

DRAFT

TO: Michael Scheiring  
FROM: Robert Goertz *RG*  
SUBJECT: Approach to the Management Audit  
DATE: January 22, 1990

There are two phases to the audit. Phase I is a survey of all of State government and concludes with decisions regarding the "targets of opportunity." Phase II consists of the operational audit itself.

**PHASE I**

- \* Review budget and employee data for high cost, high growth areas.
- \* Review administrative procedures, such as collection rates and cash management.
- \* Identify targets of opportunity. These may include "no growth, low budget" as well.

Who: Auditor firm and central staff (Executive Director, others)

When: February to March 1990

Need: Descriptions by agency by program classification of the 3 - 10 activities that are undertaken, the costs, and measures for overall need, workload, efficiency, and effectiveness. (A similar compendium was developed by GMIP. I believe that Peter Silvia still has it, and it may be useful for comparison.)

Output: List of issues, estimates of magnitude (including savings, if any), that would go to the Commission and Governor for selection and policy guidance. (Again, GMIP had such a list of "strategic issues" that could be revisited.)

Based upon the issues selected for further audit, additional people may be added to the Commission to provide specific perspectives.

**PHASE II**

- \* Review program by program the targets identified earlier.
- \* Questions to be asked: what are the origins or mandate for the program? Exactly what is mandated? What would it cost (politically, fiscally, etc.) to scale back or eliminate the program?

Who: Team of auditor firm and State staff, perhaps with assistance from specialized audit firms. (See below for a further discussion of staffing.)

Regarding the involvement of agencies, I think that the auditor-bidders should address in their bids how they propose to involve agency staff. I am somewhat skeptical of the willingness of agency personnel to participate honestly in a potentially hostile critique of their own programs.

It may prove helpful to have outside coaches for each team, preferably academics or others who know public administration and program evaluation as well as the subject areas.

When: March to September 1990, so that tentative conclusions are available for the 1992 Budget.

Structure: Focusing on program clusters rather than strictly on departments may prove more fruitful in the long run and suggest where realignment of functions or departments may prove advantageous. Natural resource management and social services are two examples that come to mind. The statewide program structure is a starting point for identifying these clusters.

There are or have been numerous commissions that focus on such clusters. Their work is usually sound, although they are often advocates for program expansion.

Output: A series of reports with recommendations, to be presented to the Commission and the Governor as completed. It would be helpful if draft legislation or regulations were included if needed. It will be up to the Governor's Office, as the client, to determine what is released and when.

I have some more general observations about the focus of the audit and the structure of the teams and role of outside executives. These follow.

#### Focus of Audit

Assuming that the audit is to be truly an operational one, the focus will be on direct state services. While expenditures for DSS are less than half of the budget, it is here that efficiencies can be effected. Looking at state aid and grants would focus on large expenditures, but often ones where the savings (if any) of necessity depend upon someone else being more efficient or upon a restructuring to the grant or aid program itself.

Direct state services translates into personnel. Growth areas include caseworkers and case managers in Human Services, Corrections, and Environmental Protection. My sense is that since the restructuring of GMIP, new duties (and personnel) have been added to existing ones, and that a re-evaluation is warranted.

As more and more of the social services are provided via grants-in-aid, it would be profitable to look at the grant-making and the grant-monitoring processes. Some relevant questions are: Can the State administer grants more efficiently and still have control and accountability? What policy should the State take on providing inflationary increases to grantees? Should the State cut back the number of grants so it can afford to support the ones that

remain? (I am not suggesting a look at the grants themselves, as whether they are needed and whether the State can continue to support them are different questions.)

#### Structure of Audit Teams and the Commission

I suggest that the actual audit be performed by teams from the audit firm(s) and State agency (agencies). I also think it would make sense for agency staff to be involved in auditing agencies other than their own. Presumably, individuals in title series like Administrative Analyst have skills that are transferable, and an audit methodology workshop could hone them.

The Executive Director of the Commission should identify individuals in agencies, and not allow the agencies to select individuals. The number needed will depend upon the scope of the audit.

I am not in favor of having loaned executives actually perform the work of the audit; it smacks too much of "business telling government what to do." I did not find them particularly valuable in GMIP, though others may disagree. I also suspect that business executives are no more versed in operational audit methods than public sector executives.

Instead, the Commission or its Executive Committee should provide policy guidance, and through this guidance the "outside perspective" that the audit is looking for. Commissioners should be assigned to work with the audit team to steer the audit, provide a sounding board for alternatives, serve as a political reality check, etc. They would review drafts of the reports before they went to the full Commission or the Governor.

The policy role will require significant commitment of time and energy. At a minimum, there will be weekly or biweekly status meetings. If my SLERP experience is a guide, these are likely to be at least half day sessions.