



Snohomish County

Auditor's Office

Performance Audit Division

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To: Performance Audit Committee
From: Martin T. Standel
Subject: Performance Measures

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The Performance Auditor's Role: The Performance Audit Division's involvement in the County's effort in developing and implementing countywide performance measures is limited to comparing actual results to existing criteria, its accuracy, and to document how county management uses performance information in managing its operations. The following is a very brief summary of the overall objective of the performance auditor.

The Performance Audit Division's audit responsibilities' dealing with performance measures involves two issues. Issue (1) is to determine if the reported performance information is accurate and part of a reliable system. Issue (2) is to review and report how the Department uses its performance measurement information in managing its functions.

Issue 1: When a County Department or function is selected for a performance audit, an audit program is developed to guide the performance auditor in assessing the reliability, accuracy, and documentation of the department's performance measures. The auditor tests the data. This allows the auditor to state whether or not the department's data and performance measures are reliable.

Issue 2: The Performance Audit Division's objective is to review and document how the Department uses its performance measures and specific measurement data within its operations. The Performance Audit Division documents its assessment.

The attached paper outlines the performance auditor's role in detail.

Performance auditing unlike standard financial auditing, can cover a wide variety of audit projects. Resulting from the potential diversity that performance audits provide there has been some concern that performance auditing has not been precisely defined. The GAO in their 1994 revision to Government Auditing Standards addressed this concern. These updated standards, issued by the Comptroller General of the United States, contains standards for audits, including performance



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audits, along with standards for government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernmental organizations. Performance audits include reviews of program economy and efficiency.

The GAO's "Yellow Book" defines performance auditing as follows:

- Economy and efficiency audits include determining (1) whether the entity is acquiring, protecting and using its resources (such as personnel, property, and space) economically and efficiently, (2) the causes of inefficiencies or uneconomical practices, and (3) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.
- Program audits include determining (1) the extent to which the desired results or benefits established by the legislature or other authorizing body is being achieved, (2) the effectiveness of organizations, programs, activities, or functions, and (3) whether the entity has complied with laws and regulations applicable to the program.

The above definition was further expanded by Government Auditing Standards stating that a performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

Following the GAO lead, other professional organizations have developed their own definitions for performance auditing. The other premier professional auditing organization, IIA (The Institute of Internal Auditors) through its Standards for the Professional Practice of Internal Auditing, defined performance auditing in its own terms, and stated that the definition included in Government Auditing Standards appears to be the most comprehensive of all definitions.

Performance measurements: The assessment of a governmental entity's performance requires more than information about the acquisition and use of resources. It also needs information about the outputs and outcomes of the services provided and the relationship between the use of resources and those outputs and outcomes. Employing a variety of measures of inputs, outputs and outcomes, which relate efforts to accomplishments, and additional explanatory material, will assist County citizens, electeds, and department heads in assessing their governmental performance more fully.

Performance measurement reporting is tied directly to the concept of managing for results. Performance information is needed for:

- Setting goals and objectives



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- Planning program activities to accomplish these goals and objectives
- Allocating resources to programs
- Monitoring and evaluating results to determine if progress is being made toward achieving the goals and objectives, and
- Modifying program plans to enhance performance.

Performance measures organize information for use by the decision-makers engaged in those activities. Through the measurement, analysis, and evaluation of performance data, county officials can identify ways to maintain or improve the efficiency and effectiveness of activities and provide the citizens with objective information on their results.

If you have any questions or need additional information, please contact the Performance Audit Division at ext. 3006.

Performance Measures

FCS05-0001-2002



Snohomish County
Performance Audit Division

White Paper

PERFORMANCE MEASURES

Issued to:
Performance Audit Committee

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Performance Audit Division



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SNOHOMISH COUNTY 2002 COUNTYWIDE GOAL DEVELOPMENT

Countywide goals (as outlined by the County Executive) will tie together related efforts in various departments. They should serve as global “connectors” that help staff, departments and managers align departmental goals (and performance measures), budget requests and uses of resources.

Below are several possible areas in which we might be interested in developing countywide goals:

Improving quality of life in urban growth areas through improved planning, services and infrastructure. Planning, Public Works Roads and Surface Water Management, Parks, and support areas such as GIS in the Department of Information Services are heavily focused on this venue.

Improving the quality and value of County law and justice services. Several major initiatives are currently underway within departments that provide law and justice services.

Campus redevelopment. This effort will require cooperation and innovation from every department over the next few years. It is an opportunity for every department to revitalize how it does business.

Funding County Services. We could establish a goal to increase revenue from available and new sources while identifying opportunities to stretch dollars further or to cut costs when possible.

Quality of Service to our Constituents. Efforts could focus on enhancing service at no additional cost, addressing waiting periods for services and improving the accuracy of service delivery in an area of perceived need.

Criteria used to select countywide goals should:

- Focus department energies on results-oriented efforts in areas of perceived citizen need.
- Support coordination and alignment within and between departments.



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- Be supported by measurable departmental objectives that eventually will be submitted as a part of your 2002 budget proposals.
- Not ignore the fact that County financial resources are tight.

The countywide goals should include measurable targets. Department objectives that support a countywide goal will have related measurable targets. To illustrate, a “funding county services goal” might target a combined increased revenue/decreased cost impact of two percent of annual General Fund budget. In support of that goal, a Finance objective might target increasing county sales tax revenue by one percent as a result of sales tax auditing.

THE PERFORMANCE AUDIT DIVISION ROLE

The Performance Audit Division’s involvement in the County’s effort to develop and implement countywide performance measures is limited to comparing actual results to existing criteria, its accuracy and document how county management uses performance information in managing their operations. The Performance Audit Division assess the accuracy of reported performance measures so the County Executive and County Council can determine to what extent they can rely on them when making decisions or evaluating County operations by Department. In addition, it is the role of the Performance Audit Division to verify that the performance measures which are part of the County’s management systems have adequate internal controls.

Generally, the better the process of collection and analysis of performance measure data, the better the likelihood that reported measures will be accurate over time. Additionally, the Performance Audit Division help management in their efforts in adjusting current operations to better achieve desired results through the reporting process.

Performance Audit – Selection Criteria

The Performance Audit Division’s primary objective in selecting a County Department or function for a performance audit is to use a systematic unbiased methodology. In this regard, we use a risk assessment approach as the initial selection criteria. In addition to this process, we consider requests from the Executive, County Council, citizens or departments.



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Areas or conditions that are considered in the risk assessment process are (note these items are evolving and can change to reflect areas of highest concern by management):

- Significant change in organizational structure or change of FTE's.
- Departments budget.
- Pattern of actual performance measures being less than established criteria.
- Time since last performance audit or previously identified internal control weaknesses.
- Capital expenditure budget.
- Significant change in overtime levels.
- Specific concerns by Executive/Council.
- Level of outside grants or pass through.

Performance Audit Measurement Issues

The Performance Audit Division's audit responsibilities in dealing with performance measures deal with two basic measurement issues. Issue (1) is to determine if the reported performance information is accurate and part of a reliable system. Issue (2), to review and report how the Department uses its performance measurement information in managing its functions.

When a County Department or function has been selected for a performance audit, the Performance Audit Division begins with a pre audit evaluation in order to develop a specific audit program. The audit program will consider or identify the following.

- A. Accuracy.
- B. Support Records and Documentation.
- C. Process Used In Developing & Collecting Performance Measurement Data.
- D. Did Department use its own performance measures definitions.
- E. How is Departments data stored (manual or in automated systems).
- F. Review controls, to ensure consistent, accurate information and reports.
- G. Identify areas to be tested using statistical sampling methods.
- H. Select sampling approach.
- I. Test Departments source documentation for accuracy.
- J. Determine if individual performance measures are adequate (certified) or not adequate.



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ISSUE 1

A. Accuracy (Which Performance Measures Are Selected):

The Performance Audit Division will primarily select key measures as identified by the Department. Any non-key measures will be reviewed and if appropriate, the audit will include a combination of both. If the Department identifies specific measures that they feel are important those measures will be considered in the selection process. Finally, if County management has identified specific measures, the Performance Audit Division will also consider them during the selection process.

Most performance measures are chosen because of their characteristics. These generally include one or more of the following:

- Relates specifically to the Department's mission.
- Relates to revenue or expenditures and their strategies.
- Relates to significant activities of the Department in meeting expected results.
- Relates to Executive/Council concerns or countywide goals/objectives.
- Relates to programs or functions with inadequate documented policies and/or procedures.
- Relates to programs or functions not meeting, as reported, performance measures.

B. Support Records And Documentation:

The Performance Audit Division's objective is to ensure that the Department can document summary data, which supports the performance measures and how they were developed. The Department's summary documentation should show the final calculations supporting the performance data or measures being used. Examples of documentation can be as follows:

- Current computer printouts.
- Archived computer printouts produced at the reporting date.
- Quarterly summary calculation documentation.
- Spreadsheets, and manual calculation sheets.

If the Department has updated performance information, their documentation should be available for originally reported and updated information. One standard audit step is to test the performance measurement data. The auditor wants to have the ability to recompute the data with a variance of plus or minus 5 percent. Data outside this range would be considered inaccurate and thus unacceptable.



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C. Process Used In Developing & Collecting Performance Measurement Data:

The Performance Audit Division's objective is to determine if the methodology used by the Department is consistent with the related performance measurement definition. When the data collection methodology is not part of the definition, the Performance Audit Division will seek documentation that supports the collection and calculation process and document findings.

The Performance Audit Division's primary responsibilities are to determine the following: (All steps performed in the collection and calculation of the performance measures data should be clearly documented by the persons responsible for collecting and calculating the data).

- Documentation of the process of collecting data by the Department for the development and reporting of performance measures.
- Documentation of the process from its beginning to final acceptance by County Management.
- Document how, and where relevant data is stored and maintained.
- Document and identify who within the Department uses the data.

D. Did Department Use Its Own Performance Measures Definitions:

The Performance Audit Division's objective is to determine if the Department used the performance measure definition in the calculation of measurement data. If the Department did not use their performance measure definition, reasons for any exceptions to be documented.

If the Department results differ from the defined measure, the Performance Audit Division will document the following:

- If the Department differs from reported performance measures by 5 percent and the Department had correctly calculated performance measure data and finally, if there were no other differences noted, the measure will be considered adequate (certified with qualification).
- If the Performance Audit Division cannot determine what the correct performance measure results should be, we will document that finding and indicate that area is inadequate (data can not be certificated).

E. How Is Departments Data Stored (Manual Or In Automated Systems):

The Performance Audit Division use the following definitions:



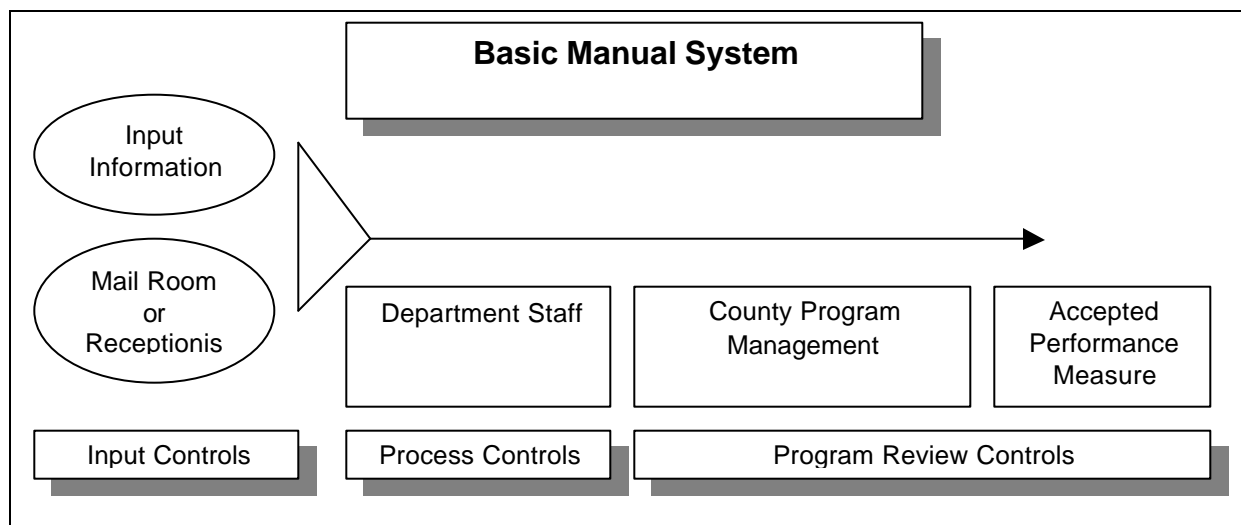
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- Manual System - Uses paper files and/or microfilm files. If a computer is used in this system, it is mainly to count or keep track of the records, not to maintain detailed information.
- Automated System - One in which the computer is:
 - The major source of information.
 - The most feasible way to count and store records.
 - The way most calculations are made.

F. Review Controls, To Ensure Consistent, Accurate Information And Reports: Manual System:

The Performance Audit Division's objective is to determine and document if necessary controls exist. To determine if controls exist through out the entire system our review will cover controls over data from the initial point which performance measurement information is collected/recorded through the final accepted performance measurement by County management. The diagram below identifies the major areas (input, process, and review), which the Performance Audit Division examines to ensure that some type of control structure exists in a manual system.

The controls and their labeling used are similar to those being used by others in their performance measurement systems. While this is a basic representation, each Department's performance measurement system will be unique and can require greater, fewer, or different controls than are shown.





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Input Controls:

- Written procedures and guidelines should exist for the point where performance information is first recorded (applications, forms, and telephone complaints). Staff should be trained to follow procedures to ensure a uniform understanding of what information is needed and how collected.
- Information should be logged to ensure proper recoding (date stamped) when received.
- Department management should review process to ensure compliance by staff
- If data is from third-party, document if proper third-party controls are established if possible.
- If third party has no controls, the Department should document to assure that the information received from the third-party is accurate.

Process Controls:

- Staff that is responsible for computing performance data should document process including data sources. Staff should stay current and update computation/source documentation as needed.
- Written procedures for the collection and computation should be developed and maintained.
- Management should train and check to ensure that staff follows proper procedures.

Program Review Controls:

- A review of the performance measurements, its computation documentation should occur before performance measures are accepted and reported.
- Department management responsible for their performance measurement data should review information prior to submitting to County management to ensure submission is completed.
- Periodically, the Department should review information submitted by third parties to ensure accuracy and proper documentation.

Automated System: An automated system is one in which the computer is the major source of information and is also the major source of calculations. The Performance Audit Division objective is to determine if reported performance measures information is maintained on an automated system and their source documents are available for review.

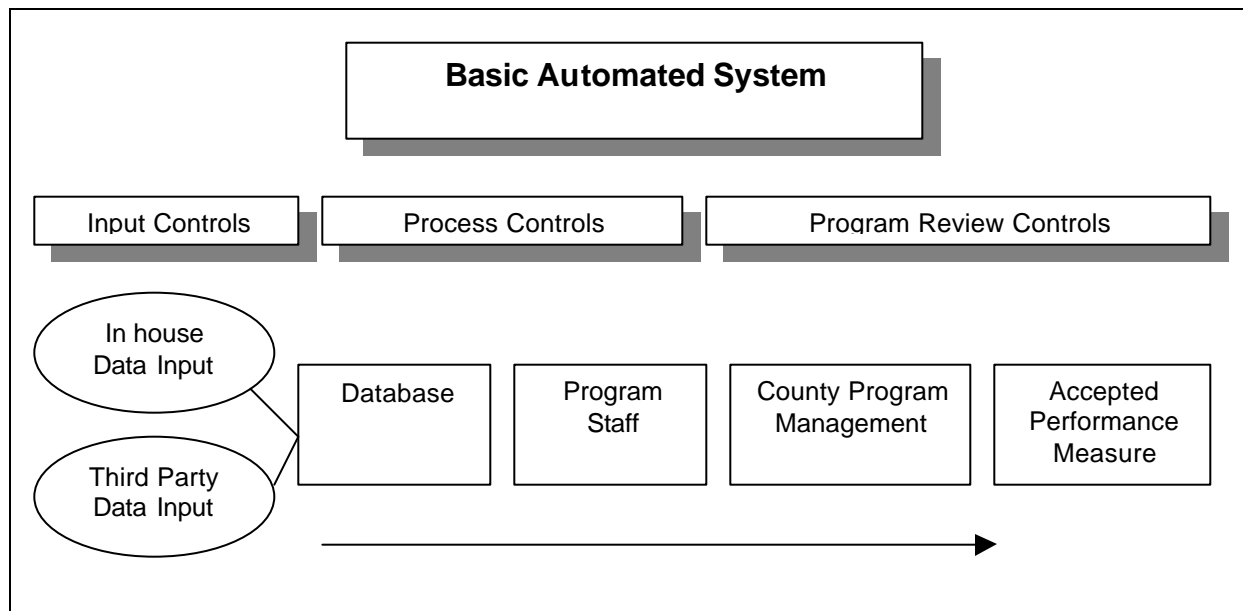
Our review will cover controls over data from the initial point which performance measurement information is collected/recorded through the final accepted



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performance measurement by County management. The diagram below identifies the major areas (input, process, and review), which the Performance Audit Division examines to ensure that some type of control structure exists.

We will examine the major areas listed below to ensure that an adequate internal control structure exists for each measure. The controls and their labeling used are similar to those being used by others in their performance measurement systems. While this is a basic representation, each Department's performance measurement system will be unique and can require greater, fewer, or different controls than are shown.



Input Controls:

- Written procedures for data entry process should be documented. Staff should be trained to follow procedures to ensure a uniform understanding of what information is needed and how to enter data into system.
- Data entered should be review by Department management to ensure accuracy and compliance with policy and procedures.
- If third-party data is used, Department management needs to document controls used.
- If third party has no controls, the Department should document to assure that the information received from the third-party is accurate.

Process Controls: Process controls cover both the Database and Program Staff, controls for each are:



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Database controls should contain elements of both input and process control structures. The input control should surround the database is as follows:

- Department systems management should review on a periodically basis information coming into the database from the in house sources, third-party providers, and on-site data entry personnel for accuracy.
- The computer program used to calculate any portion of the performance data should be reviewed to ensure it is capturing the correct information.
- The database should have all of the basic computer controls such as edit checks, logic checks, edit totals, and access controls.

Program staff is responsible for collecting and calculating the performance measure information. The following controls apply to program staff members:

- Staff members (or program management depending on organization) should be communicating with the in house, third party providers, and on-site data entry personnel to express the importance of receiving accurate data and to inform the personnel of how the data is used.
- The personnel should understand the origin of the information and stay current with any changes in the form of the information.
- The database should have all of the basic computer controls such as edit checks, logic checks, edit totals, and access controls.

Program Review Controls:

Program management supervises the program staff. The managers should communicate results to executive management and end users. Communication with executive management helps ensure that information executive management wants measured is being measured or is capable of being measured. Program managers should:

- Review calculation of the performance data to ensure that the calculation is consistent with the measure definition and to check for mathematical errors.
- These measures are the items selected by County management and are used by County management in making decisions concerning the organization.
- County management as one aspect of their control process should use the Performance Audit Division review of the Departments performance measures information.
- Anyone who is not directly involved with the production of the measure is considered an end user.
- County management's role in performance measurement controls is to ensure that the Departments have an adequate and functional control structure.



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G. Identify Areas To Be Tested Using Statistical Sampling Methods:

The Performance Audit Division will review the various performance measures and select a sample to be tested for the period under review. A database should be capable of producing a list of all items counted for a particular measure for the current or a previous reporting period. If these items are numerous, the Department could be asked to help produce a random subset of the records from which the auditor can choose a sample.

H. Select Sampling Approach:

In general, when auditors use statistical sampling to test and validate data, we use a margin of error of plus or minus 5 percent (confidence interval). In most cases the auditor will use a confidence level of 95 percent.

Based on these confidence interval and level, experience has shown if the controls over the accuracy of the measure are well developed and implemented, the sample size of 29 would be required. If the controls were not well developed to obtain the same confidence interval and level would require a sample size of 61.

Using statistics, if a sample size of 29 is selected and one error is identified, the sample has to be expanded to 61. Using a sample of 61 would validate the findings as long as there are two or fewer errors found within the sample. If using a sample size of 61 and three or more errors are noted the tested data would be considered statistically inaccurate.

I. Test Departments Source Documentation For Accuracy:

The Performance Audit Division's objective is to assure adequate source documentation exists and is available for testing. In general, adequate source documentation would consist of the following:

- Documentation that supports the performance measure data approved by County management.
- There is adequate documentation that supports the measured activity exists and occurred.

If documentation is not located at the Department such as third party, we will review the data at the third party location or have the information shipped, or faxed. It is possible we will need to view documents that the Department considers confidential. Per standard auditing guidelines, the data will remain confidential. If documentation is not available, controls will be tested using current data. Unavailable source



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documentation may mean the system tracking the performance measure does not start from documents or produce source documents. It does not mean that the documents were available and destroyed.

When controls are tested using current data, the current fiscal year's data will be used to ensure that the controls work properly. If the results of the current year's test are accurate, and if controls have not changed from year to year, we would have sufficient confidence the information was accurate.

J. Determine If Individual Performance Measures Are Adequate (Certified) Or Not Adequate:

It is the objective of the Performance Audit Division to validate the various performance measures and to designate those measures as adequate (certified, certified with qualification), or inadequate (factors prevented certification, inaccurate, or not applicable).

These standard auditing categories (findings) are based on a combination of our reviews for internal controls, our sample testing and interviews with Department personnel.

- **Certified:** A performance measure receives this designation if reported performance is accurate within plus or minus 5 percent and that controls to ensure accuracy are in place for collecting and reporting performance data.
- **Certified With Qualification:** The performance measure appears to be accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. If internal controls appear to be strong, but source documentation is not complete.
- **Factors Prevented Certification:** If documentation and internal controls appear to be unavailable or if the auditor cannot verify or had to re-compute the performance measure result.
- **Inaccurate:** If after review and testing, the inaccuracies of the performance measures are greater than 5 percent; or, if there are no documented controls, and/or policies/procedures to measure against.
- **Not Applicable:** If the performance measure is if it is new, rarely used or not yet available for reporting.



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ISSUE 2

Review How Department's Management Uses The Performance Measures

The Performance Audit Division's objective is to review and document how the Department uses its performance measures and specific measurement data within its operations. It is understood various organizations will use this data in different ways. Performance measures can be good tools in helping the Department manage programs and services in achieving goals and projected results. The Performance Audit Division will document how management uses measures, from perspectives such as these:

- How has the Department modified their operations to identify, monitor and report the performance measures to County management?
- How are performance measures or their results use by Department management in their decision making process?
- Does timing of information impact results of certain measures and their use by Department management?