CITY COUNCIL AGENDA REPORT

MEETING DATE: MARCH 6, 2012 **ITEM NUMBER: NB-3**

SUBJECT: **CREATION OF AN ANNUAL PERFORMANCE AUDIT PROCESS**

DATE: **MARCH 1, 2012**

FROM: **OFFICE OF CHIEF EXECUTIVE OFFICER**

PRESENTATION BY: **THOMAS R. HATCH, CEO**

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RECOMMENDATION:

Provide direction to staff on creating an annual performance auditing/evaluation process.

BACKGROUND:

Council Member Mensinger has requested that the City Council consider creating an annual performance audit process. The interest is to annually review selected service areas to ensure they are performing as efficiently as possible.

The discipline of performance auditing evolved out of the traditional auditing function when organizations began realizing that the best form of accountability, in terms of ensuring that public funds were being administered most effectively, required more than pure financial auditing. Performance auditing considers program compliance, an evaluation of economy and efficiency in the use of resources, and the evaluation of the extent the results or benefits of the program are being achieved.

The City of Costa Mesa has used consultants to conduct organizational reviews and has brought in experts from time to time to review a particular issue or operation. Most recently, Management Partners completed an organizational review of the Police Department and provided several valuable recommendations for restructuring and improving our operations. Several other experts have assisted the City with reviewing our services this year including John Bartel on pension costs, HdL on sales tax projections, and Management Partners has assisted the City by reviewing how we could potentially share services with neighboring communities.

ANALYSIS:

Performance auditing can be defined in many ways. The 1994 revision of the Government Auditing Standards issued by the Comptroller General of the United States defines a performance audit as "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."

In a municipal organization such as ours, one could argue that there is a demonstrable need for routine and consistent performance auditing to keep the organization focused on current problem-solving methods. In addition, the benefits of creating a Performance Audit function may be: (1) improved service delivery; (2) cost savings and additional revenue; (3) improved accountability; and (4) increased public trust in the organization.

Conversely, there are common arguments against performance auditing. Those reasons most often cited are: (1) the potential adversarial nature of the audit function; (2) the notion of "airing dirty laundry" in an environment that has experienced recent volatility with employee groups; (3) the potential of introducing, perpetuating or exacerbating elements of distrust and secrecy; and (4) the perception that another layer of bureaucracy is being added.

Staff is seeking City Council direction about whether or not to continue developing the concept of a formalized and annual process to audit or review selected service areas each year. Also important is the process by which the City Council and staff provide = input about which service areas are highest priority for review. This could be accomplished in several different ways and staff is prepared to recommend an appropriate process. If the City Council is interested in advancing the performance auditor concept, then the following is suggested:

- Direct staff to prepare a staff report for discussion at a future City Council meeting where the City Council considers:

    1. Defining the authority and role of the performance auditor;
    2. Determining the scope of work, activities and desired outcomes of the performance audit function;
    3. Authorizing an annual performance audit work plan process to determine which service areas will be audited and in what sequence;
    4. Implementing a communication plan to inform city staff and residents about the role and potential benefits of the performance audit function; and
    5. Determining reporting protocols once an audit is completed.

- Authorize staff to initiate a process to obtain informal proposals for services from consultants;

- Authorize staff to include an allocation of up to $50,000 into the Proposed FY 2012-2013 budget for one or more performance audit reviews; and

- Select a consultant to perform requested services.

Staff is recommending that the City Council approve the Performance Audit Program, confirm the selection of the consultant, prioritize and select the specified annual areas for review and that the CEO/Council retain joint oversight authority over the performance audit function.

FISCAL IMPACT:

If a performance auditing process is approved, then the City Council would consider adding funding of approximately $50,000 into the proposed FY 2012-2013 budget. There is no direct cost to further exploring this program and bringing a more developed concept to the City Council at a later date.

CONCLUSION:

The City Council expressed interest in a performance auditor function as part of last years budget development process. With the significant analysis, review and restructuring of almost all areas in the organization occurring at this time, the formal approval of a performance auditing process had not yet occurred. Staff is seeking City Council direction about exploring the creation of a performance auditing process to commence on July 1, 2012.

THOMAS R. HATCH
Chief Executive Officer