in several important focus areas.

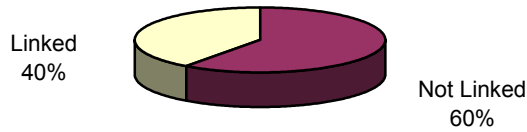
Evaluation Criteria

Business Perspectives	<ol style="list-style-type: none"> 1. Customer satisfaction perspective 2. Internal process efficiency perspective 3. Financial accountability perspective 4. Employee growth and learning perspective
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Performance Component

Performance Measures	<ol style="list-style-type: none"> 1. Administrative time for Audit Staff 2. Percent of budgeted hours per audit 3. Training per auditor (hrs) 4. Customer satisfaction level * 5. Audit reports issued <p>* Rating scale changed to 1-5</p>
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**Internal Audit
Performance Measures
Linkages to Business Perspectives**



Recommendations

- Review any changes to the department’s mission statement, the program’s “Definition of Programs and Services” and the program’s objectives. Incorporate the updates in these areas into developing performance measures from the four business perspectives. The program should strive to have at least one performance measure developed from each of the four business perspectives.

12

Finding and Observation	Recommendation
<p>The HOP Team identified performance measure #3 as being developed from an employee growth and learning business perspective, and #4 from the customer satisfaction business perspective. The team could not place performance measures #1, #2, or #5 into a HOP defined business perspective.</p> <p>The department does not have any performance measures developed from, or providing input from, an internal process efficiency or a financial accountability business perspective – although the intent of performance measures pertaining to auditor proficiencies is an attempt in this direction.</p>	<p>Review current performance measures and determine if the measure is intended to represent a HOP defined business perspective. Update those measures to ensure they can be categorized as belonging to a business perspective.</p> <p>Performance measures that cannot be categorized as belonging to a business perspective are candidates to be rewritten or possibly eliminated from the published performance program.</p> <p>Review the best practices examples in the level 3 evaluation for performance measures from the internal process efficiency or financial accountability business perspective.</p>

Resources

HOP Client Manual: Reference **Section IV. HOP Definitions and Concepts**, the performance measure definitions and examples (pages 20-22).

Best Practices Research: Refer to examples from the Level 3 Evaluation, beginning at page 21.

The following examples of performance measures are created from the four business perspectives. Corresponding objectives statements are also displayed. The examples were developed with input from best practices site.

Customer Satisfaction Perspective

- *Objective*: Be rated ‘good’ or ‘extremely good’ in overall service delivery by at least 80% of citizens surveyed in the biennial citywide phone survey.

- *Performance Measure:* Citizens responding that over-all service delivery is good or extremely good as reported in the biennial citywide phone survey.

Internal Process Efficiency Perspective

- *Objective:* Use technology to enhance service delivery, quality, timeliness, employee productivity and overall organizational effectiveness.
- *Performance Measure:* Number of transactions or activities performed on the department's web page per web page tech/maintenance staff.

Financial Accountability Perspective

- *Objective:* Meet expanding service demands through the optimization of revenue opportunities and by increasing the cost effectiveness of operations.
- *Performance Measure:* Circulation staff cost per Community Enrichment program participant.

Employee Growth and Learning Perspective

- *Objective:* Increase the technical capabilities of the reference staff to respond to increasingly diverse and varied citizen research requests.
- *Performance Measure:* Percentage of reference workforce that have attended Internet database train-the-trainer workshops.

PROJECT SUMMARY

The findings, observations and the recommendations contained in this report are developed from the series of four evaluation meetings held with the Internal Auditor Department.

The report's findings and recommendations follow the Harnessing Organizational Performance principles of:

- Concise, clear descriptions of mission statements, objectives and performance measures
- A clear linkage or coherence between the mission level topics, objectives and performance indicators
- A balanced representation of all "types" of performance measures (output, efficiency and outcome)
- A balanced focus to performance measurement across the HOP "business perspectives" (customer satisfaction, internal process efficiency, financial accountability and employee growth & learning)

The anticipated organizational benefits of successfully implementing the HOP recommendations are:

- Creating a vital few, meaningful performance measures

HARNESSING ORGANIZATIONAL PERFORMANCE

- Decreasing the time and energy spent collecting and reporting performance measures that lack meaning
- Focusing the organization on activities and initiatives that achieve the overall departmental mission
- Development of a uniform approach to measuring performance; creating linkages from performance measures to mission statements or objectives statements; utilizing different “types” of performance measures to provide balance across the four defined “business perspectives”.

Appendix A

Best Practices Reference Sites

- (1) **City of San Jose, California** – Office of City Auditor
Contact: Robin Klenke, Senior Program Performance Auditor, 408-277-8313; or
Email, robin.klenke@sanjoseca.gov

Page Benway, City Manager's Office, 408-277-5871

Web Address:

<http://www.sanjoseca.gov/budget0405/proposedoperating.html> (scroll to City Service Area, select Strategic Support CSA, pages 155-163 of the Acrobat reader)

<http://www.sanjoseca.gov/auditor/index.html> (City auditor's page for their annual workplan)

<http://www.ci.san-jose.ca.us/auditor/goals.htm>

- (2) **Maricopa County, Arizona** – Internal Audit Department

Contact: John Schulz, 602-506-1777

Web Address:

<http://www.maricopa.gov/cio/mfr/viewOnly.asp>

(Reference -> **Strategic Planning Results**->select **Internal Audit**, select **programs and activities** for performance elements, contact names are listed for the program/activity)

<http://www.maricopa.gov/budget>

(Reference -> select 2004-05 Annual Business Strategies Final Budget, go to Acrobat page 639-643 Internal Audit Department)

- (3) **Fairfax, Virginia** – Internal Audit Office

Contact: Theresa McGrady, Audit Manager, 703-324-4031 (not contacted)
John Fout, Deputy Director, 703-324-4211 (not contacted)

Web Address:

www.co.fairfax.va.us/gov/omb/pdf/volume1/00102.pdf (Scroll to the Office of Internal Auditor)

<http://www.co.fairfax.va.us/gov/audit/> (Internal Auditor website)

- (4) **Austin, Texas** – Office of the City Auditor
Contact: Joan Ewell, 512-974-2063;

Activity Level contact names and telephone numbers are listed within the links supplied. Access the desired Program using the links supplied, and then click on the Activity Level for the Contact Person and Activity level Performance detail.

Web Address:

<http://www.ci.austin.tx.us/budget/eperf> (scroll to **Performance Measures by Department**, select **Office of City Auditor**, select **Programs and Activities** of interest)

<http://www.ci.austin.tx.us/auditor/>

- (5) **City of Glendale, California** – City Auditor’s Office
Contact: Candace MacLeod, City Auditor, 623-930-2103 (not contacted);
Sandy Chockey, Assistant City Auditor, 623-930-2213 (not contacted)

Web Address:

www.ci.glendale.az.us/budget/0405Budgetbook.cfm (page 103-105)

<http://www.ci.glendale.az.us/Auditor/AboutUs.cfm> (Internal Auditor website)

- (6) **City of Toronto, Ontario Canada** – Auditor General’s Office
Contact: Jeff Griffiths, Auditor General, 416-392-8461

Web Address:

www.city.toronto.on.ca/finance/pdf/budget_2003.pdf (go to page 176-78 of the Budget to find performance elements for Internal Audit)

- (7) **City of Portland, Oregon** – Audit Services Division
Contact: Department telephone, 503-823-4005

Web Address:

<http://www.portlandonline.com/shared/cfm/image.cfm?id=44995>
(Go to Office of City Auditor; from the Acrobat Index – page 20), or

www.portlandonline.com

(Reference / select: --> Government -> Budget -> Adopted Budget 2004-2005 -> select department, go to performance measures section, starts at page 539 of the Budget Book, performance measure graphs are on page 552)

- (8) **Jackson County, Oregon** – Internal Audit Department
Contact: Debbie Taylor, County Auditor, 541-774-6021

Web Address:

<http://www.co.jackson.or.us/files/cao0405.pdf> or
<http://www.co.jackson.or.us/Page.asp?NavID=1286>

(Scroll to County Administration heading, click, and go to page 18-19 of the Acrobat index)

- (9) **City of Nashville, Tennessee** – Office of Internal Audit
Contact: Don Dodson, Assistant Audit Manager, 615-862-6111
Kim McDoniel, Audit Manager, 615-862-6114

Web Address:

www.nashville.gov/finance/Internal_Audit/InternalAudit_home.htm

- (10) **City of Tampa, Florida** – Internal Audit Department
Contact: Wayne Boytim, Acting Internal Audit Director, 813- 274-7167

Web Address:

http://www.tampagov.net/dept_budget/FY2005_budget/index.asp (go to Internal Audit department summary), or

www.tampagov.net/dept_internal_audit/files/manual/yearendreport.pdf , or

www.tampagov.net/dept_internal_audit/general_information/index.asp

- (11) **National Association of Local Government Auditors'** Report on Benchmarking and Best Practices Survey
Contact: No contact identified

Web Address:

www.nalga.org/reports/benchmark.html (Scroll to Read Report, select “read the report”)