

Structural Reform: Auditing

Entrepreneurs in the private sector often hire consultants to advise them on how best to streamline operations and deliver goods to market as efficiently as possible.

Public-sector entrepreneurs who direct charter agencies¹ could benefit from similar advice. The state of Nevada can ensure such valuable support for its new charter agency directors by empowering the state controller with a broad mandate and sufficient funding to conduct performance audits at state and local levels.

Key Points

Auditors should always remain free of political influence. Currently, the only state auditing offices in Nevada serve at the pleasure of incumbent politicians. The Audit Division of the Legislative Counsel Bureau is directly subordinate to legislative leadership while the Department of Administration's Division of Internal Audits is ultimately subordinate to the governor.

This subordination compromises auditors' ability to choose which government agencies or functions should be reviewed as well as the integrity of their findings – which become subject to potential suppression by interested politicians. For this reason, state audit functions should be consolidated into a single office with independent electoral accountability.

Performance audits are different than financial audits. Financial audits merely review and reconcile accounting statements and practices without evaluating the relative effectiveness of each spending item. Performance audits go a step further by identifying the organizational structures and spending practices that would achieve optimal results.

Performance audits can identify substantial cost savings while simultaneously improving performance. In 2005, lawmakers in the State of Washington expanded the powers of that state's independent auditor to conduct performance audits for all state and local governments. In 2012, the office also launched a dedicated Local Government Performance Center. Within its first 10 years, the office conducted 30 performance audits and conducted reviews of more than 80 state and local governments, programs and services.

State and local governments in Washington reported saving over \$1 billion as a result of implementing the performance auditor's recommendations since the first performance audit was published in 2007. The office estimated that every dollar spent on performance audits resulted in \$16 in savings. What's more, the auditor's advice has been accepted with enthusiasm, as 86% of recommendations were fully or partially implemented.²

Performance audits are a natural complement to charter agencies. While a performance audit can be valuable to any organization, the organizational structure of charter agencies especially aligns the incentives facing agency directors with those of lawmakers and taxpayers. When agency directors and their employees see a direct financial benefit – and not a loss – as the result of increased cost-effectiveness, they have every motivation to actively solicit

¹See "Structural Reform: Charter Agencies."

²Washington State Auditor's Office, "Annual Performance Audit Progress Report: Report No. 100777," December 2014.

and aggressively implement the recommendations of performance auditors.

Recommendations

Extend a mandate and sufficient funding to the state controller to conduct performance audits. Existing auditors' offices in the legislative and executive branches could be consolidated with the controller's office and used to conduct performance as well as financial audits.

The controller should gain explicit authority to conduct performance audits for any state or local government. Local government expenditure in Nevada has historically been a more significant component of public spending than state expenditure. Therefore, while performance audits of state agencies are valuable, the financial impact could be far greater if the controller also examines local government operations.

Performance Audits in Washington State

Name of Audit	Audit's Findings
Department of Transportation — Congestion Management	Provided recommendations for reducing road congestion 20% through low-cost measures; Economic impact: \$3 billion
Collection of State Debt at Six State Agencies	Uncollected debt: \$319.4 million within four agencies
Port of Seattle Construction Management	Unnecessary spending: \$97.2 million due to inadequate oversight
King County Solid Waste and Wastewater Treatment Utility Operations	Potential savings: \$78.8 million to \$82.4 million; Additional Revenue: \$4.8 million to \$6.8 million
Opportunities for the State to Help School Districts Minimize the Costs and Interest Paid on Bond Debt	Cost Avoidance: \$44.6 million to \$79.4 million by following best practices
Administrative and Support Services at the 10 largest K-12 School Districts	Unnecessary costs: \$54 million within eight school districts
Department of Transportation — Washington State Ferries	Potential savings: \$50.2 million through better management practices
Department of Transportation — Highway Maintenance and Construction Management	Cost avoidance: \$42 million by improving inventory and supply management
Educational Service Districts	Provided recommendations for better coordinating services and reducing administrative costs; Cost avoidance: \$25.3 million
Seattle Public Utility Operations	Potential savings: \$17.6 million to \$24.4 million by restructuring operations
Department of Transportation – Administration & Overhead	Cost avoidance: \$18.1 million by centralizing functions and avoiding redundancy
Three Public Hospital Districts	Potential savings: \$8.4 million through organizational efficiencies
Sound Transit's Link Light Rail	Unnecessary spending: \$5.1 million due to poor construction management
Department of General Administration Motor Pool	Cost avoidance: \$2.3 million by changing purchasing methods and reassigning underused vehicles
Department of Commerce User Fees	Could reduce general fund spending: \$2.2 million to \$2.4 million if fees were charged for four programs
King County Rural Library District Construction Management Practices	One-time savings: \$715,000 to \$1.3 million; Potential ongoing savings: \$1.1 million subject to price increases and labor disputes
Use of Impact Fees in Federal Way, Olympia, Maple Valley, Redmond and Vancouver	One-time savings: \$1.18 to \$1.34 million by more effectively calculating impact fees
Seattle Public Schools Construction Management	Cost avoidance: \$1.2 million by implementing best practices
Travel Practices at 13 School Districts	Cost avoidance: \$1.1 million by implementing best practices
Department of Fish and Wildlife Vehicle Use	Net cost avoidance: \$1 million by improving fleet management practices