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November 29, 2004

Andrew Villeneuve, Chair  
Josef Kunzler, Research & Development Director  
Permanent Defense

Dear Mr. Kunzler:

Thank you for your recent e-mail containing insightful questions about a proposed initiative on performance audit. We have prepared this response to your questions. Please contact us if we can be of further assistance.

### **1. What effect do you think this initiative would have on the Auditor's Office?**

While performance audits of state government would be an exciting, doable venture for the State Auditor's Office, an expectation that we could immediately put in place an independent, comprehensive performance audit function at the state and local level would be difficult to meet. Organizationally, the State Auditor's Office likely would need to grow to at least four times its current size over the course of the next 10 to 12 years.

The expectation to initiate the program at the local, as well as the state level of government is ill-advised. As we find more direct accountability between local government elected officials and the citizens they serve, we feel that more comprehensive performance audits would best be directed at the state level.

### **2. Would it be necessary to hire additional staff?**

Yes.

We have approximately 300 full-time professionals performing the following legally required work on behalf of the citizens of Washington:

- Audits of school programs
- Audits of local government
- Audits of state government
- Fraud audits
- Investigations of asserted state government improper governmental actions (Whistleblower Program)
- Local government budgeting, accounting and reporting systems
- Local government financial reporting

For the 2005-2007 budget period that begins July 1, 2005, we are requesting an additional 10 full time professional staff to audit state government. Assuming that this portfolio of statutory responsibilities continues at the same time as we would be beginning performance auditing, the State Auditor's Office would have to increase its staffing, beyond the 10 originally requested, to conduct performance audits.

It is important to note that the historical authorizing legislation for the State Auditor's Office calls for financial and legal compliance auditing. Performance auditing, by contrast, requires different competencies.

Highly skilled performance auditors have all the competencies required of financial and legal compliance auditors, plus knowledge of operational and management principles such as strategic planning, resource allocation, human resource modeling, leadership technique, production methods and coordination of people and resources. A key difference is the requirement that a performance auditor have specific knowledge and skills relating to what he or she is auditing. Where a financial auditor can perform audits on different governments with relative ease, a performance auditor must have specific knowledge, skills and abilities relative to the agency's mission and programs. For example, health sciences experience is vital to successful performance auditing of Medicaid programs. The competence of performance auditors can be achieved through a combination of education, work experience, auditor training and audit experience.

**3. How difficult would it be to conduct audits of all government agencies, programs, and accounts-including both state and local governments?**

We estimate it would take 10 to 12 years to build an audit organization capable of meeting the expectations envisioned under the initiative. In addition to the 147 state departments, agencies, board and commissions, the state has more than 2,400 local governments of 33 different types.

**4. Could you provide a rough estimate on how much it would cost to implement this initiative, if it were passed?**

It currently costs approximately \$23 million annually to conduct state and local government financial and legal compliance audits. We estimate that the annual cost of performance audit as envisioned under the initiative once implemented would be approximately \$90 million every two years.

Does the auditor believe that this initiative would help improve the efficacy and effectiveness of government, or are there other solutions that the auditor believes would be better than this initiative?

We believe the intent behind the initiative is good, however, we also firmly believe that there is a better way. We were nearly successful in getting a measure passed during the 2004 session of the Legislature. We feel action by the 2004 Legislature and subsequent elections have generated significant public debate about performance audit. In our view, the optimum means of accomplishing an independent, comprehensive performance audit function is to have the Governor and Legislature embrace it and enact authorizing legislation and funding to support it.