

**An Agency Guide to  
Hosting a Performance Audit:**

***Helpful Tips and Best Practices***



**STERLING  
ASSOCIATES, LLP**

# What is a Performance Audit?

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- A tool that many public and private entities have come to use to make their work more efficient, effective and economical.
- Performance audits have a broader focus on the organization's effectiveness and efficiency than more traditional financial audits.

*2.09 Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or crosscutting issues. Performance audits provide information to improve program operations and facilitate decision making by parties with responsibility to oversee or initiate corrective action, and improve public accountability. <sup>[1]</sup>*

<sup>[1]</sup> Government Auditing Standards, United States Government Accountability Office, 2003.



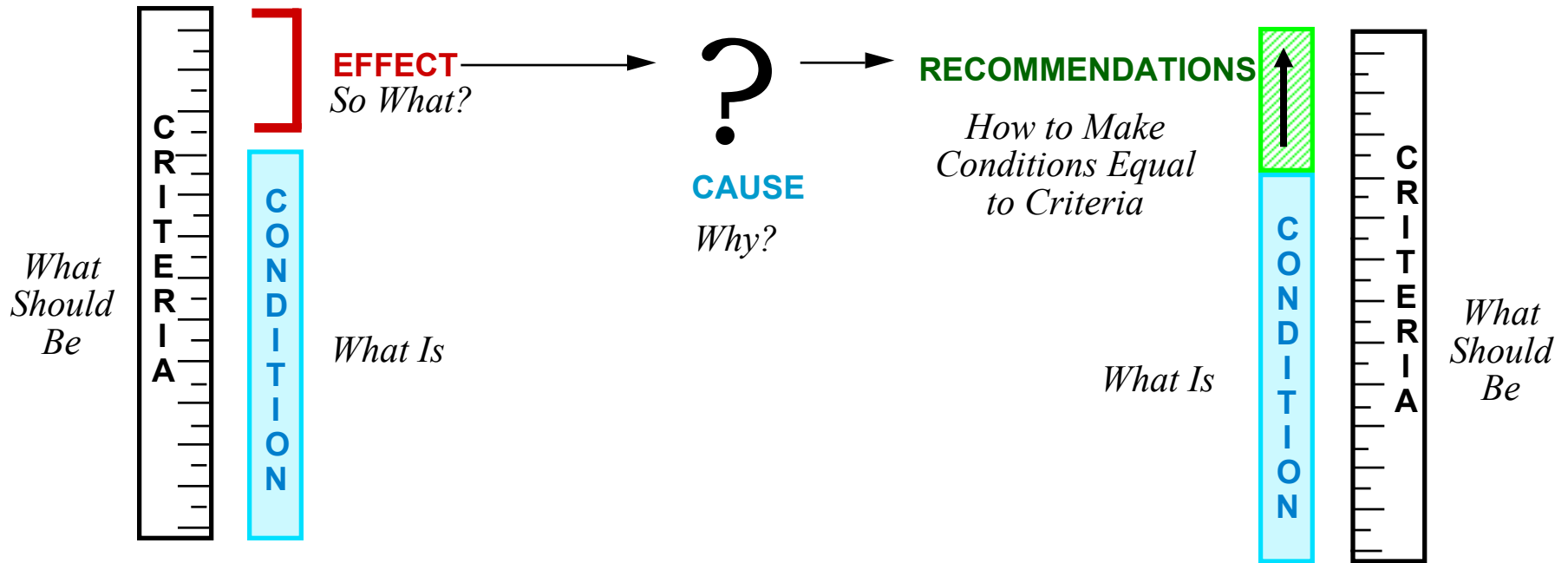
## What Challenges are Agencies Facing Regarding Performance Audits?

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- Performance audits are new to many agencies.
- Performance audits are layered on top of other performance and management improvement activities.
- Funding for agencies to prepare for the audits or respond to recommendations was not provided.
- The processes and protocols for conducting audits under I-900 are still developing, impacting agencies' ability to prepare and respond appropriately to the first series of audits.
- Limitations in data access capabilities in current information systems may result in time consuming response processes.
- Limited staff resources are available to analyze and interpret available data.



# Components of a Performance Audit



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# Performance Audit Evidence



		Tangible	Intangible
Efficiency Measures	Process ("How") ("When") ("Who") ("How Much")	<ul style="list-style-type: none"> <li>• Organizational charts</li> <li>• Policies and Procedures</li> <li>• Process flows</li> <li>• Productivity indicators /activity costs</li> <li>• Benchmark data</li> </ul>	<ul style="list-style-type: none"> <li>• Testimonials</li> <li>• Anecdotes</li> <li>• Observation</li> <li>• Constituent commentary</li> </ul>
Effectiveness Measures	Outcomes ("What")	<ul style="list-style-type: none"> <li>• Program performance data</li> <li>• Cost per outcome</li> <li>• Statistical reports</li> <li>• Customer service level reports</li> <li>• Comparative analyses</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder perceptions</li> <li>• Customer / Client satisfaction and acceptance</li> <li>• Client commentary</li> </ul>



# What is a Typical Audit Process?

## The Audit Process

### Pre-Audit Planning Phase

- Pre-audit survey
- Review background
- Develop scope and objectives
- Develop criteria
- Develop audit plan

### Audit Analysis Phase

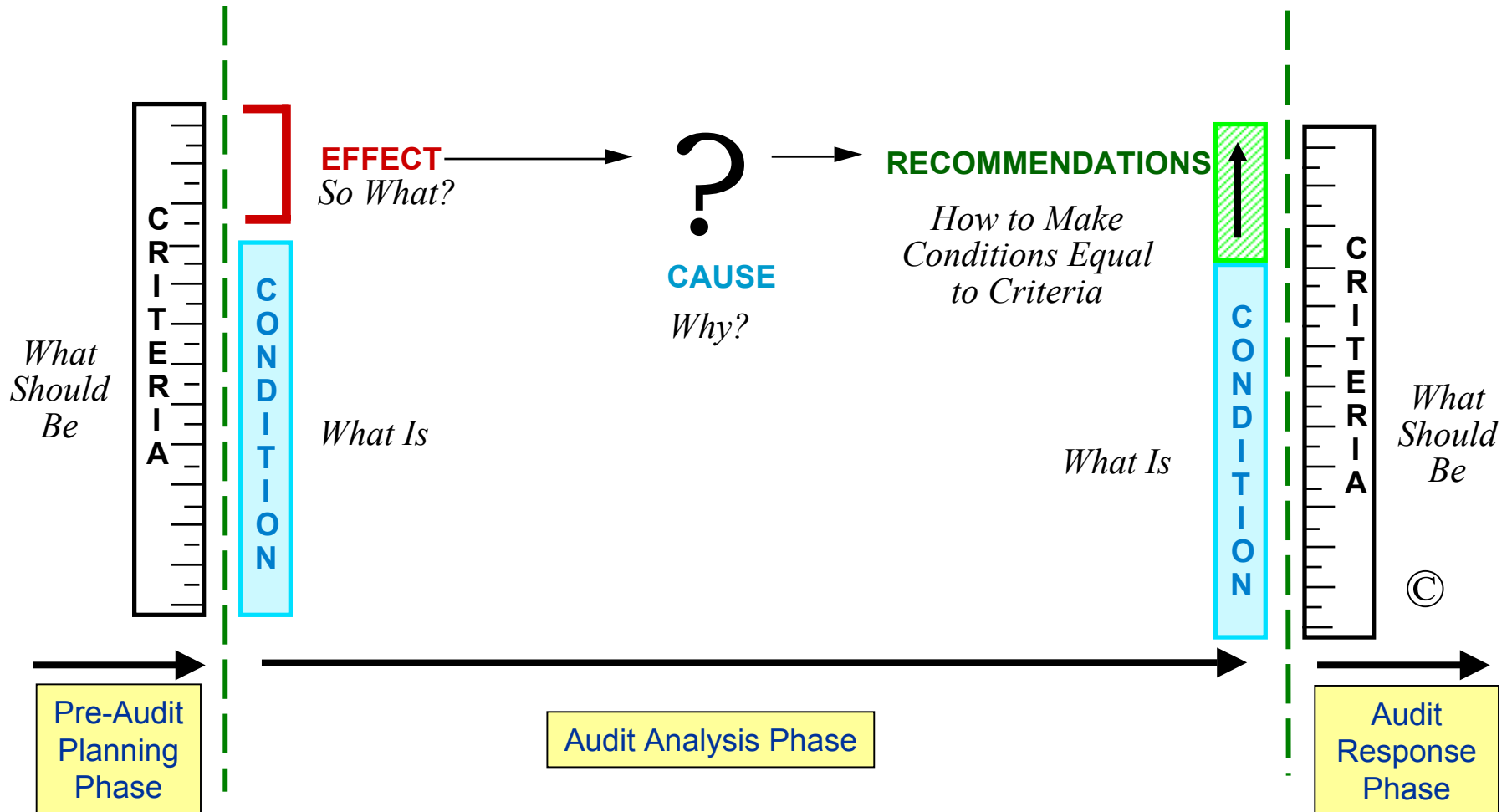
- Engagement Letter
- Gather data
- Conduct Fieldwork
- Analyze Data
- Validate evidence
- Determine materiality
- Prepare preliminary report

### Audit Response Phase

- Review preliminary report
- Prepare response to auditor
- Legislative review as applicable
- Complete Report



# Phases of a Performance Audit



# The Pre-Audit Planning Phase

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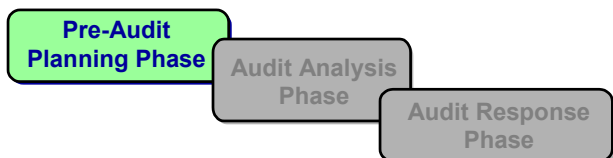




# What Risks are Associated with the Pre-Audit Planning Phase?

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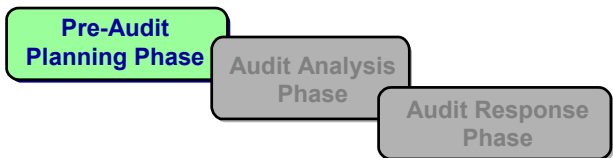
- Scope and objectives are vague.
- Audit criteria are not clearly defined or appropriate.
- The audit plan is not clear.
- Roles and responsibilities are not understood.
- An issue management process is not agreed upon.



# Tips for the Pre-Audit Planning Phase

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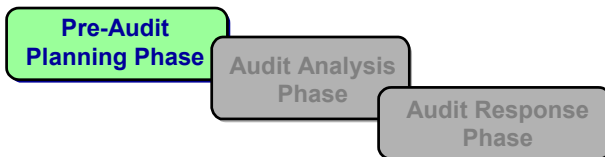
- ✓ Establish Audit Response Plan
- ✓ Name an audit liaison
- ✓ Organize an audit response team
- ✓ Begin to document data location and availability
- ✓ Assign staff to data needs and data tracking
- ✓ Develop a resource monitoring process
- ✓ Develop an internal and external communication strategy



## Tips for the Pre-Audit Planning Phase (Continued)

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- ✓ Understand the audit schedule, opportunities for input and technical review, and when information will become public
- ✓ Prepare background information for the auditor
- ✓ Review the Auditor's audit plan
- ✓ Agree on an issue management and escalation process
- ✓ Ensure that the respective roles and responsibilities of the state audit staff and any contracted consultants are clearly understood
- ✓ Agree on a confidentiality data management plan, if necessary



# The Audit Analysis Phase

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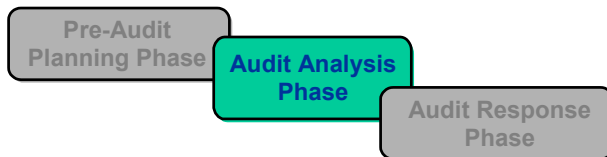
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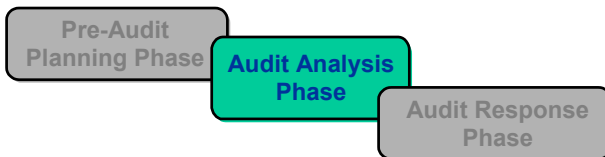
- Requested data is not readily available.
- Confidential data is not adequately protected.
- Field work imposes unrealistic demands on the agency.
- Audit staff or contractors do not have the required expertise.
- Supplied data is not complete, consistent, relevant and reliable.
- The auditor relies too heavily on intangible “perceptions” without corroborating evidence.
- Supplied data is misinterpreted.
- The audit analysis is not free of bias.
- The audit findings are not material.



# Tips for the Audit Analysis Phase

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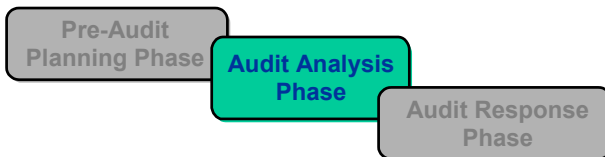
- ✓ Review the engagement letter and respond with questions as necessary
- ✓ Participate in the entrance conference including agency staff responsible for responding to the audit requests
- ✓ Implement controls established in the previous phase
- ✓ Notify all staff that the audit is underway and communicate internal protocols
- ✓ If contracted consultants are involved in the audit, clearly communicate to agency managers and staff that a mix of state auditors and private consultants will perform the audit



## Tips for the Audit Analysis Phase (Continued)

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- ✓ Identify staff most knowledgeable about agency data
- ✓ Clarify all data requests (data required, timelines, data period, etc.) and document the agreements
- ✓ Respond to data requests in a timely fashion
- ✓ Ensure that all data provided is accurate, reliable and complete, and includes data definitions, protocols, etc.
- ✓ If issues arise with the private consultants involved in the audit, address these through the issue management process
- ✓ Ask for opportunities to conduct “technical review” of auditor work and analysis where appropriate



# The Audit Response Phase

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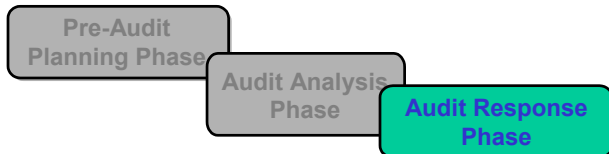




# What Risks are Inherent in the Audit Response Phase?

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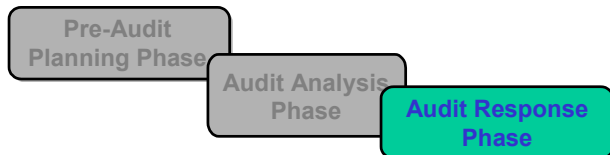
- Strong disagreement over findings and conclusions.
- Audit recommendations are not feasible.
- Negative public relations.



# Tips for the Audit Response Phase

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- ✓ Review draft audit report for accuracy and completeness
- ✓ Ask clarifying questions of the auditor as soon as possible after receipt of the report
- ✓ Provide additional clarifying information to the auditor
- ✓ Begin work immediately on agreed upon audit recommendations, and share progress in the agency's response
- ✓ Develop one, centrally managed response
- ✓ Consult with the Governor's Office and OFM where necessary
- ✓ Keep the tone of the response positive and constructive



# Questions?

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