In times of increased competition and emphasis on the bottom line, private firms and government agencies alike are questioning whether they provide appropriate services at the greatest level of efficiency—and at what cost. Those firms and agencies actively seeking to execute responsibilities effectively, efficiently and economically increasingly turn to a tool called “performance auditing” for the answers.

Performance auditing, also known as management or operational auditing, typically addresses and evaluates the following areas within a firm or agency: workload (quantity, quality); organization (reporting levels, spans of control);
operations (work flow, adherence to standards); and resources (manpower utilization, technology utilization).

The goal of performance auditing is to isolate current strengths and weaknesses within each of these areas. Once this is done, the auditor develops practical and cost-justified recommendations for improvement, where warranted.

COMPONENTS OF THE AUDIT

When considering workload, a key concern is the quantity of work produced by month over the prior year, as well as the potential for leveling the peak workload through workload re-balancing. The opinions of external and internal service recipients are the basis for evaluating the quality of the work produced.

The assessment of the organization involves the number of reporting levels and the possibility of compressing the number of management tiers. Analysis is also directed at broadening spans-of-control to ensure that each manager generally has the appropriate number of direct reports.

Operational evaluations seek to streamline the work flow by removing unnecessary and redundant steps and to improve the execution of retained steps through improvements in
methods. In addition, significant analytical effort compares actual processing times to standard times that are norms for the performance of each activity.

Evaluating resources includes an assessment of manpower use, including staffing levels, job classifications, skill levels, morale and training requirements. As part of this evaluation, the possible substitution of technology (automation) for manpower is considered where the benefits, in terms of reduced manpower requirements, outweigh the acquisition implementation cost.

**THE AUDIT PROCESS**

The following three key criteria all should be used in the development of a performance auditing program:

- It should generally conform to the United State General Accounting Office’s guidelines for performance audits.

- It should be kept as simple as possible to minimize both the cost of execution and the disruption to the audited agency.

- It should lead to continuous positive change, not confrontation.

Once the program is formally established, staff from the auditing firm should consult with the client company or agency to prepare them for subsequent performance audits. This consultation should emphasize helping managers conduct a “self-assessment” aimed at isolating and correcting deficiencies.

The auditor should announce an annual schedule for the performance audit, including the groups to be audited and the intended time frame. In the actual administering of performance audits, the auditor may draw on his or her own staff as needed, or seek outside participation.

At the end of a performance audit, the output should be a report in draft form that details the audit findings, conclusions...
and recommendations. This draft report is given to the audited group for its review and comments. At a subsequent “exit conference,” the auditor and the audited group should discuss the report and agree on required changes or modifications.

Using this valuable feedback, the auditor should then issue a final audit report to the audited personnel. The organizations top managers routinely receive copies of the final audit report.

**IMPLEMENTATION**

Now is where the real action begins. Audited groups must keep up momentum by aggressively implementing the recommended improvements. To this end, audited groups should be required to submit quarterly implementation status reports to their senior management team.

Experience has shown that as a firm or agency begins to implement a performance auditing program, the initial
wave of recommendations for improvements tends to focus on the following:

- Additions and/or deletions to the range of services offered.

- Organizational changes, including reductions of management layers and broadening span-of-control.

- Substitution of technology (automation) for manpower.

As the program matures, subsequent waves of recommendations tend to focus on the following:

- Elimination of activities that don’t support the mission.

- Modification of activities through methods improvement.

The intention of the performance auditing program must be fostering continual improvement, not confrontation. By blending the experience of the auditor with the concepts outlined above, a successful program should result.

About the Authors
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