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September 6, 2005

MEMORANDUM

TO: Council Members

FROM: Doug Marker and Lynn Palensky

SUBJECT: Performance Audits

ACTION REQUESTED: None at this time. This memo continues the discussion from the August meeting in Missoula on options and considerations for conducting performance audits on projects funded through the fish and wildlife program. The Council asked staff to explore performance auditing, and so this memo describes different approaches to performance auditing and further thoughts from Council members and staff on how to shape an initial audit.

Background

Performance audits could be used to 1) determine that proposed products of project implementation are efficiently delivered; 2) benchmark similar project work element costs, and 3) analyze cost-effectiveness. The Committee members expect to continue the discussion to define the goals of such a review and hope to perform an initial review during Fiscal Year 2006.

As a first step, staff looked at performance auditing at a general level. We defined six methods or approaches for performances audits - some at a project level and one at a program level (see table below). These approaches are not exclusive -- they could very well be used in combination. In talking to Council members about this in the past week, here are some initial thoughts about further defining the scope of an audit:

- Start small (*in an audit overall*)
- Review contract compliance (*terms of the contract*)
- Include if and how projects are meeting their stated objectives (*from the contract*)
- Review small sample size from projects in each category: hatcheries, wildlife, habitat, research, monitoring and evaluation, and coordination
- Evaluate ongoing and completed projects (*not new or future projects*)

Members expressed that starting small with an initial review is a good way to further define an approach and goal of future performance audits as audits can often grow in scope and cost without appropriate sideboards. Review of a small sample of each project type could help the Council

understand not only common contract compliance and enforcement issues such as project reporting and budgeting, but also general trends in meeting stated goals and objectives, efficiencies and cost effectiveness. This type of review could help us understand areas in the program where we could consider improvements.

Further discussion and next steps:

1. Continue discussion with members to define scope and goal of performance review
2. Define clear objective/purpose of performance audit
3. Create report format based on scope and goals of audit
4. Develop budget and timeline for conducting review
5. Propose options for staff or outside entity (consultant) to conduct review

Performance Audits - overview of approaches

Performance audit means: an objective and systematic assessment of any of an agency's programs, functions, or activities by the auditor or designee in order to help improve agency efficiency, effectiveness and accountability. Performance audits include economy and efficiency audits and program audits.

1. Performance Audit - Contracts (Contractor Compliance)

Geared toward evaluating any/all aspects of Bonneville's individual contracts and their contractors for compliance; from contract execution, performance and completion. May include evaluation of subcontractor bidding procedures, budget, work schedule/milestones, work element performance and completeness, invoicing, and reporting.

Bonneville COTRs, through normal contract management, largely perform this function. However, the Council could audit a small random sample of contracts for the purpose of reporting executed and implemented contracts.

This is generally the type of performance auditing that we understand the members prefer.

2. Performance Audit - Project Effectiveness (Project objectives effectiveness)

Geared toward evaluating the effectiveness of a particular project based on the project's objectives and anticipated or desired **outcomes**. This borders on Tier 3 level monitoring that attempts to establish "cause and effect" or inferential relationships between fish conditions, habitat conditions, and/or management actions. Tier 3 evaluates projects and programs meant to protect or enhance habitat conditions or fish production. This type of evaluation is complex and technically rigorous, and often requires measuring many parameters under a very structured statistical design to detect the variable affecting change.

This type of performance effectiveness monitoring (budget and scope) is being dealt with in the regional PNAMP venue.

3. Performance Audit - Project Management (BPA's management practices)*could include another layer of looking at the entire solicitation process, too

Focused more at the program level -- the administration and management of contracts within the program. This evaluation would look at the way in which Bonneville staff manages program implementation through contracts. The audit, depending on where the outer circle is drawn, could begin at the project recommendations phase and extend through final implementation and reporting phases of a funding cycle.

General:

- Identification of activities/services that can be eliminated, reduced, consolidated or enhanced;
- Analysis of the roles and functions of BPA, its programs and its services and their compliance with statutory authority

Specific:

- Analysis of PISCES in project management and budgeting
- Investigate reasons why actual budget numbers differ from recommendations
- Analyze ways to improve data management, storage and transfer
- Track BPA's enforcement of contract requirements
- Evaluation of contracting policies such as federal travel, tribal, purchasing, soliciting

This type of audit was completed on BPA's procedures prior to 2000 Program by the Moss-Adams firm for the Council.

Other Variations on the Theme

4. Benchmarking or Tracking Specific Work Elements

Benchmarking items such as cost, timing, schedules, etc. as suggested above (contract compliance) across projects could be useful information for cost-effectiveness analysis and evaluating proposals in the future or for a contract compliance audit. For example, a survey to determine the cost per foot of fencing for riparian projects might result in an average range of \$5-\$15/foot depending on materials, location and topography. A future proposal with a fencing material line item of \$35/foot might initiate further investigation or understanding of the circumstances prior to final project or contract approval.

However, this is not itself an auditing activity but rather a precursor to an audit. This pre-audit work would be the investigative study across contracts to illustrate ranges and trends or cost effectiveness for an audit.

5. A Targeted Progress Review

A targeted review of specific projects could serve as a useful tool to track elements of a project under contract or a completed project. Depending on what information we are after, tracking and evaluation might look at schedule (did the project start and end on time?); budget (were they over or under budget overall or by task?); milestones (did the sponsor meet stated milestones throughout project implementation?); were there time extensions or amendments made? Is the sponsor following procedures for travel reimbursement, subcontractor solicitation? Were there problems between sponsor and the COTR or BPA? The sample projects for a targeted review could range from a random sample of like project types, funding years, sponsors, etc, or a specific group of projects.

Depending on the structure of this review, it could be very similar to a contract compliance review, but with more focused information being sought or questions being asked.

6. Project Performance and Financial Efficiency (Member Karier)

The project audit could be designed to answer the following four questions:

1. Does the project have clear goals, objectives, milestones and time schedules?

(This is a simple threshold question that is necessary for the audit to take place. Is it expected that this project will produce tangible, observable products, i.e., reports, publications, screens, culverts, buildings, monitoring equipment, smolts?)

2. Is the project meeting its goals, objectives and milestones?

(What evidence is used to answer this question? If the goals, objectives and milestones are being met, is there a potential to achieve even higher levels of success? If these are not being met, what are the reasons?)

3. Is the project meeting its goals, objectives and milestones efficiently and cost effectively?

(Are time schedules being followed? Are subcontracts allocated appropriately? Is the level of overhead appropriate for this project? Are basic costs—staff, travel and accounting appropriate? Are there opportunities to reduce costs?)

4. What steps should be considered to improve the performance, efficiency or cost effectiveness of the project?

This approach combines elements of the other approaches.