

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

**Internal Audit Program for Audit 02-12A
*Table of Contents***

INTERNAL AUDIT PROGRAM FOR AUDIT 02-12A	1
Introduction	2
Background	2
Scope and Objectives	4
Audit Steps	8
Evaluation of Options	21

By: Shelly Martin
18-Sep-01
Preliminary Audit Program Approval

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Introduction

Special audits of operations, procedures, programs, electronic data processing systems, and activities as directed by the Director are conducted in accordance with the Fiscal Control and Internal Auditing Act. The goal of a special audit is to provide an independent appraisal to senior management to serve as a basis for effective and efficient decisions in accomplishing Agency goals and objectives.

Background

Governor Ryan focused his attention on performance measures and strategic planning with the issuance of Executive Orders 99-07. He stated that State government performs best when its mission is clear, its goals well articulated, and its agency management strategy unified in purpose.

One of the requirements of Executive Order 99-07 is that each agency develop performance measures to assess customer satisfaction, progress towards accomplishing outcomes specified in agency budgets and shall develop procedures to provide feedback on the impact of operational improvements and encourage employee involvement and management improvement initiatives.

Each agency shall report the results of progress made through its improvement efforts to the Office of Statewide Performance Review and the State Government Accountability Council on a quarterly basis. The reports shall specify improved outcomes for public service efficiency and effectiveness. The report shall also describe how customer service and stakeholder satisfaction is measured, methods used to engage employees and how agency business practices have been changed to improve efficiency, effectiveness and quality.

Performance measurement yields many benefits for an organization.

- provides a structured approach for focusing on a program's strategic plan, goals, and performance
- provides a mechanism for reporting on program performance to upper management

The key to performance measurement is developing an awareness of what the agency does and should be doing from the broadest sense down to the narrowest sense. Performance measures should be limited to those that relate to strategic organizational goals and objectives, and that provide timely, relevant, and concise information for use by decision makers at all levels to assess progress toward achieving predetermined goals.

The following describes the different types of measures:

- output - number of goods produced or services provided
- outcome – benefits or results gained by the service being rendered
- service - customer satisfaction with the good or service

Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A

- efficiency – unit cost to produce the good or service

Many profession organization and offices are emphasizing the importance of accurate performance information. The General Accounting Office (GAO) recognizes that there should be credible procedures to verify and validate performance information and that auditors should verify whether those procedures are in place. They also suggest doing a periodic review of data collection, maintenance, and processing procedures to ensure that they are consistently applied and continue to be adequate. The GAO suggested a periodic sampling and review of data to ensure their completeness, accuracy, and consistency. The Institute of Internal Auditors state that when looking at performance measures auditors should ensure processes and controls are in place so management is comfortable with information reliability.

The majority of the criteria in this audit program is based on Tom Herndon's, Director of the Illinois Office of Strategic Planning, strategic planning circulars. However, some of the criteria used in developing this audit program were derived from the Office of Statewide Performance Review, the Office of the Comptroller, the General Accounting Office, the Office of Management and Budget, and the Institute of Internal Auditors.

Measures must assess what they are intended to measure and that measurement results are consistent within and across periods. When these conditions can be met, the auditor should be able to conclude, by the collection and evaluation of evidence, that the measurement process and measures are presented fairly.

Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A

Scope and Objectives

This audit is conducted in accordance with the Standards for the Professional Practice of Internal Auditing, and, where appropriate, other applicable standards. The scope of this audit is to ensure the relevance, comprehensiveness, understandability, timeliness, and reliability of performance information, and to ensure the information complies with the Governor's Executive Order 99-07, the Office of Strategic Planning, the Office of Statewide Performance Review, the Office of the Comptroller, and any additional requirements.

This audit is a comprehensive audit of the entire agency's strategic plan and other performance information. Our audit approach, beginning in FY02, will be to review a sample of performance measures from each area audited, when applicable, to verify the accuracy, reliability, and control of the performance measures. This general review will be detailed in each individual audit program. The need for another comprehensive audit will be determined by the results of the individual audits.

Objectives

- A. Determine if the performance information is in compliance with relevant statutes, rules and regulations.
- B. Assess whether the reported measures are valid, reliable, accurate and meet the criteria for a good performance measure.
- C. Assess the effectiveness of the systems of internal controls for measuring, reporting and monitoring.
- D. Ensure the performance information reported to the Governor's Office match the performance information reported to the Bureau of the Budget.
- E. Ensure the performance information is used in decision making (monthly reports) and performance evaluation forms.
- F. Follow-up on previous internal and external audit recommendations to determine that appropriate corrective action has been taken or is in progress.

Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A

Performance information data is located in the following documents:

- Annual Management Plan
 - Mission statement
 - Goals
 - Objectives
 - Input indicators
 - Output indicators
 - Performance measures – customer service based (FY02 only)
 - Performance measures – external benchmarks (FY02 only)
 - Efficiency indicators – internal process (FY02 only)
 - Efficiency indicators – external benchmarks (FY02 only)
 - Outcome indicators (FY03 only)
 - Efficiency/cost-effectiveness indicators (FY03 only)
 - External Benchmarks (FY03 only)

- Strategic Plan
 - Mission statement
 - Values
 - Vision
 - Goals
 - Objectives
 - Strategy
 - Input measure
 - Output measure
 - Outcome measure
 - Program’s responsible party
 - Specific action steps
 - Schedule of milestones
 - Mandates

- Service Efforts and Accomplishments Reports
 - Mission statement
 - Goals
 - Objectives
 - Output indicators
 - Outcome indicators
 - Efficiency/cost-effectiveness indicators
 - Input indicators
 - External Benchmarks

Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A

Definitions

Efficiency indicators – unit cost to produce the good or service

Efficiency indicators (external benchmarks) – designed for use with comparative measures

Efficiency indicators (internal process) – highlight changes being made to processes in order to reduce processing time or errors caused by the process

Goals – broad statements of intent; the general ends toward which the agency directs its efforts based on issues that have been identified as priorities

Input measures – the amount of resources that have been used for a specific service or program

Mission statement – an action-oriented formulation of the organization's reason for existence.

Objectives – narrow, explicit statement of intent that defines how a goal is to be achieved

Outcome measure – benefits or results gained by the service being rendered, by the level of effort being expended and by the agency's work completed

Output measure – the number of units produced or the services provided

Performance measures – ensure accountability and continuous improvement

Performance measures (customer service based) – measure the results achieved by the services provided

Performance measures (external benchmarks) – external comparisons of customer service measures

Service measure – customer satisfaction with the good or service

Strategy – the method, approach or response the agency will employ to achieve its goals and objectives, pattern of purposes, policies, programs, projects, actions, decisions, and resource allocations that defines what an organization is, what it does, and why it does it.

Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A

Strategic issues – fundamental policy questions or critical challenges that affect an organization’s mandates, mission, and values

Value statement – identifies how an organization conducts itself and what system of values it wishes to operate under with both internal and external stakeholders.

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

*Audit Steps
Plan of Audit Procedures*

Audit Program

Completed	Workpaper Cross- Reference Number	Audit Plan
	I.1.	Review background material
	I.2.	Conduct an entrance conference with CMS personnel
	I.3.	Perform Preliminary Survey and Document the Internal Control Structure.
	I.4.	Subjectively evaluate and assess by testing control risk area documented in I.3.
	I.5.	Examine and evaluate information.
	I.6.	Draft report.
	I.7.	Conduct an exit conference.
	I.8.	Director's presentation.
	I.9.	Follow-up and Consideration for next audit review.

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Audit Program

Workpaper
Reference

Audit Program I.1.: Review background material.

Purpose

The purpose of the background review is to become familiar with the program and the requirements related to strategic planning and performance measures.

Objective

The objective is to review such material to enable the auditor to be aware of the program and the requirements.

The depth of review is based upon the auditors knowledge of the program area and the requirements of the offices listed in I.1.C. and the information obtained from the entrance conference (I.2).

Procedures

- I.1.A. Review the program's purpose and operation.
- I.1.B. Review executive orders and statutes.
- I.1.C. Review the requirements of the Office of Strategic Planning, the Office of Statewide Performance Review, and the Comptroller.
- I.1.D. Review prior work performed by Internal Audits and any other study(ies) or audit(s) available.
- I.1.E. Submit announcement letter with preliminary list of data needed for entrance conference.
- I.1.F. Review materials requested in I.1.E.

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Audit Program

Workpaper Reference Audit Program I.2.: Entrance conference

Purpose

The purpose of this review is to provide a general understanding to key management personnel of the preliminary scope and overall procedures of the audit.

Objective

The objective of the review is to obtain information from key management personnel, through the use of general questions, that will: 1) enable the auditor to conduct the audit in an orderly and knowledgeable manner and 2) allow introduction of items that may impact the audit, such as plans to change performance information.

Procedures

- I.2.A. Brief Chief Internal Auditor with information learned from review of background material.

- I.2.B. Set up an entrance conference with Bureau management and key staff members. CIA will introduce auditor and explain audit procedures. Auditor will explain preliminary scope and objectives and timetable. Take written information to document the topics discussed and the persons in attendance.

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Audit Program

Workpaper
Reference

Audit Program I.3.: Perform Preliminary Survey and Document the Internal Control Structure

Purpose

The purpose of the study is to document the controls and procedures in place and assess risks that relate to the scope of the audit.

Objective

The objective of the study is to enable the auditor to assess whether further tests need to be conducted to assess the accuracy of the performance information.

(Necessary revisions may be made to the procedures as the audit is performed.)

Procedures

I.3.A. Review the entire strategic plan for the following:

I.3.A.1. Mission statement:

Verify that the mission statement satisfies the following:

- Whose needs do they meet/Who is the primary customer
- What needs do they meet/What is the core function
- How do they meet those needs
- Why is the service of a more general benefit

I.3.A.2. Overall Strategic Plan:

- Does the plan address the mission?
- Does the plan specify the timing of the actions that need to be tackled to get the strategy under way?
- Have top priority tasks been completed within a reasonable time frame?
- Have control systems been established to assure that the strategy implementation meets management's expectations?
- Have the key assumptions upon which the plan is based been recognized and documented?
- Have people been assigned responsibility for key tasks?

Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A

- I.3.A.3. Strategic Issues:
Verify that the strategic issues meet the following criteria.
- Challenge that the agency can do something about and has more than 1 solution
 - Discusses the factors that make the issue strategic
 - States the consequences of failing to address the issue
 - Focuses on issues, not answers

- I.3.A.4. Goals:
Verify the goals cover the major functions and operations of the agency/program and are logically related to the mission statement.

- I.3.B. Using a risk assessment approach, choose a sample of objectives from each program (using the Strategic Plan and the Annual Management Plan). For each objective, perform the tests listed in I.3.B.1. through I.3.B.6.

- I.3.B.1. Objectives:
- Logically related to the goal
 - Clearly stated
 - Outcome-oriented
 - SMART – specific, measurable, achievable, realistic, timebound

- I.3.B.2. Measures:
Are the measures:
- relevant - logically and directly relates to the objective
 - responsive - reflects changes in the level of performance
 - valid - captures the information intended
 - reliable - provides accurate, consistent information over time
 - cost-effective/affordable - justifies the cost of collecting and maintaining the data
 - useful - provides information of value to decision makers
 - accessible - provides periodic information about results
 - comparable - can compare current performance with prior year performance
 - compatible - integrates with existing financial and operational systems
 - clear - presents information in a way that different people can understand it
 - customer-related
 - comprehensive - incorporates significant aspects of agency operations

Is the measurements alignment with the goals reasonable and clear?
Are there any measures that are not aligned?

Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A

If no measures exist for significant operations, request management develop a new measure.

I.3.B.2. Variances:

Determine reasons for missed targets:

- How does the reported performance compare to previous periods?
- Is the variance relevant to successful achievement of the goal or strategy?
- Do external factors affect performance?
- Is the variance due to a faulty projection of performance?

I.3.B.3. Controls:

All systems of control that support the performance measurement data collection should have effective input, process, and review controls.

Determine whether the internal controls over the data were properly designed, are operating efficiently, and ensure the consistent and accurate reporting of performance information.

- Written guidelines and procedures for data collection, calculation, and entry should exist.
- Ensure that information systems provide reliable, timely information.
- Review of measure calculations and summary documents should occur before performance information is reported.

I.3.B.4. Source Documents:

Provide reasonable assurance that the data supporting reported performance information exist and are complete so as to permit preparation of reliable and complete performance information.

I.3.B.5. Measure uses:

Document the planning, managing, and reporting uses of performance measures.

I.3.B.6. Strategies:

The method the agency will employ to achieve its goals and objectives.

- Represent the best alternative given the constraints?
- Cost-effective?
- Is the agency authorized to take the action outlined in the strategy?
- Deals with the strategic issue it was supposed to address?

I.3.C. Identify risks associated with the following:

Risk of not reporting accurate information.

Risk of inadequate or absent support documentation.

Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A

Risk of not reporting all relevant performance information.
Risk of failing to follow the measure definition.
Risk of calculation errors.
Risk of inadequate data collection procedures.
Risk of no supervisory review of reported data.
Risk of not using performance information in planning, managing, and reporting.

I.3.D. Evaluate and rank risks

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Audit Program

Workpaper
Reference

Audit Program I.4.: Evaluate and assess by testing control risk area documented in I.3.

Purpose

The purpose is to verify the understanding of the control processes that were outlined in step I.3.

Objective

The objective is to verify the controls and assess the adequacy of the processes to adequately maintain these controls.

Procedures

- I.4.A. If previous test warrant, test another sample (determined by a risk assessment) of measures by using the same evaluation criteria used in 1.3.A. Concentrate on the areas of greatest risk.
- I.4.B. Evaluate test results. Based on limited testing, determine if exceptions exist that warrant further review.
- I.4.C. Finalize audit program for the fieldwork phase. If there does not appear to be need for further review, prepare memorandum recommending the audit be terminated.

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Audit Program

Workpaper
Reference

Audit Program I.5.: Examine and evaluate information.

Purpose

The purpose is to provide sufficient and competent information to support audit results.

Objective

The objective of the tests is to obtain adequate information to determine if the bureaus are complying with statutes, policies, etc. and properly and efficiently processing transactions.

Procedures

- I.5.A. Conduct further substantive tests, if not combined with prior tests of controls.
- I.5.B. Make assessment of controls based on testing, observation, and/or interviews.
- I.5.C. Develop preliminary finding(s) document (finding.doc) and submit to CIA. Upon approval, discuss findings with audit client to verify accuracy and concurrence on corrective action.

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Audit Program

Workpaper Reference Audit Program I.6.: Draft Report.

Purpose

To maintain a copy of the draft report that was provided to management before the exit conference.

Procedure

Audit program provides core report, with findings being added to complete the report (draft1.doc).

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Audit Program

Workpaper
Reference

Audit Program I.7.: Conduct Exit Conference.

Purpose

To discuss audit and applicable findings with management.

Objective

To confirm understanding of issues on both sides, before the final report is compiled.

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Audit Program

Workpaper
Reference

Audit Program I.8.: Director's Presentation.

Purpose

To maintain a copy of the final report that was provided to the Director.

Procedure

Draft1.doc is core. Requires only revisions, if any, agreed to at exit conference and audit client's responses (drreport.doc).

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Audit Program

Workpaper
Reference

Audit Program I.9: Follow Up and Consideration for Next Audit
Review

Purpose

This is the area used to maintain any additional relevant information that may be collected after the audit.

Objective

This information will be reviewed before the next audit.

Procedure

Add recommendations and audit client's responses to RISR; document information here or in S\FOLLOWUP.

**Department of Central Management Services
Internal Audit Division
Strategic Plan/Performance Measures Audit Program
Audit 02-12A**

Evaluation of Options

1. Subjects for Future Audits: To be provided throughout fieldwork
2. Process Used to Develop Audit Program, Scope, and Objectives:

Preliminary scope and objectives were based upon the Chief Internal Auditor's interview with program management during the development of the Audit Plan. Audit scope and objectives may be revised based upon results of preliminary survey as presented in Audit Program.