Performance Auditing: Success is all in the Design!

IIA Auditing Seminar, San Diego, CA
March 14, 2013

Erin Noel, Fiscal and Policy Analyst
Office of the Independent Budget Analyst, City of San Diego, CA
Introductions -

My Background and Perspective -
• GAO Performance Auditing
• Office of the City Auditor
• Role at IBA

Getting to Know You -
• Background, organizations
• Types of auditing
• Goals
Session Agenda -

- Performance Auditing Basics
- Audit Planning
  - The Hook
  - Criteria
  - Deconstructing the Issue
- Intro to the Design Matrix (DM)
  - What is it anyway?
  - DM Attachment - Performance Audit Tool
  - Developing the DM
  - Linkages
- Design Summit
- Key Takeaways
Performance Auditing Basics -

Mission -

• To help improve the performance and ensure accountability of the government for the benefit of citizens.
• To examine how taxpayer dollars are spent and advise decision makers on ways to make government more efficient, effective, ethical, equitable, and responsive.

Our work leads to improvements in operations and saves the government and taxpayers valuable resources, money, and time.
Performance Auditing Basics

Objectives

• Auditing agency operations to determine whether government funds are being spent efficiently and effectively.
• Investigating allegations of illegal and improper activities.
• Reporting on how well government programs and policies are meeting their objectives.
• Performing analyses and, where appropriate, making recommendations for improvement.

Findings may involve deficiencies in internal control; noncompliance with provisions, of laws, regulations, contracts, or agreements; fraud; waste; or abuse.
Performance Auditing Basics

The Elements of a Finding

- To comply with GAGAS, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the audit objectives.

Using all four elements—criteria, condition, cause, and effect—will enable you to construct a convincing argument for why an agency should act on your recommendations.
Performance Auditing Basics -

The Elements of a Finding –

- **Criteria** are standards for the desired state against which performance is evaluated. Provide context for evaluating evidence and understanding the findings.
- **Condition** describes the situation that exists and refers to the program characteristics or results your team found.
- **Cause** explains why the condition differs from the criteria.
- **Effect** is the “so what” of the condition and describes the actual or potential impact or consequences of a condition that differs from the criteria.

**Recommendations** must be designed to address the root cause of the problem you identify.
Performance Auditing Basics

Performance Audits generally have four phases.

- Phase 1: Planning/Design
- Phase 2: Fieldwork
- Phase 3: Report Development
- Phase 4: Follow Up

➢ While we are going to be focusing on the planning phase, it is important to consider the subsequent stages...
Performance Auditing Basics

It is important to understand audit outputs and linkages...

Phase 1 Planning
- Audit Program/Design Matrix
- Design Matrix Attachment
- Audit Budget

Phase 2 Fieldwork
- Findings/Message Development (C3E)

Phase 3 Report Development
- Report Briefings

Phase 4 Follow Up
- Accomplishment Report
- Update Report

...because your audit plan will be the guide for fieldwork and the basis for development of findings and report writing.
Failing to plan...is planning to fail.
Audit Planning

Objectives

• Perform an educated overview of a policy, program, function, or organization to determine which specific issues warrant more in-depth analysis.

• Develop an effective approach and methodology for conducting the more in-depth analysis during the fieldwork phase.

• Determine the relative importance of the audit so we can effectively:
  - assign audit resources
  - establish a schedule
Audit Planning

Goals for Planning/Design

• Fully understanding background and context of issue
• Identifying solid criteria
• Developing a methodology that will get to heart of issues
• Identifying and planning to address limitations

Well-planned audits generally will have shorter field work and report writing stages because you have done the heavy lifting up front.
Audit Planning

The timeframe for planning depends on several factors, such as the:

- complexity of issue(s)
- importance of issue(s)
- available resources
- competing audit priorities
- time-criticality

General rule of thumb is about a third of audit.
Audit Planning - Adminstrivia

- Initiating audit and assigning staff
- Conducting prelim research
- Meeting with audit managers to understand the context of the audit
- Notifying appropriate department officials
- Requesting preliminary data and documents
- Meeting with key department officials
Audit Planning - Where to start?

- The Hook - understanding the context of the issue.
- Researching criteria, including recommended practices.
- Deconstructing the City’s CIP.

Identifying your approach.
The Hook - Key Macro Issues

1. Infrastructure in the United States and Canada is primarily owned and operated by state and local governments.

2. Investment at all levels has not kept pace with growing demands and regulatory requirements, resulting in:
   - deferred maintenance,
   - deteriorating infrastructure,
   - decreased performance and reliability, and
   - a risk to public health and safety.

A well designed and maintained infrastructure anchors our economy and secures the public health and well being.

Investment in infrastructure is vital to productivity, competitiveness, and the economy.

Example – CIP Audit
San Diego’s economy is inextricably linked to the convention and tourism industries which are impacted by the quality, condition, appearance and continuity of operation of infrastructure assets.

The City has faced long-term financial challenges:

- California’s Prop 13 - Tax increases requires 2/3 voter approval
- Sordid past financial practices - Underfunding pension fund to pay for new baseball stadium...missing financial statements
- Suspended credit rating - Limited access to public bond markets (2004-2008)
- Structural budget deficit (FY 2003-2011) - Large cuts without transparency over full impact
Criteria

Identifying criteria up front will provide a comprehensive starting point to drive your questions and prevent holes that you miss or have to fill in later, rather than just fishing.

- Legislation, regulations, codes, and mandates
- Department policies, administrative regulations, guidance, manuals
- Industry standards, guidance, and best practices
- Databases, City systems
- Other cities’ practices
Criteria -

Example: Components of Asset Management

- Goals and Objectives
- Asset Inventory
- Condition Assessment and Investment Needs Modeling
- Alternatives Evaluation and Program Optimization
- Short- and Long-Range Plans (Project Selection)
- Program Implementation
- Performance Monitoring

Budget / Allocations

Public Utilities CIP Audit
Example – CIP Audit

Deconstructing the Program -

- Reviewing City policies, regulations, etc.
- Reviewing department procedures
- Interviewing officials
- Diagramming processes

Service Departments
- City Planning & Community Investment
- Comptroller’s
- Debt Management
- Development Services
- E&CP
- Equal Opportunity Contracting
- Financial Management
- Purchasing & Contracting

Client Departments
- Airports
- Disabilities Services
- Fire & Rescue
- General Services
- Library
- Park & Recreation
- Police
- Public Utilities
- Transportation & Storm Water

Funding Sources
- Bonds
- Capital Outlays
- Developer Fees and assessments
- Enterprise Funds
- Federal, State, and Regional Grants and Programs
- General Fund
- Private Donations

Consultants and Contractors
- Subcontractors
- Vendors
Deconstructing the City’s CIP

- Collecting and analyzing budgetary and other data.
- Interviewing more officials
- Still more diagramming

The Approach -

As the audit team began to understand the CIP, we realized:

- Infrastructure and the CIP are significant issues for the City.
- The CIP process is very complicated.
- There are numerous opportunities for improving various aspects of the CIP process.

During Design, we developed a proposal for a planned body of work to include 3 audits:

- CIP 1 - Overview of the CIP
- CIP 2 - Public Works Contracting
- CIP 3 - Construction Management
We developed high-level design matrices for CIP 2 and 3, but developed an in-depth Matrix for CIP 1.

This was invaluable, because it helped us:
- Think forward to set up findings development/C3E and report message and recommendations.
- Thoroughly consider questions and how plan to answer
- Identify potential limitations and consider how to overcome
- Consider the significance of what we would be able to say

<table>
<thead>
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<th>Researchable Questions</th>
<th>Risk(s)</th>
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The Design Matrix

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➢ It is important to know what your goal/output is for planning so you can decide how to get there.
The Design Matrix - Performance Audit Tool

- The purpose of the tool is to assist audit teams during planning to determine whether the following are significant to audit objectives:
  - internal controls,
  - compliance with laws and regulations,
  - fraud risk and/or other potential abuse are

- This tool also helps to document that you have considered these important factors.
## A.1 Design and implementation of internal controls (GAS 7.11b, 7.16)

<table>
<thead>
<tr>
<th>Did the Department design and implement policies and procedures for managing the program?</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>WP Reference or Auditor's Note As Appropriate</th>
</tr>
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<tr>
<td>Did the Department design and implement policies and procedures for managing the program?</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
<td>Interview with Street Division Deputy Director</td>
</tr>
</tbody>
</table>

### A.2 Design and implementation of information system internal controls (GAS 7.11c, 7.24-7.27)

### B. Potential for fraud and abuse (GAS 7.11d, 7.30)

### C. Legal and regulatory requirements, contract provisions (GAS 7.11d, 7.28)

### D. Consideration of the nature of the program and needs of potential users (GAS 7.11a, 7.13)

### E. Results of Previous Audits (GAS 7.11e, 7.36)
The Design Matrix - Development

- Researchable questions and sub-questions can be evaluative or descriptive, depending on what we hope to find out.
- These are generally based on risk.

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## Researchable Questions

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<td>Without formalized requirements and processes to plan, communicate, and coordinate activity, there is the risk that departments and private entities will excavate into a street multiple times which increases the cost for the City and causes the street condition to degrade at a faster rate.</td>
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<td>If City Departments are not enforcing permit requirements for private entities excavation of streets, taxpayers will have to subsidize street maintenance and repairs.</td>
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The Design Matrix - Development

- **Scope** – What are the parameters of the audit?
- **Methodology based on C3E:**
  - How will you answer researchable questions?
  - How will you identify the criteria, condition, cause, and effect?

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Q1: To what extent do City departments coordinate work on or under City streets?

**Scope:** Inter-departmental and inter-organizational coordination issues related to the City’s street maintenance over the past 5 years. This includes resurfacing (asphalt overlay and slurry seal) for maintenance or emergency repairs, but excludes pothole repairs.

**Methodology:**

**Criteria**

1. Municipal Code relating to the trench cut moratorium for newly resurfaced street
2. Street Division’s and Engineering Department’s policies and procedures for coordinating project conflicts
3. Review literature and interview officials from other cities to identify best/recommended practices for inter-departmental coordination of street work.
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<td>Q1: To what extent do City departments coordinate work on or under City streets?</td>
<td><strong>Methodology (Continued):</strong></td>
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</table>
|                                                                                      | *Condition*
|                                                                                      | 1. Conduct a sample of streets, including site assessments and photographs of street conditions, to determine the extent to which trench cuts are being made into newly resurfaced streets. |
|                                                                                      | *Cause*
|                                                                                      | 1. Interview City department staff responsible for coordination of work and identification of project conflicts.                                                                                                         |
|                                                                                      | 2. Trace newly resurfaced streets in sample to permits to determine reasons for trench cut, such as emergency repairs.                                                                                                     |
|                                                                                      | *Effect*
|                                                                                      | 1. Review industry information on impacts of trench cuts and public complaints received by Council Members and/or City departments.                                                                                  |
The Design Matrix - Development

- What information and data is needed for methodology?
- What are existing or potential limitations, and how would you mitigate these?

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## Researchable Questions

**Q1: To what extent do City departments coordinate work on or under City streets?**

### Information Required and Source(s)

**Documents and Data:**
- Municipal Code for street excavations
- Street resurfacing contracts
- Records of excavation permits

**Sources:**
- Streets Division and Engineering Department officials
- Street Divisions Pavement Management System
- Development Services Department Permit Tracking System

### Limitations and Mitigation Plan

**Limitation:**
Based on our first street maintenance audit, we know that Street Division’s Pavement Management System contains street condition information that is out of date.

**Mitigation Plan:**
We will pull our street sample from recent resurfacing contracts and make site visits and take photographs to ensure the accuracy of information for our sample.
The Design Matrix - Development

- Fully thinking through what you will be able to say based on the methodology forces you to think forward.
  - Determine significance of audit so can assess use of resources and time relative to other audits.

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<td>Q1: To what extent do City departments coordinate work on or under City streets?</td>
<td>We expect to find that coordination of work performed on or under City streets is limited. We may be able to recommend that the Public Works Director develop a Citywide excavation plan for all planned maintenance work and share this with all departments and private entities that conduct work on or under City streets.</td>
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It is important to understand audit outputs and linkages...

...because your audit plan will be the guide for fieldwork and the basis for development of findings and report writing.
### Researchable Questions

Q1: To what extent do City departments coordinate work on or under City streets?

### Scope and Methodology

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<th>Cause</th>
<th>Effect</th>
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<tr>
<td>Municipal Code relating to the trench cut moratorium...</td>
<td>18% of streets resurfaced during FY 2009 were excavated during moratorium...</td>
<td>City departments are not required to plan citywide excavation work and the GIS system for managing project conflicts has limitations...</td>
<td>Continued excavations into newly resurfaced streets degrade pavement conditions, increase lifecycle costs, and reduce the City’s ability to leverage resources...</td>
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### Finding

Coordination and planning of streets-related work is limited.
Coordination and Planning of Street-related Work Is Limited

Planning and coordination of all work on or under City streets is critical to limit excavations which will degrade and shorten pavement life. Municipal Code prohibits excavations into streets that have received asphalt overlay or slurry seal for five years and three years, respectively. We found that about 18 percent of our sample of 40 streets that were resurfaced in fiscal year 2009 were excavated during the moratorium period. These excavations occurred because City departments are not required to plan Citywide excavation work. Without improved planning and coordination, excavations will degrade pavement...

Finding | C3E
--- | ---
Coordination and planning of streets-related work is limited. | **Criteria:** Municipal Code has a moratorium on excavations into resurfaced streets for 3 years...

**Condition:** 18% of streets resurfaced during FY 2009 were excavated during moratorium...

**Cause:** City departments are not required to plan citywide excavation work and the GIS system for managing project conflicts has limitations...

**Effect:** Continued excavations into newly resurfaced streets degrade pavement conditions, increase lifecycle costs, and reduce the City’s ability to leverage resources...
Design Summit

- Present Matrix and Performance Audit Tool
- Obtain input and make adjustments as needed
- Signifies management approval of approach
- Based on agreed upon plan discuss:
  - Resources needed to conduct rest of the audit
  - Timing and schedule
  - Special access/data
Key Takeaways

- Effective planning will help to ensure a quality audit, effectively focus limited resources on key issues and risks, and ensure that your methodology will get to heart of issues.
- Identifying criteria up front will provide a comprehensive starting point to drive your questions and prevent holes that you miss or have to fill in later.
The Design Matrix is a good tool for audit planning because it will help you to:

- Think forward to set up findings development/C3E and report message.
- Thoroughly consider questions and how you will answer them, including identifying potential limitations and how you will address as well as considering the significance of what you will be able to say.
Questions -
Design Matrix for Review of Street Resurfacing

Audit Team:

Problem Statement: *(Provide context for the problem, for example…)*
A safe, reliable, and efficient driving environment are important for maintaining our economy and quality of life. Transportation infrastructure affects commerce, commuting, travel, and crises response. Years of underinvestment have resulted in deferred maintenance and deteriorating infrastructure. Based on a condition assessment of streets completed in November 2011, the City of San Diego has a deferred capital backlog of $478 million for streets. Given tight financial constraints and competing priorities, the Transportation Department must make the best use of limited resources.

When ride quality and structural conditions of streets degrade to fair or poor condition, costly rehabilitation is necessary to repair structural damage and restore pavement condition. Pavement preservation includes a planned strategy for applying cost-effective resurfacing treatments to prevent the street from failing. The Transportation Department’s Pavement Management System includes asphalt overlays and slurry seal treatments. However, a number of City departments and private companies conduct work on and under City streets.
<table>
<thead>
<tr>
<th>Researchable Question(s)</th>
<th>Risks (Negative Effect)</th>
<th>Information Required and Source(s)</th>
<th>Scope and Methodology</th>
<th>Limitations to Conducting Audit Work</th>
<th>What This Analysis Will Likely Allow Us to Say</th>
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<tr>
<td><strong>Question 1: How does the Department maintain the integrity of newly resurfaced streets?</strong></td>
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<tr>
<td>1(a) To what extent does the Transportation Department plan, communicate, and coordinate resurfacing projects with other departments and private entities that conduct work on or under streets?</td>
<td>Without formalized requirements and processes to plan, communicate, and coordinate activity, there is the risk that departments and private entities will excavate into a street multiple times which increases the cost for the City and causes the street condition to degrade at a faster rate. If City Departments are not enforcing permit requirements for private entities excavation of streets, taxpayers will have to subsidize street maintenance and repairs.</td>
<td>Documents and Data:</td>
<td>Scope: Inter-departmental and inter-organizational coordination issues related to the City’s street maintenance over the past 5 years. This includes resurfacing (asphalt overlay and slurry seal) for maintenance or emergency repairs, but excludes pothole repairs.</td>
<td>Limitation: Based on our first street maintenance audit, we know that Street Division’s Pavement Management System contains street condition information that is out of date. Mitigation Plan: We will pull our street sample from recent resurfacing contracts and make site visits and take photographs to ensure the accuracy of information for our sample.</td>
<td>We expect to find that coordination of work performed on or under City streets is limited. We may be able to recommend that the Public Works Director develop a Citywide excavation plan for all planned maintenance work and share this with all departments and private entities that conduct work on or under City streets.</td>
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**Documents and Data:**
- Municipal Code for street excavations
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- Records of excavation permits

**Sources:**
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- Street Divisions Pavement Management System
- Development Services Department Permit Tracking System

**Methodology:**

**Criteria**
1. Municipal Code relating to the trench cut moratorium for newly resurfaced street.
2. Street Division’s and Engineering Department’s policies and procedures for coordinating project conflicts.
3. Review literature and interview officials from other cities to identify best/recommended practices for inter-departmental coordination of street work.

**Condition**
1. Conduct a sample of streets, including site assessments and photographs of street conditions, to determine the extent to which trench cuts are being made into newly resurfaced streets.

**Cause**
1. Interview City department staff responsible for coordination of work and identification of project conflicts.
2. Trace newly resurfaced streets in sample to permits to determine reasons for trench cut, such as emergency repairs.

**Effect**
1. Review industry information on impacts of trench cuts and public complaints received by Council Members and/or City departments.
Performance Audit Tool: Design Matrix Attachment

Purpose of the Tool

The purpose of this tool is to assist audit teams during audit planning to help determine whether internal control, compliance with laws and regulations, fraud risk, and/or potential abuse are significant to their performance audit objectives. This tool is also designed to ensure that auditors gain an understanding of the nature and profile of the programs and the needs of potential users of the audit report as well as identified results of previous audits that directly relate to the current audit objectives. This tool is to be used in conjunction with Government Auditing Standards, audit office policies, and other guidance applicable to audit planning.

A. Considering Whether Internal Control is Significant to Performance Audit Objectives

Performance audits may encompass a wide variety of objectives, including those that relate either directly or indirectly to internal control. Internal control includes the plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control also includes the processes for planning, organizing, directing, and controlling program operations and the systems for measuring, reporting, and monitoring program performance. For instance, performance audits that seek to answer questions similar to those listed below are likely to encompass internal control.

- Are organizational missions, goals, and objectives being achieved effectively and efficiently?
- Are resources being used in compliance with laws, regulations, or other requirements?
- Is management information—such as performance measures and public reports—complete, accurate, and consistent to support performance and decision making?
- Are resources, including sensitive information accessed or stored outside the organization’s physical perimeter, being safeguarded against unauthorized acquisition, use, or disposition?
- Is the integrity of information from computerized systems being maintained?

According to Government Auditing Standards (GAS 7.16-7.27), auditors should obtain an understanding of internal control that is significant within the context of the audit objectives and assess whether the internal control has been properly designed and implemented. For those controls deemed significant within the context of the audit objectives, auditors should plan to obtain sufficient, appropriate evidence to support their assessment of the effectiveness of those controls. Auditors should also determine whether it is necessary to evaluate information systems controls. Auditors may modify the nature, timing, or extent of audit procedures based on their assessment of internal control and the results of internal testing.

B. Considering Whether Fraud and Abuse Is Significant To Performance Audit Objectives

Fraud is a type of illegal act that involves obtaining something of value through willful misrepresentation. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. There is frequently a fine line between fraud and abuse and many of the considerations for fraud would also apply in situations of abuse or potential abuse.

According to Government Auditing Standards (GAS 7.30-7.32), in planning an audit, auditors should assess risks of fraud occurring that are significant within the context of audit objectives. When auditors identify risks, they should design procedures to provide reasonable assurance of detecting such fraud. Also, if information comes to the auditors’ attention that fraud may have occurred that is significant within the context of the audit objectives, the auditors should extend the audit steps and procedures as necessary to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings.

According to Government Auditing Standards (GAS 7.34), if during the course of the audit, auditors become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply procedures specifically directed to ascertain the potential affect on the program under audit within the context of the audit objectives. Examples of abuse, depending on the facts and circumstances, include (GAS A.06):

- creating unneeded overtime;
- requesting staff to perform personal errands or work tasks for a supervisor or manager;
- misusing the officials position for personal gain; and
- making procurements or vendor selections that are contrary to existing policies or unnecessarily extravagant or expensive.

### Procedures for Coordinating with OCA’s Fraud Hotline

In making the fraud risk assessment for the audit, auditors should determine if there were Fraud Hotline complaints involving any program area covered by the audit objectives. Substantiated Fraud Hotline complaints are published and the Auditor/Investigator can be consulted to determine if there were potential systemic issues that might bear on the Fraud risk for those complaints that were closed with other conclusion than substantiated.

### C. Considering Whether Compliance with Laws, Regulations, or Provisions of Contracts and Grant Agreements Is Significant to Performance Audit Objectives

According to Government Auditing Standards (GAS 7.28), auditors should determine which laws, regulations, and provisions of contracts or grant agreements are significant within the context of the audit objectives and assess the risk that violations of those laws, regulations, and provisions or grant agreements could occur. Based on that risk assessment, the auditors should design and perform procedures to provide reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts or grant agreements that are significant within the context of the audit objectives.
D. Considering Whether the Nature and Profile of the Program and User Needs Are Significant to
the Audit Objectives

According to Government Auditing Standards (GAS 7.13), auditors should obtain an understanding of the
nature of the program or program component under audit and the potential use that will be made of the
audit results or report as they plan a performance audit. The nature and profile of a program include:

- **a.** visibility, sensitivity, and relevant risks associated with the program under audit;
- **b.** age of the program or changes in its conditions;
- **c.** the size of the program in terms of total dollars, number of citizens affected, or other measure;
- **d.** level and extent of review or other forms of independent oversight; program’s strategic plan and objectives; and
- **f.** external factors or conditions that could directly affect the program.

E. Considering Whether the Results from Previous Audits and Attestation Engagements Are
Significant To Performance Audit Objectives

According to Government Auditing Standards (GAS 7.36), auditors should evaluate whether the audited
entity has taken appropriate corrective action to address findings and recommendations from previous
engagements that are significant within the context of the audit objectives. When planning the audit,
auditors should ask management of the audited entity to identify previous audits, attestation engagements,
performance audits, or other studies that directly relate to the objectives of the audit, including whether
related recommendations have been implemented. Auditors should use this information in assessing risk
and determining the nature, timing, and extent of current audit work, including determining the extent to
which testing the implementation of the corrective actions is applicable to the current audit objectives.
Audit Tool: Assessing Audit Risks and Significance (GAS 7.11 through 7.36)

<table>
<thead>
<tr>
<th>A.1 Design and implementation of internal controls (GAS 7.11b, 7.16)</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>w/p reference or auditors notes if appropriate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did the department design and implement policies and procedures for managing the program?</td>
<td>√</td>
<td></td>
<td></td>
<td>Policies and procedures are highlighted in the Service Level Agreement with Department.</td>
</tr>
<tr>
<td>Does the department establish and review performance measures?</td>
<td>√</td>
<td></td>
<td></td>
<td>Performance measures are established in the Service Level Agreement, but the frequency of review is not included.</td>
</tr>
<tr>
<td>Does the department accurately and timely record documentation?</td>
<td></td>
<td>√</td>
<td></td>
<td>We found time lags with the project management system. Additionally, we found the system is dependent on project managers to input and this has been done inconsistently.</td>
</tr>
<tr>
<td>Are separations of duties established appropriately?</td>
<td></td>
<td></td>
<td>√</td>
<td>Preliminary review suggests some duplication of efforts.</td>
</tr>
<tr>
<td>Is the department properly safeguarding program resources and funds against unauthorized acquisition, use, or disposition by employees, contractors, grantees, and recipients of program benefits</td>
<td>√</td>
<td></td>
<td></td>
<td>We don’t have reason to believe they are not, but will review this issue.</td>
</tr>
<tr>
<td>Is the department properly monitoring program activities such as contractors for performance and value of service provided?</td>
<td>√</td>
<td></td>
<td></td>
<td>Departments discuss program activity and custom update reports are provided monthly.</td>
</tr>
</tbody>
</table>

| A. 2 Design and implementation of information system internal controls (GAS 7.11c; 7.24; 7.27) | Yes | No | N/A | w/p reference or auditors notes if appropriate |
|-----------------------------------------------------------------------------------------------------------------|
| Are information systems used extensively throughout the program under audit and/or for fundamental business processes related to the audit objectives? | √   |    |     | Note: Primary information systems used are…. |
| Is an understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives? | √   |    |     | Note: Audit staff will be provided with information system training prior to fieldwork. |
| Are information systems controls significant to the audit objectives and therefore necessary to evaluate in order to obtain sufficient, appropriate evidence? | √   |    |     | Audit staff will review financial systems controls to prevent input error. |
| Are audit procedures related to information systems controls needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions? | √   |    |     | Audit staff will test financial systems controls to prevent input error using quantitative methods. |

<table>
<thead>
<tr>
<th>B. Potential for fraud and abuse (GAS 7.11d; 7.30)</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>w/p reference or auditors notes if appropriate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has the audit team become aware of abuse that could be quantitatively or qualitatively significant to the program under audit?</td>
<td></td>
<td>√</td>
<td></td>
<td>The team has not been made aware of waste, fraud or abuse to obtain government benefits during our survey phase.</td>
</tr>
<tr>
<td>In the team judgment, is the program or activity covered by the audit objectives susceptible to a significant risk of fraud from misappropriation or misuse of assets, or misstatement of program information in order to obtain government benefits?</td>
<td></td>
<td></td>
<td>√</td>
<td>The team has not been made aware of waste, fraud or abuse to obtain government benefits during our survey phase.</td>
</tr>
</tbody>
</table>
### C. Legal and regulatory requirements, contract provisions and/or grant agreements (GAS 7.11d; 7.28)

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>w/p reference or auditors notes if appropriate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has the audit team identified the laws, regulations, and provisions of contracts or grant agreements that directly relate to specific aspects of the program within the context of the audit objectives?</td>
<td>√</td>
<td></td>
<td></td>
<td>In progress; the primary drivers include EPA and CA Health Department requirements.</td>
</tr>
<tr>
<td>Could the audit objectives or the auditors’ conclusions be significantly affected if violations of these laws, regulations, or provisions of contract or grant agreements occurred?</td>
<td>√</td>
<td></td>
<td></td>
<td>Note: See “Risks” column of Design Matrix.</td>
</tr>
</tbody>
</table>

### D. Considerations of the nature of the program and needs of potential users (GAS 7.11a; 7.13)

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>w/p reference or auditors notes if appropriate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have the visibility, sensitivity, and relevant risk associated with the program been assessed?</td>
<td>√</td>
<td></td>
<td></td>
<td>Note: See “Risks” column of Design Matrix.</td>
</tr>
<tr>
<td>Has the audit team identified the key stakeholders and potential users of the program and assessed their potential needs?</td>
<td>√</td>
<td></td>
<td></td>
<td>Preliminary survey meetings were conducted with Departments and oversight committees.</td>
</tr>
<tr>
<td>Did the program change or evolve over time?</td>
<td>√</td>
<td></td>
<td></td>
<td>Two departments were consolidated into one in fiscal year 2009.</td>
</tr>
<tr>
<td>Is the size of the program significant in terms of total dollars, and number of citizens affected?</td>
<td>√</td>
<td></td>
<td></td>
<td>Note: Department’s CIP Budget for FY 2012 is $250 million, about 30 percent of its total budget.</td>
</tr>
<tr>
<td>Is the extent of review or other forms of independent oversight significant to the audit objectives?</td>
<td>√</td>
<td></td>
<td></td>
<td>Examining compliance with the EPA and CA Health Department compliance order are significant to the audit objective.</td>
</tr>
<tr>
<td>Has the team identified the program’s strategic plan and objectives?</td>
<td>√</td>
<td></td>
<td></td>
<td>Reviewed for FY 2012.</td>
</tr>
</tbody>
</table>

### E. Results of previous audits (7.11e; 7.36)

<table>
<thead>
<tr>
<th>Result of previous audits</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>w/p reference or auditors notes if appropriate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has the audit team identified results of previous audits that directly relate to the current audit objectives?</td>
<td>√</td>
<td></td>
<td></td>
<td>Yes, these include…</td>
</tr>
</tbody>
</table>