



Office of  
Financial Management  
STATE OF WASHINGTON

# Budget Activity Assessment

Washington State Auditor's Office

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## Executive Summary

- With two possible exceptions, the current performance measures in the Performance Measure Tracking System (PMT) should be replaced with outcome/result measures that are more relevant to a budget/policy development audience. In particular, survey results and the cost of performing the audits in relation to the size of the audited entity, are better as internal performance management perspectives. This assessment offers suggestions about the types of measurement topics that would tell a more complete and compelling performance story.
- Performance measures need data for an audience to judge whether performance is getting better, worse, or staying the same. Of the performance measures with data, none have more than one data point. With the current annual reporting cycle, these measures will not reveal much about agency performance for 5 to 7 years.

# Budget Activity Measure Qualitative Evaluation Summary

Budget Activity Number & Title	Evaluation Criteria						
	Relevance	Understandability	Comparability	Timeliness	Consistency	Reliability	Performance
A001 – Administrative Activity							
A002 – Audit of School Programs							
A003 – Audits of Local Government							
A004 – Audits of State Government							
A005 – Investigating Improper Governmental Actions							
A006 – Local Government Budgeting, Accounting, and Reporting System and Statistics							
A007 – Performance Audits							

**Meets or Exceeds OFM Expectations**

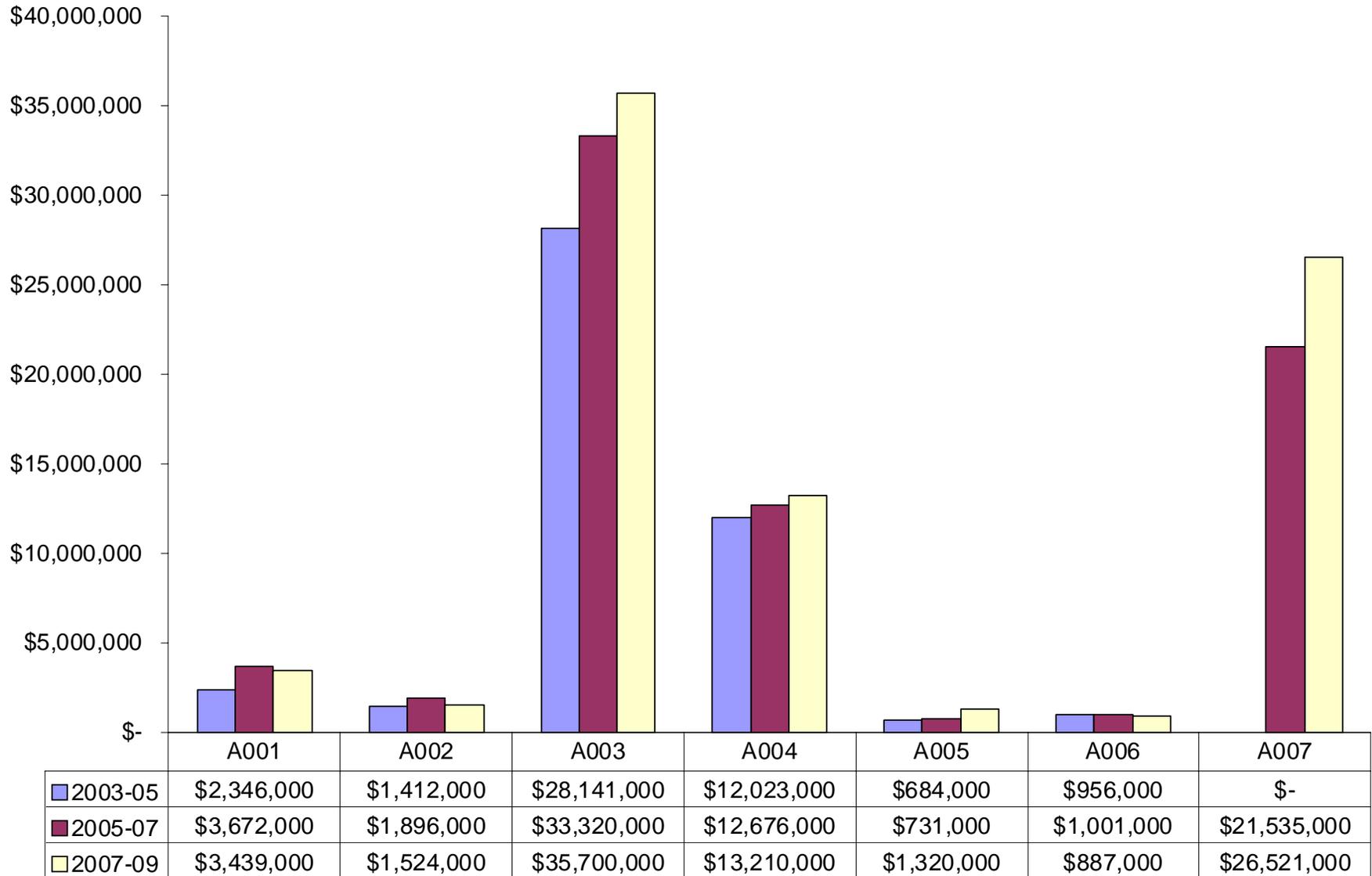
**Marginally meets OFM Expectations**

**Needs Improvement to Meet OFM Expectations**

Evaluation Criteria Definitions	
Relevance	Useful to a budget/policy development audience in assessing the level of accomplishment
Understandability	Clear, concise, and easy for a non-expert to understand
Comparability	Do the data, targets, and footnotes provide the reader with enough context to tell whether performance is getting better, worse, or staying the same?
Timeliness	Is the data current and reported frequently enough to be of value in assessing accountability and making decisions?
Consistency	Is the data collection method standardized and is the operational definition for data calculations adhered to?
Reliability	Is the information verifiable, free from bias, and a faithful representation of what it purports to represent?
Performance	Is actual performance in reference to the stated targets getting better, worse, or staying the same over time?

# Budget History Overview

Office of the State Auditor Allocations by Budget Activity  
2003-05 to 2007-09



## Agency Comments and Reactions

We appreciate this budget activity assessment. It is timely for us to consider the recommendations in this independent review, as the State Auditor recently announced a reorganization that establishes as a priority strategic planning and performance management.

The Office's strategic plan needs to be comprehensively updated using best practices. The strategic plan will include operations plans for each key activity along with a set of relevant performance measures that will be used to communicate with citizens and other external users as well as key indicators that are needed for internal management purposes. The State Auditor has established the expectation that Malcolm Baldrige's criteria for performance excellence be used for our strategic planning and management activities. Our executive team will schedule regular internal management reviews to track performance, troubleshoot problems and opportunities for improvement, and to recognize accomplishments.

The State Auditor has established a director level position to accomplish these important leadership/management responsibilities—a Director of Strategic Planning and Performance Management.

This Director is also responsible for ensuring the State Auditor's information included in the state's Performance Measure Tracking System reflects relevant and reliable information supporting budget and policy making needs.

Several of the activity assessments suggest the State Auditor's Office should not use client and user satisfaction ratings as a budget outcome measure. While satisfaction ratings are an important value of SAO's leadership, we will track these measures for internal management purposes only.

The target for completing the new strategic plan is August 31, 2009.

## Specific Opportunities for Improvement

Budget Activity Number and Title	Measures	Improvement Suggestions
A001 – Administrative Activity	9510 – Percentage decrease in annual dollar amount of indemnities paid for tort claims	<ul style="list-style-type: none"> <li>• Consider changing the measure to the amount of tort claims paid per year – The increase or decrease will be evident in the data – Use the current target (-5% per year) as the basis for the target of the new measure.</li> <li>• Add current data and backload as much as possible from previous biennia into the Performance Measure Tracking System (PMT).</li> </ul>
A002 – Audit of School Programs	7100 – Percentage of customers generally and very satisfied with the results of our K-12 audit work	<ul style="list-style-type: none"> <li>• Use this survey data for internal performance management purposes, but do not report it to OFM as a budget activity measure.</li> <li>• Consider replacing the current measure with something similar to the following suggestion:               <ul style="list-style-type: none"> <li>– The number/percent of school districts in full compliance with state financial criteria. (What constitutes full compliance should be defined by the agency as an operational definition of the performance measure.)</li> </ul> </li> </ul>
A003 – Audits of Local Governments	5100 – Average audit satisfaction ratings from local governments  5110 – Average cost of audit compared to total expenditures audited for cities, counties, ports, and K-12. Number is a composite of all entities measured combined.	<ul style="list-style-type: none"> <li>• Use both of these measures for internal performance management purposes, but do not use them as budget activity measures.</li> <li>• Consider replacing these two measures with something that more closely identifies with the purpose of the budget activity. Here are some suggestions:               <ul style="list-style-type: none"> <li>– The number/percent of local governments meeting State Auditor standards for financial condition</li> <li>– The number/percent of local governments in full compliance with state accounting and reporting standards</li> <li>– The number/percent of local governments in full compliance with the state constitution, state laws and local ordinances.</li> </ul> </li> </ul>
A004 – Audits of State Government	4120 – Audit cost containment as measured by the total cost of audit compared to the total state expenditures audited	<ul style="list-style-type: none"> <li>• Use this measure for internal performance management purposes, but do not use it as a budget activity measure.</li> <li>• Consider replacing the measure with something similar to:               <ul style="list-style-type: none"> <li>– The number/percent of state agency programs in compliance with the Constitution, federal and state laws, and regulations</li> </ul> </li> </ul>

## Specific Opportunities for Improvement

Budget Activity Number and Title	Measures	Improvement Suggestions
A005 – Investigating Improper Governmental Actions	3300 – Percentage of customers' satisfaction with the government efficiency hotline process	<ul style="list-style-type: none"> <li>• Use this measure for internal performance management purposes, but do not use it as a budget activity measure.</li> <li>• Consider replacing the measure with something similar to:               <ul style="list-style-type: none"> <li>– The number of viable reports received from the hotline</li> <li>– The actual savings reclaimed or potential losses averted as a result of an initial tip from the hotline</li> <li>– Use measure 3200 - Percentage of assertions of improper government actions resolved</li> </ul> </li> </ul>
A006 – Local Government Budgeting, Accounting, and Reporting System Statistics	8100 – Percentage of users generally and very satisfied with local government budget, accounting, and reporting systems	<ul style="list-style-type: none"> <li>• Use this measure for internal performance management purposes, but do not use it as a budget activity measure.</li> <li>• Consider replacing this measure with the same new outcome measures developed for budget activity A003 – Audits of Local Governments.</li> </ul>
A007 – Performance Audits	None	<p>Here are some possible performance measures to consider for this budget activity:</p> <ul style="list-style-type: none"> <li>• The percent of recommendations actually accepted</li> <li>• Actual vs. identified cost savings after the implementation of improvement suggestions</li> </ul>
No Assigned Budget Activities	<p>3200 – Percentage of assertions of improper government actions resolved</p> <p>2000 – Percentage of bond rating agencies generally and very satisfied with the overall quality of state government audits</p> <p>1000 – Percentage of bond rating agencies generally and very satisfied with the quality of local government audits</p>	<ul style="list-style-type: none"> <li>• Consider using measure 3200 for budget activity A005 – Investigating Improper Governmental Actions</li> <li>• Use the bond rating survey data for internal performance management purposes, but do not use them as budget activity measures.               <ul style="list-style-type: none"> <li>– If the bond rating issue is important, measure the percent of local/state government programs that meet the highest standards set by the bond rating agencies.</li> </ul> </li> </ul>

# Budget Activity and Measure Critique

**Budget Activity Number & Title:** A001 - Administrative Activity

**Budget Activity Summary:** Provides for the administration of the Office of the State Auditor.

### Related Performance Measures

Number & Title	Type	Analysis Comments
9510 – Percentage decrease in annual dollar amount of indemnities paid for tort claims	Outcome	No actual data in PMT – Only targets (-5% per fiscal year).

**OFM Assessor Comments:** The lack of data keeps this measure from being useful. The subject and performance perspective could be interesting to a budget/policy development audience. The title presumes a decrease, and should be rewritten to indicate the amount paid for tort liability claims, whether the number is increasing or decreasing and at what rate will be seen in the data.

**SAO Comments:** It is important for state government to effectively and efficiently measure administrative activity. While reporting tort claim payouts is an important indicator, we are also interested in other key indicators that would be of interest to the Governor, Office of Financial Management and Legislature. Examples of other indicators under consideration by this Office include:

- Turnover, overtime and other human resource indicators
- Enterprise risk management assessment results
- Number of executives and managers who have the financial and performance information they need to effectively and efficiently establish policy and manage day-to-day operations
- Number of substantiated whistleblower complaints
- Number of substantiated ethics complaints
- Ratio of administrative overhead costs to direct service delivery costs

**No actual data in PMT – Only Targets**

# Budget Activity and Measure Critique

**Budget Activity Number & Title:** A002 – Audit of School Programs

**Budget Activity Summary:** Audits school district compliance with legal criteria that must be met as a condition for receiving General Fund monies. There are 296 school districts subject to this audit effort. This activity also funds the Special Education Safety Net Committee.

### Related Performance Measures

Number & Title	Type	Analysis Comments
7100 – Percentage of customers generally and very satisfied with the results of our K-12 audit work	Output Quality Perceptions	No data or targets in PMT

**OFM Assessor Comments:** Generally speaking, customer survey results are better as internal performance management tools. In order for customer surveys to mean much to a budget/policy development audience, they need to present about a decade’s worth of data (on an annual reporting cycle) to show performance trends over time, and the targets need to be benchmarked against recognized industry standards. They also need to be presented in conjunction with a meaningful outcome measure that answers the, “So what?” question.

**SAO Comments:** We concur with the suggested performance measure outlined on Page 6, A002, for this activity. We will evaluate its relevancy and usefulness with Legislative and OFM officials. Other budget outcome measures under consideration for this activity include:

- The number or percent of audit recommendations accepted
- The number or percent of audit recommendations implemented

**No actual data or targets in PMT**

# Budget Activity and Measure Critique

**Budget Activity Number & Title:** A003 – Audits of Local Governments

**Budget Activity Summary:** This activity funds the audits of local governments on a once-every-3-year cycle. There are approximately 2,400 local government entities including counties, cities, schools, ports, public utilities, hospital and fire districts. The focus of the audits is:

- Financial Condition
- Accounting and Reporting
- Compliance with the Constitution, state laws, and local ordinances

## Related Performance Measures

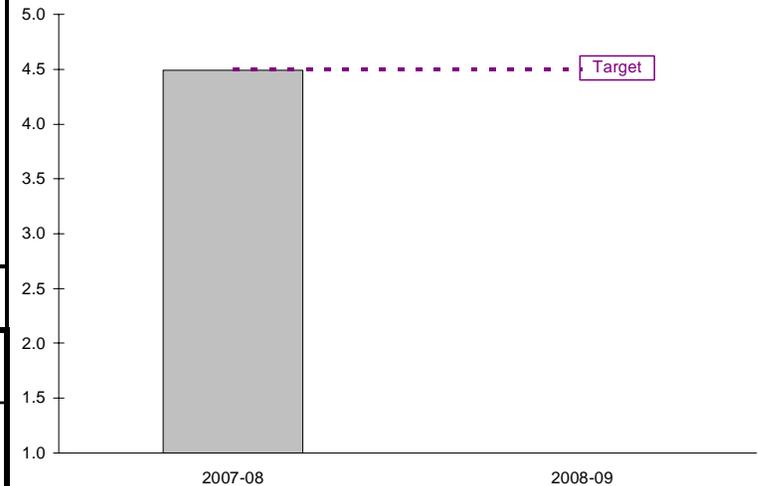
Number & Title	Type	Analysis Comments
5100 – Average audit satisfaction ratings from local governments	Process Satisfaction Perceptions	Not enough data for any analysis. The one data point meets the targets.
5110 – Average cost of audit compared to total expenditures audited for cities, counties, ports, transits, and K-12. Number is a composite of all entities measured combined	Process Cost	<b>Possible Data Entry Problem in PMT!</b> Not enough data for any analysis. The one data point is less than the targets, but it is not clear whether that is desirable or not.

**OFM Assessor Comments:** As noted on the previous page, customer results are usually not very relevant to a budget/policy development audience and should be reserved for internal performance management purposes. (5110) is a measure of how much the audits cost in relation to the size of the budget audited. If the measure is retained, the title needs to be rewritten and simplified, utilizing the footnote function in PMT. The agency should also check to see if the intended data entries were .05% or 5%. A more relevant measure would be the number/percent of local governments that meet auditing standards.

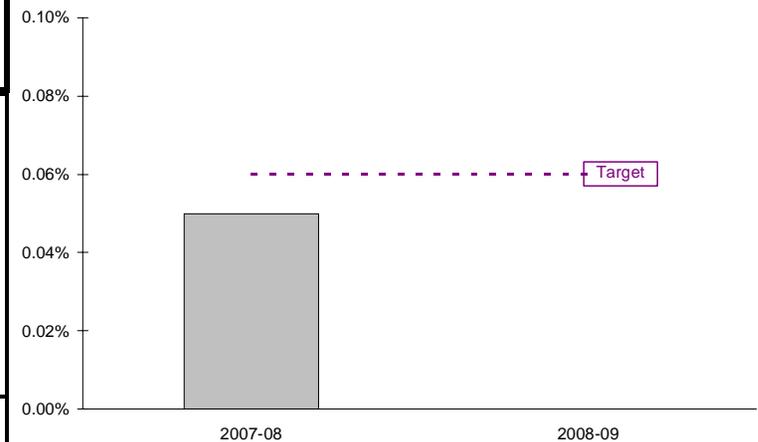
**SAO Comments:** We concur with the suggested performance measures outlined on Page 6, A003, and will consider them as we do our strategic planning. Other budget outcome measures under consideration include:

- The number or percent of audit recommendations accepted
- The number or percent of audit recommendations implemented

5100 - Average audit satisfaction ratings from local governments



5110 - Average cost of audit compared to total expenditures audited for cities, counties, ports, transits and K-12. Number is a composite number of all entities measured combined



# Budget Activity and Measure Critique

**Budget Activity Number & Title:** A004 – Audits of State Government

**Budget Activity Summary:** Funds the annual audit of the basic financial statements produced by the Office of Financial Management (OFM). The audits focus on internal controls over public resources and compliance with the Constitution and federal and state laws and regulations.

### Related Performance Measures

Number & Title	Type	Analysis Comments
4120 – Audit cost containment as measured by the total cost of audit compared to total state expenditures audited	Process Cost	<p><b>Possible Data Entry Problem in PMT!</b></p> <p>No actual data in PMT – Only a target.</p>

**OFM Assessor Comments:** Making sure audit expenses are not larger than the budget being audited is a good internal performance management perspective, but somewhat irrelevant to a budget/policy development audience. A more relevant measure would be the number/percent of state agency programs that meet auditing standards

**SAO Comments:** We concur with the idea of the suggested performance measure, however, suggest that it focus on a higher level than program compliance. Under consideration by this Office:

- The number or percent of state agencies in compliance with laws, executive orders and regulations
- The number or percent of state agencies with no administrative or accounting internal control weaknesses
- The number or percent of state agencies with no federal single audit findings
- The number or percent of audit recommendations accepted
- The number or percent of audit recommendations implemented

**No actual data in PMT – Only Targets**

# Budget Activity and Measure Critique

**Budget Activity Number & Title:** A005 – Investigating Improper Governmental Actions

**Budget Activity Summary:** The State Auditor’s Office administers the state employee whistleblower program. This activity funds programs to encourage state employees to disclose improper governmental actions and investigate the claims.

### Related Performance Measures

Number & Title	Type	Analysis Comments
3300 – Percentage of customers’ satisfaction with the government efficiency hotline process.	Process Satisfaction Perceptions	No actual data in PMT – Only a target.

**OFM Assessor Comments:** This survey data is better as an internal performance management tool. There is an existing measure, 3200 – Percentage of assertions of improper governmental actions resolved that is not linked to this or any other budget activity, and could be a more relevant performance measure with some data.

**SAO Comments:** We appreciate the suggested performance measures outlined on Page 7, A005. Because Chapter 41, Laws of 2007 (ESB 5513) has not been funded, all the administrative requirements contained in ESB 5513 cannot be sustained. State Auditor’s Office plans to continue the use of the toll free hotline as a tool for receiving reports of waste, inefficiency or abuse as well as examples of efficiency or outstanding achievement. These reports will be considered in planning audits or potential whistleblower or fraud investigations. Budget outcome measures under consideration by this Office:

- The number or percentage of state agencies with no substantiated whistleblower complaints
- The number or percentage of state agencies with no substantiated hotline reports of waste, inefficiency or abuse
- The number or percentage of state agencies with no substantiated fraud
- The number or percent of investigation recommendations accepted
- The number or percent of investigation recommendations implemented

**No actual data in PMT – Only Targets**

# Budget Activity and Measure Critique

**Budget Activity Number & Title:** A006 – Local Government Budgeting, Accounting and Reporting System Statistics

**Budget Activity Summary:** Technical assistance and training related to the uniform accounting standards relating to consistent reporting of data, timely analysis, and greater public understanding.

## Related Performance Measures

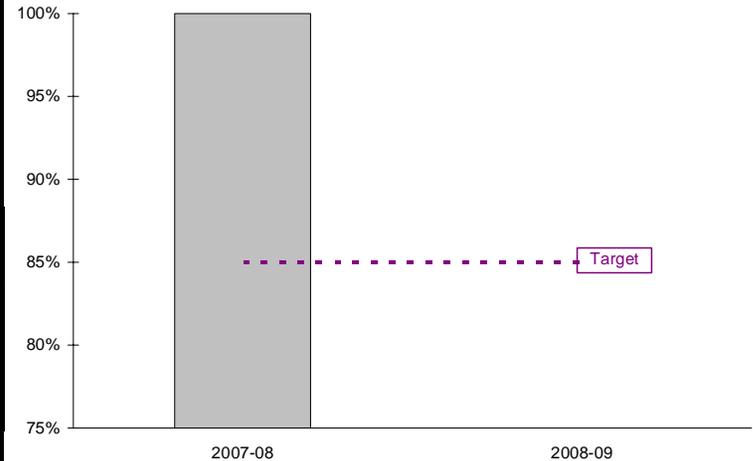
Number & Title	Type	Analysis Comments
8100 – Percentage of users generally and very satisfied with local government budgeting, accounting, and reporting systems	Output Satisfaction Perceptions	Not enough data for any analysis. Actual performance exceeds the target in the one year reported.

**OFM Assessor Comments:** As stated before, surveys are better internal management tools. Since local government accounting and reporting systems are the subject of the budget activity, whatever new outcome measures the agency decides to use for, A003 – Audits of Local Governments, would probably work well for this budget activity too. If participation in these systems is voluntary and based on customer satisfaction, another outcome measure to consider would be the percent of local governments electing to use the system.

**SAO Comments:** We concur there is a better budget outcome measure for our local government budgeting, accounting and report system activity. However, not all the measures suggested in A003, Page 6, are germane. The budget outcome measure under consideration by this Office:

- The number or percent of local governments in compliance with the local government budgeting, accounting and reporting system requirements.

8100 - Percentage of users generally and very satisfied with local government budgeting, accounting, and reporting systems



# Budget Activity and Measure Critique

**Budget Activity Number & Title:** A007 – Performance Audits

**Budget Activity Summary:** Conduct performance audits of state agencies in the executive, judicial, and legislative branches of government. Authority based on voter approval of Initiative 900 in 2005.

### Related Performance Measures

Number & Title	Type	Analysis Comments
None	n/a	

**OFM Assessor Comments:**

Potential measures for this activity might include:

- The percent of recommendations accepted
- Actual vs. identified cost savings after implementation of improvement suggestions

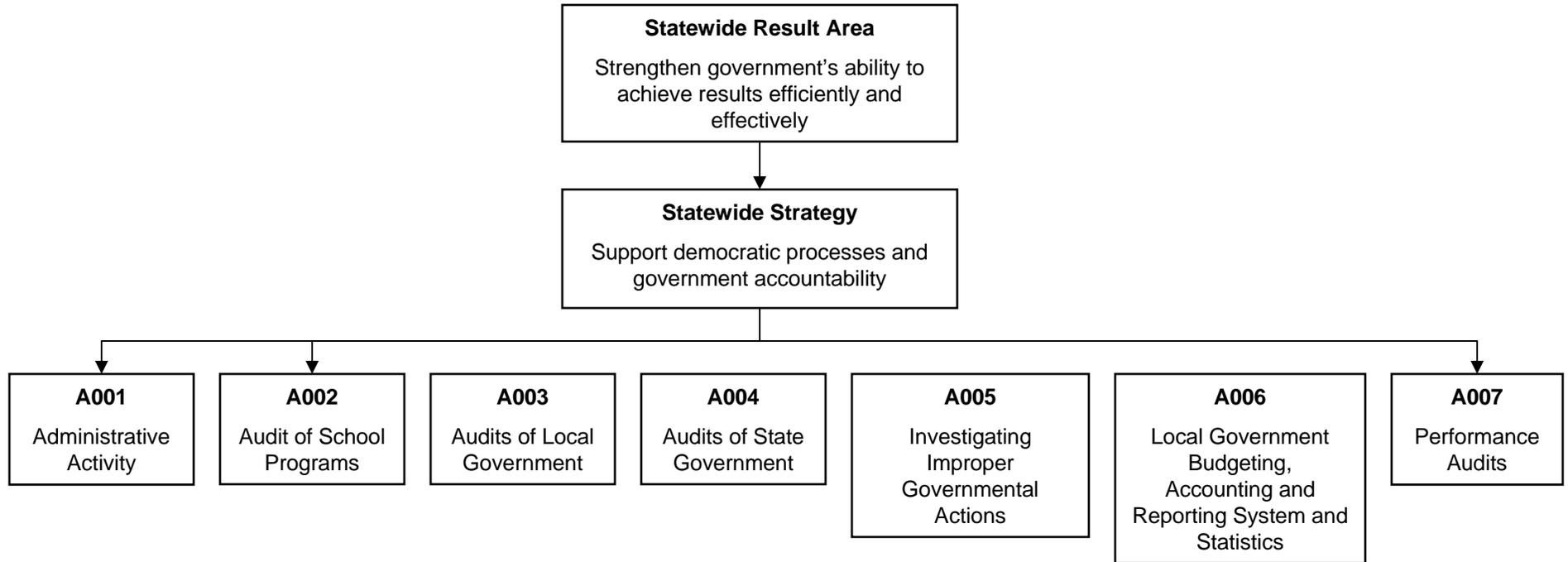
**SAO Comments:** We concur with the direction of the suggested outcome measures for our performance audit program. We recently completed a survey of other state and local audit shops. The most commonly used outcome measures include:

- The number or percent of audit recommendations accepted
- The number or percent of audit recommendations implemented

We did not find common use of actual versus identified cost savings after implementation of improvement suggestions. We will carefully consider OFM's recommendations as we do our strategic planning.

**No performance measures in  
PMT related to this budget  
activity**

# Alignment Overview – Budget Activity Structure



Process/Efficiency Measures	Output Measures	Outcome Measures
5100 – Average audit satisfaction ratings from local governments  3300 – Percentage of customers' satisfied with the government efficiency hotline process  4120 – Audit cost containment as measured by the total cost of audit compared to the total state expenditures audited  5110 – Average cost of audit compared to total expenditures audited for cities, counties, ports, transits and K-12. Number is a composite number of all entities measured combined	7100 – Percentage of customers generally and very satisfied with the results of our K-12 Audit work  8100 – Percentage of users generally and very satisfied with local government budgeting, accounting, and reporting systems  2000 – Percentage of bond rating agencies generally and very satisfied with the overall quality of state government audits*  1000 – Percentage of bond rating agencies generally and very satisfied with the quality of local government audits*	* Measure exists in PMT, but is not currently linked to any budget activities and has not been populated with any data  9510 – Percentage decrease in annual dollar amount of indemnities paid for tort claims  3200 – Percentage of assertions of improper governmental actions resolved*

**Input/Workload Measures**

# Alignment Overview – Strategic Plan Structure

## Mission

Serve the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure efficient and effective use of public resources

### Goal 1

Give citizens a greater ability and means to assess government accountability

#### Objectives

- Broaden citizen's understanding of the role of the State Auditor
- Advocate policy changes that ensure citizens have access to government and have a forum to effect change
- Give citizens a greater voice in helping determine where we direct our audits based on their expectations

### Goal 2

Achieve greater accountability among state and local governments

#### Objectives

- Timely and relevant financial and accountability audits of state and local governments
- Independent and comprehensive performance audits
- Continue to be a nationally recognized leader in financial and legal compliance auditing
- Ensure the accuracy and consistency of audits
- Increase awareness of the Whistle Blower & Hotline programs

#### Process/Efficiency Measures

- Percent of citizens satisfied with the public records request process
- Number of days between the end of an audit and the release of the audit report
- Percent of audit costs vs. total expenditures audited
- All Whistleblower investigations meet statutory deadlines
- Ratio of cost savings recommended when compared to audit costs

### Goal 3

Ensure the most efficient and effective use of public resources allocated to the State Auditor's Office

#### Objectives

- Strengthen SAO workforce
- Receive an unqualified financial and legal compliance audit report
- Receive an unqualified external peer review
- Enhance the SAO Risk Management Program
- Ensure efficient and effective management of facilities
- Be the employer of choice for financial professionals
- Provide effective resources for employees
- Achieve a Washington State Quality Award

#### Output Measures

- None

### Goal 4

Increase agency and government resolution of audit issues

#### Objectives

- Strengthen positive, cooperative relationships with governments audited
- Plan and deliver training and technical assistance to local government financial officers
- Facilitate the timely resolution of audit issues

#### Outcome Measures

- Percent of auditees satisfied
- Percent of audit recommendations accepted

#### Input/Workload Measures

- None