

Performance Auditing for Added Value: Governance, Politics and Accountability  
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Introduction

I'm often struck by how many managers and some auditors think that performance auditing can either focus on accountability or on program improvement. I personally believe that this is a false distinction and that it leads auditors astray by making it seem like the only way we can improve performance is by ignoring our accountability role. Under this scenario, it is a short trip to the place where the IIA wound up a few years ago, when, to justify auditing by focusing on value-added, they included "consulting" in the definition of internal auditing and thus nearly eviscerated internal auditing. In fact, performance auditing can best add value by carrying out its accountability mission.

A fair description of problems, resources, roles, and responsibilities – combined with carefully calibrated recommendations – can energize stakeholders to rethink problems and programs in ways that truly add value. The specific program's performance can be improved, the organization's credibility with stakeholders can be improved and the capacity of the community to deal with future problems can be enhanced. To separate accountability and service improvement is an inherently elitist and anti-democratic approach. To link them is to use audit as a tool for improving governance and promoting a community that is more effectively engaged in self-government.

So let me be clear:

Performance auditing adds value through carrying out its accountability mission.

In making this argument, I intend to:

- Discuss the concepts of governance, politics and accountability and show how they are critically linked with each other;
- Discuss specifically what it means for an audit to “add value;”
- Use case studies of successful audits to show how these ideas can work in actual practice; and then
- I'll conclude with some ideas for improving the value added by our audit work.

Governance

Governance is the structure and system for controlling the organization  
Contained in laws and rules, the governance structure

- Establishes the connection – often long and indirect – between the principals and the agents
- Provides for formal reporting relationships and the formal basis of rewards and sanctions

- Two principal issues in governance are: the principal-agent relationship; and the problem of moral hazard.

#### The principal-agent relationship

- The principals are the owners of the organization, the managers are the agents.
- In governments the citizens are the principals, legislative bodies are “citizen intermediaries” who serve as a sort of surrogate for the principals, and appointed officials (management) are the agents.
- Governing bodies are supposed to provide policy direction to management on behalf of the citizens and oversee the work of management to assure that the will of the citizens (the principals) is carried out and the organization remains true to the purposes for which it was created and given power, authority and resources.

#### Moral hazard

- A basic, universal, and enduring problem of organizational life is the tendency of the agents to direct the organization toward their own purposes rather than those of the principals. This is referred to as the problem of “moral hazard.”
- The agents are able to do this because of their
  - Expertise
  - Monopoly power over information
  - Control over rewards and sanctions for line staff

#### Politics

Politics is the process by which stakeholders contend and negotiate with each other over the control and direction of the organization, the allocation of resources, the choices of means and ends and the values embodied therein.

First, a couple of quotes that provide completely contrasting views of politics:

“Being a politician is like being a football coach. You have to be smart enough to play the game and dumb enough to think it’s important.” Former Senator Eugene McCarthy.

“I like covering politics because it’s the only news that makes a difference. Politics changes your schools. It paves your streets. It puts out your house fire and fills the public swimming pools with water. And it takes money out of your pocket.” Dave Helling, local television news reporter.

My own view is far closer to that of the TV reporter. I like politics, I’m interested in politics and it’s hard for me to imagine a subject that’s more important. Political decisions directly impact the daily fortunes of ourselves and those we love.

Sometimes, from my office high atop city hall, I hear police sirens. When I hear them, I sometimes think about the connection between those police sirens and politics. Politics determines the mission of the police department, the resources devoted to that

mission and the extent to which actual practice reflects the mission. If the front door of my house is kicked in at 2:00 in the morning, the police department becomes real important to me. In Kansas City, this is what will probably happen –

- The cops will take twice as long to show up, as you would reasonably expect.
- The cops who do show up will be white (12 percent of the force is minority compared to 40 percent of the community).
- The burglary will be half as likely to be eventually solved, as you would expect.

In Kansas City, the police department is a state agency, and one of the principal reasons given for it being a state agency is to keep the politics out of the running of the department.

Democracy can be defined as a philosophy that insists upon the right and capacity of a people, acting either directly or through representatives, to control their institutions for their own purposes. Politics is the *actions* taken by a people, either directly or through their representatives, to control their institutions for their own purposes. *Politics* then, is how we make democracy real. In the case of the police department, for example, the department is the institution and politics is the way in which the community, of which my family and I are a small part, seeks to control the department for our own purposes. If we find the probable outcomes I mentioned as unacceptable, then politics is the only way to try to change them.

When people, especially professional technical people in government, like auditors and evaluators, criticize a decision as “political,” I often think – As opposed to what? How do they think the decision should have been made? Sometimes the political process is bad or corrupt, but any process can be misused or corrupted. Politics is certainly not inherently bad and there is no other way to do self-government.

But what about “politicians?” Are politicians bad? I usually use the term “elected officials” instead of the term “politician.” But, here, in my view, are a couple of examples good politicians:

Lincoln – lifelong career politician, abolished slavery and saved the nation

Churchill – lifelong career politician, arguably saved Western civilization

The fact is there are both good politics and bad politics:

Good politics

(Much of this is derived from the work of John Nalbandian.

<http://raven.cc.ku.edu/~nalband/srtbio.htm>)

- Fair and open process
- Relatively equal access to critical information
- Adheres to the rules of the governance structure
- Respects basic values: professionalism/efficiency, representativeness, social equity and individual rights

### Bad politics

- Process is unfairly tilted toward one group of stakeholders
- Important information is distorted or concealed
- The rules of the governance structure are violated
- One or more of the core values of community life are abused or ignored

### Accountability

Conceptually, accountability is a two-part process involving both the governance structure and the operation of that structure through politics.

- The governance structure generally provides for a set of rules and procedures that may or may not be set in motion because they depend upon politics to set them into motion.
- The governance structure also may allow for a broad range of very ambiguous rewards and sanctions that are almost always focused at the individual level and almost never provide for institutional changes.

A hypothetical example of the accountability equation:

The first quarterly analysis of revenues and expenditures shows that the city has a budget gap in the current fiscal year of \$15 million. The stated reason is that the revenue estimate reflected a consensus estimate of an economic turn around in 2003 that did not occur. The earnings tax forecast was for 4.5% growth even though the econometric model used produced an estimate of 3.8%.

Who's accountable? What rewards or sanctions? The budget officer who works for the city manager? The city manager who works for the council? The council who works for the citizens? The citizens who elect them? The governance structure provides the links in this equation, but its politics that drives it. And the focus tends to be on individuals rather than a process improvement.

### Audit, governance and politics

In the example above you can see how audit could enable the governance process to work better.

First, by revealing facts about the revenue estimation and then by providing possible structural improvements that might lead to better estimates in the future. The critical point is that without audit the governance structure and the political process has virtually no chance to produce meaningful accountability.

Second, accountability through the structure has to result from a political process. For example, a decision to remove the city manager (or to give him a raise) or an ordinance to revise the revenue estimation process would require negotiation and discussion and ultimately a vote.

What is a successful audit? A successful audit is one in which good audit work results in audit impact – that is, a significant change for the better – usually through politics.

- Criteria for good work
  - Select the right topics: centrality, materiality, sensitivity
  - Help decision-makers fulfill accountability
  - Clear message
  - Accurate and supported
  - Concise (strength to weight ratio)
  - Feasible recommendations
  
- Predictors of audit impact
  - Intention to achieve significant impact
  - Audit quality
  - Media attention
  - Agreement with recommendations
  - Focus on recommendation implementation after the report is released

Successful audits add value by improving the politics – moving it from bad politics to good politics and allowing the governance structure to function better.

- Better policy direction
- Better oversight
- Increased efficiency (professionalism), effectiveness, or equity.

#### Case studies of successful audits

##### 1. Oklahoma City Municipal Court judges

A brief description of the audit:

Directed by the council – focused on judge workload

The audit impact:

- Number of judges reduced from 6 to 4, hours made more convenient for citizens and regular reporting of performance measures to council.

Politics and governance

- Judges attacked the auditors
- Council had formal control through appointment and establishment of judgeships but could not act without the audit information on workload and hours in court.

##### 2. Kansas City Street Light audit

A brief description of the audit:

Focused on adequacy and cost of streetlight system leased from KCPL

The audit impact:

- City negotiated new agreement with KCPL reducing rates
- Voters approved bond package to buy and upgrade system
- Lighting is better overall, cost per light reduced by a third, citizen satisfaction improved

Politics and governance

- Utility did not publicly defend position
- Broad community discussion about lighting system
- Public vote
- Considerable attention to maintenance package

3. Kansas City Food Protection audit

A brief description of the audit:

- City ordinance based on outdated federal guidelines
- Inspection resources inadequate to meet even outdated ordinance
- Inspections much less frequent than required

The audit impact:

- Restaurant association agreed with and voters approved doubling fees
- Food ordinance updated
- Inspectors hired – positions upgraded

Politics and governance

- Restaurant association agreed because of public image
- Voters approved based on media coverage
- Health department prevailed internally - positions upgraded

EPA – OIG audit of air quality at ground zero

A brief description of the audit:

[http://www.epa.gov/oigearth/reading\\_room/WTC\\_report\\_20030821.pdf](http://www.epa.gov/oigearth/reading_room/WTC_report_20030821.pdf)

- EPA statements about air quality were not completely accurate
- Response to indoor air met law but delayed needed health protection

The audit impact:

- Not yet clear – meets criteria for quality and predictors of impact

Politics and governance

- Auditors attacked – but unscathed
- The Government’s credibility and legitimacy damaged

Lessons for adding value through performance auditing

Truth and Transparency

- Understand and seek to fulfill the role of audit in the governance structure
- Focus on improving the politics by speaking truth to power
- Sin has many tools but a lie is the handle that fits them all.
- “News” is a powerful driver of audit impact. (The news is what’s hidden – everything else is advertising. Quoted by Lynn Horsley of the Kansas City Star.)
- Expect to be attacked – but don’t over estimate the potential effect of the attack.
- Don’t back down. It’s not you and it’s not them – it comes with the territory.

- Be fair and balanced in your work because that's critical to being effective – but don't expect credit – the “powers that be” often don't want “fair and balanced,” they want undiluted praise.
- Stick to your guns – solid audit work, even if it does not allow you to prevail, will usually be enough to allow you to hold your ground.

We are a self-governing people. The government is us; therefore, governance is a shared responsibility. The provision of public services – the management of common problems – coping with community conditions...these are shared responsibilities between all citizens, those of us who are paid to do this work as well as the vast majority who are not. Virtually no service is the exclusive domain of the paid staff. Government of the people, by the people, for the people isn't just a wonderful ideal captured in elegant rhetoric; it's the way the real world actually works. And it works better when the people know the truth.