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Agents of Accountability and Catalysts of Performance Improvement? Performance Auditing in U.S. Local Governments

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ABSTRACT

AGENTS OF ACCOUNTABILITY AND CATALYSTS OF PERFORMANCE IMPROVEMENT?

PERFORMANCE AUDITING IN U.S. LOCAL GOVERNMENTS

By

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Performance auditing is a systematic and independent assessment of public agencies' faithful, effective, efficient, and equitable implementation of public programs. Since its origins a half-century ago, performance auditing has spread to a broad range of U.S. governments and become acknowledged for its potential contributions to performance improvement, decision making, and accountability. Despite its growth, the literature on performance auditing has been thin, with little attention paid to theory development, statistical modeling, and hypothesis testing.

The dissertation addresses four questions based on an original survey of local government auditors. First, what do performance auditing offices in local governments look like in terms of such basic characteristics as size, the form of government, and degree of independence? What factors could facilitate or impede performance audit effectiveness? Are the resources dedicated to performance auditing, as some experts suggest, drastically declining? Finally, does independence make a difference in performance auditing resource changes?

The results show that performance auditing is well-institutionalized and extends to more than 150 cities and counties. Performance auditing effectiveness may be determined by structural

factors and factors related to professional proficiency and stakeholder engagement. Performance auditing effectiveness is likely to be higher when auditors are more independent, engage their governing body and executive management in the audit process, and receive adequate training. However, a council-manager form of government is negatively associated with performance auditing effectiveness, suggesting potential conflict in the auditor-manager relationship.

Contrary to some expert assertions, the results also show that performance auditing resources have not declined. Independence appears to reduce the ability of performance auditing agencies. Performance auditors may professionally compete with local government managers or pursue objectives at odds with the desires of politicians, who respond by limiting auditors' budgets and staff.

These findings have implications for strengthening performance auditors' oversight and performance improvement roles, especially under the current austere contexts where governments are pressured to provide high-quality services with constrained budgets and downsized staff.

AGENTS OF ACCOUNTABILITY AND CATALYSTS OF PERFORMANCE IMPROVEMENT?

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A Dissertation Submitted in Partial Fulfillment of
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ACCEPTANCE

This dissertation was prepared under the direction of the candidate's Dissertation Committee. It has been approved and accepted by all members of that committee, and it has been accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Public Policy in the Andrew Young School of Policy Studies of Georgia State University.

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DEDICATION

To my late father

For you, a thousand times over

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Blessings last by expressing thanks and gratitude. I have been incredibly fortunate to receive support from amazing people who collectively helped me through this challenging yet rewarding journey.

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CHAPTER 1: INTRODUCTION

Service improvement has been a salient goal of historical and contemporary reforms since the 20th century. As a result, governments worldwide have developed and implemented various tools and techniques to enhance public service effectiveness. From strategic planning and performance measurement to the promotion of performance information and program evaluation, performance-oriented practices have become firmly established as ongoing routines of public sector management. Alongside these developments has been the growth of performance auditing as a means to extend the role of audits beyond financial compliance to include an assessment of the efficiency, effectiveness, and equity of public sector performance (Funkhouser & Pu, 2011; Lapsley & Lonsdale, 2011; Power, 1997).

Performance auditing emerged in the 1970s but gained prominence in the 1990s due to a pronounced shift in public administration and the broader political culture toward a more results-focused perspective on public programs (Wheat, 1994). Toward that end, performance auditing combines program evaluation components, especially program and agency performance assessments, with elements of traditional auditing, such as financial verification and legal compliance. Since its origins a half-century ago, performance auditing has spread to a broad range of governments in the U.S. and abroad and become acknowledged for its potential contribution to performance improvement, decision making, and accountability.

Compared to other performance-oriented approaches, performance auditing has received little attention in the public administration literature. Only a few studies examined its adoption in U.S. state and local governments (e.g., Davis, 1990; Funkhouser & Pu, 2016; Kempf, 2020; Newcomer, 1994). These studies emphasized the promise of performance auditing to strengthen other results-based approaches (Stipak & O'Toole, 1990), play a proactive role in policymaking

(Wheat, 1994), and improve government performance (Newcomer, 1994). Notwithstanding these scholarly efforts, the literature on performance auditing remains thin, fragmented, and predominantly descriptive and prescriptive. The status of the performance auditing literature is surprising considering the rich scholarship on other performance-oriented practices and the relevance of performance auditing to public sector efficiency and effectiveness. This gap opens the door for much-needed and overdue scholarship that focuses on theory construction and hypothesis testing.

There are several plausible explanations for this oversight by the academic community. First, performance auditors operate within a strict legal and institutional context that poses data collection challenges for public administration scholars. Much of the interest in performance auditing revolves around the impact and achievements of performance auditors who have been traditionally cautious about putting themselves and their closed-off organizations under too much scrutiny (Furubo, 2011; Kells, 2011; Pollitt et al., 1999; Posner, 2011). Second, under this complex institutional context, it can be too difficult to isolate and quantify the impact of performance auditing from a myriad of other influences and the effect of similar government practices (Kells, 2011; Pollitt & Summa, 1996). Third, fewer practitioners conduct performance auditing, and the interest in studying it may be correspondingly less (Kells, 2011). Fourth, because of its closed-off nature, there is a lack of clarity about what performance auditing is and how it is different from similar practices such as program evaluation and financial auditing. Mistaking it for one of these practices may give the impression that it is a well-studied topic.

At a fundamental level, no studies have attempted to describe the contemporary practice of performance auditing and map the extent of its expansion in the U.S., let alone examine questions related to its effectiveness. Kempf (2020) explored the spread of the Offices of

Inspector General (OIGs) across U.S. subnational governments, how these offices vary in their design and implementation from the ideal model, and whether they can contribute to government accountability. This dissertation differs from Kempf's book in that it narrowly focuses on performance auditing as one, or sometimes the only, type of audit undertaken by these offices.

The potential contributions of auditing to government performance, decision making, and accountability are strongly debated in the literature. Some studies show positive effects of auditing on various performance indicators, including the number of outputs and outcomes achieved (Funk & Owen, 2020), management practices (Schelker, 2008), decision-making (Morin, 2001), and fiscal governance and accountability (Santiso, 2009). Other studies argue that auditing is a symbolic ritual with limited to negative consequences such as increasing compliance burden (Sutherland, 2003), sugarcoating or underreporting problems (Lonsdale 1999; Power, 1997; 2003), lowering employee morale (Hood, 2002), stifling innovation (Hunt, 2003), and decreasing citizen trust (O'Neill, 2002). Less is known about the factors that may foster or hinder performance auditing effectiveness in achieving its promised outcomes.

Another aspect that is yet to be studied is the resource changes of performance auditing. Prior studies suggest that performance auditors suffer from drastic budget cuts, a problem further exacerbated by the political implications of auditors' independence and active participation in policy debates (Grasso & Sharkansky, 2001; Funkhouser, 2008). The suggested relationship between auditor independence and resource changes needs to be tested and validated.

This dissertation draws on survey data on local government auditors to (1) map out the extent of adoption, expansion, and characteristics of performance auditing in U.S. local governments, (2) develop elaborated theoretical and empirical models that examine various factors that influence its effectiveness (3) investigate resource patterns and changes dedicated to

performance auditing agencies, and (4) test whether and how independence as a critical structural factor contributes to exacerbating or mitigating the ability of these agencies to acquire and maintain resources.

Structure of the Dissertation

The dissertation proceeds as follows. Chapter 2 is a literature review that traces the origin of performance auditing in the U.S. and its long tradition in public administration, focusing on the mutually constitutive relationship between performance auditing and historical reform efforts in the public sector. It defines and conceptually differentiates performance auditing from other related concepts such as traditional financial auditing, program evaluation, and performance measurement. The chapter also explains the rationale of performance auditing from a principal-agent perspective and its potential value in producing valid and objective information about the performance of public agencies. After assessing the status of research on performance auditing, the chapter concludes with a statement of the research problem and a discussion of the dissertation's contributions to the extant literature and the field of public administration.

Chapter 3 is divided into two sections. The first section presents the theoretical model that guided the development of five hypotheses on potential factors that influence performance auditing effectiveness. The second section of this chapter expounds on the relationship between independence, as a structural factor, and performance auditing resource changes and presents the hypothesis on this relationship.

Chapter 4 discusses the data collection method. The dissertation's primary data source is an online survey of state and local government auditors conducted in 2017. The survey assesses the character and scope of performance auditing in these governments. It also includes questions

related to the influence and effectiveness of performance auditors, engagement with stakeholders, reporting relationship, and their perceptions of the changes in resources dedicated to their offices. Additional data on the form of government, council, and commission composition, and other characteristics of the jurisdictions represented in the survey responses are collected from the Comprehensive Annual Financial Reports, along with demographic information, such as region and population, gathered from the 2017 American Community Survey 5-year estimates. To understand the recent resource trends of performance auditing, the dissertation also uses data on changes in staffing levels for state auditing agencies, compiled and shared by the Governing magazine.

Chapter 5 presents the descriptive statistics on the characteristics of local audit agencies (e.g., organizational size, the form of government, and degree of independence), engagement of stakeholders, perceptions of training adequacy, perceptions of the influence and impact of performance audits, and recent trends in agency resources. The descriptive results include state-level data to facilitate the comparability of performance auditing practices across the two government levels.

Chapter 6 discusses the multivariate analysis, including the operationalization of key variables and estimation method. The dissertation has two models; the first predicts performance auditing effectiveness, and the second tests the relationship between auditor independence and resource changes. The first set of dependent variables measures performance auditors' effectiveness in influencing decisions made by the governing body, and influencing decisions by the executive management, and improving government programs and services. The second dependent variable measures the change in the resources dedicated to performance auditing in the recent years of the survey.

Chapter 7 presents the findings of the regression models, and Chapter 8 discusses these findings and their implications for public administration research and practice. To enhance the effectiveness of performance auditing, performance auditors may consider protecting their independence of the auditee, fostering more positive relationships with local government managers, engaging their top management and elected officials in the audit, and receiving training in different aspects related to their work, such as ethics, internal controls, data security, risk management, ethics, fraud, and report writing. Although independence is a necessary condition for the success of performance auditing, it may negatively affect auditors' ability to acquire and maintain resources. Instead of promoting a purist view of independence that may be untenable in practice, performance auditors and consumers of audit reports need to recognize the inextricable links between performance auditing and politics and the risks of participating in policy debates. The chapter concludes with explanations of the dissertation's limitations and avenues for future research on performance auditing.

CHAPTER 2: LITERATURE REVIEW

The Rise of Performance Auditing

Performance auditing developed principally in response to growing concerns about the efficiency of the public sector and the value of taxpayers' money (Guthrie, Humphrey, & Olson, 1997; Pollitt et al., 1999). Increased governmental spending on welfare and regulatory programs in the 1960s and 1970s brought calls to ferret out waste, fraud, and abuse, along with demands for information on whether public programs were meeting their objectives (Power, 2005, Funkhouser & Pu, 2016). A series of economic and fiscal crises after the mid-1970s were also catalyzing a search for ways to cut the cost of public services (Lonsdale, 2011). By the late 1970s, state and local governments had begun a period of fiscal constraint and cutback management, focusing their attention increasingly on careful planning, targeted improvements, and efficient budgetary and personnel allocations (Wheat, 1991).

In this new context of shrinking resources, public managers and policymakers found limited utility in traditional financial audits (Funkhouser & Pu, 2016; Wheat, 1991). They were looking for ways to assess the efficiency and effectiveness of public programs. Performance auditing offered a possible solution—a means to monitor the use of public money and evaluate public sector performance simultaneously (Lonsdale, 2011). The GAO officially introduced performance auditing into government in 1972 by publishing the first edition of the *Yellow Book* on performance auditing standards (Funkhouser & Pu, 2016; Wheat, 1991). Those standards quickly became the guide for auditing practices at all levels of government as the audit function expanded to include assessing the economy, efficiency, and effectiveness of public programs (Malan, Fountain, Arrowsmith, & Lockridge, 1984). Another contextual factor that contributed to the rise of performance auditing is the increasing complexity of public administration's legal

and procedural environment. Public agencies have been operating under elaborate laws and adversarial regulatory culture that required independent audits and other related monitoring practices that led to improvements in auditing capacity at all government levels (Power, 2005; Wheat, 1991).

Reform efforts within the public sector have unequivocally contributed to expanding performance auditing (Power, 2005). The New Public Management (NPM) accentuated the shift in public administration and politics toward a focus on results. Instead of the one-dimensional focus on inputs and resource control that traditionally dominated earlier management approaches, NPM reformers strongly emphasized output and outcome accountability (Barzelay & Armajani, 1992; Waring & Morgan, 2007). Public agencies have increasingly invested in various new practices to improve public sector performance, such as performance budgeting, performance measurement, and performance management, to name a few (Hood, 1995; Poister & Streib, 1999). While assessing service delivery was not new to public agencies, measuring outcomes, linking performance measures to agency missions, setting clear and explicit performance targets, and regularly monitoring progress toward goal achievement were all new features to public management (Newcomer, 1997). Performance-oriented practices have since become firmly entrenched as ongoing components of public sector administrative processes, echoing one of the biggest trends in public management (Rainey, 2009).

Although NPM and performance auditing have distinct origins and characteristics, their development and effects are closely connected and mutually constitutive (English, 2007; Guthrie & Parker, 1999; Pollitt et al., 1999; Power, 1997). Before the 1970s, it was inconceivable that auditors could be agents of public sector reform due to their limited role in the bureaucratic structure (Power, 2005). However, performance auditors played an essential role in the NPM

evolution by contributing to the development of financial and non-financial performance measures that policymakers and public managers have employed to manage and budget more effectively and hold agencies accountable for performance (Wheat, 1991). NPM needed performance auditors to verify the achievement of its goals, assess problems with its newly-developed performance measures (e.g., cream-skimming, shirking, and moral hazard), detect deviations in implementing its philosophy, and corroborate information generated by its performance management systems (Barzelay, 1997; Leeuw, 1996). On a more fundamental level, the NPM reform entailed large amounts of taxpayers' money that needed accountability (Barzelay, 1997). Some scholars have argued that professional groups like auditors facilitated the NPM changes by aligning their work with the new political and legal demands and accommodating the managerial pressures for change within their professional positions ((Power, 2005).

NPM has concomitantly contributed to strengthening the role of performance auditing, expanding it to more fields and functions and broader contexts (Bouckaert, 1996; 2012; Power, 2005). Decentralization of decision making, devolved budgeting, privatization, the adoption of market and quasi-market mechanisms, and the development of public partnerships have all increased the demand for performance auditing and simultaneously leveraged performance auditors' unique positions vis-à-vis these shifts in the public sector (Johnsen et al., 2001). The newly adopted management techniques have generated performance data of significant interest to auditors, such as those collected through performance measurement and management systems (Pollitt et al., 1999). Performance auditors have also benefited from borrowing some of these new management practices to improve the management of their agencies, such as contracting out

part of their audit activities or hiring consultants to assess their internal operations (Pollitt et al., 1999).

Even with its origins a half-century ago, performance auditing was not fully established as a distinct practice until the 1990s (Johnsen et al., 2001). Extending the audit scope to performance-related mandates has helped auditors garner greater influence in formulating public policy and addressing social problems (Posner, 2011; Power, 2005; Wheat, 1991). Since then, performance auditing appears to have become a central governmental activity for its potential to improve performance and enhance accountability in democratic governance (March & Olsen, 1995).

Definition and Distinction

Performance audits are systematic and independent assessments of the extent of public agencies' faithful, effective, efficient, and equitable implementation of programs and services (Lonsdale, 2008; Pollitt, 2003; Guthrie & Parker, 1999; Thompson, 1996; Greathouse & Funkhouser, 1988; Parker, 1986). They are systematic in that they rely on collecting a broad range of evidence about the performance of public programs and agencies, including statements of fact, records, and other relevant and verifiable information. Performance audits are independent in that they are carried out without direct or indirect influence from any interested parties (Funkhouser & Pu, 2016; Wheat, 1991). Depending on the provisions of the enabling act and the reporting structure of the audit organization, a performance audit organization can be either external (reporting to separate branch of government other than the auditee) or internal (reporting only to senior management within the audited entity, GAO, 2018). Regardless of the formal body to which they answer, performance auditors typically view the public as their

ultimate client, helping to explain the strong emphasis placed on objectivity and independence (Funkhouser & Pu, 2016; Wheat, 1991). Performance audits are conducted to comply with professional standards such as the International Organization of Supreme Audit Institutions (INTOSAI) standards or the Government Accountability Office's (GAO) Generally Accepted Governmental Auditing Standards (GAGAS), also known as the *Yellow Book*. As one of those standards, the findings of a performance audit must be released to the public and all other interested groups (Funkhouser & Pu, 2016; Wheat, 1991). Those findings determine whether an agency's performance is "favorable or unfavorable" and establish the basis for the audit's conclusions and recommendations (Raaum, Morgan, & Waring, 2020. p.23).

Performance Auditing and Traditional Financial Auditing

As a combination of traditional financial audits and program evaluations, performance audits are similar in some ways and different in others from both techniques (Barzelay, 1996; Davis, 1990; Newcomer, 1994). In contrast to traditional audits' emphasis on financial integrity and regularity espoused by the accounting profession, performance audits focus on performance issues (Chelimsky, 1985; Tillema & ter Bogt, 2016). Performance audits take a much broader scope than traditional financial audits by encompassing the full range of a program's or agency's operations and focusing on efficiency, effectiveness, and service quality (Pollitt & Summa, 1996; Wheat, 1991). Performance audits examine aspects such as the accuracy of agency records, the efficacy of agency structure, planning, and decision-making processes, compliance with laws and regulations, adherence to administrative rules and procedures, the efficiency of operations, quality of services, cost-benefit analyses, comparative performance data, recommended

performance standards, areas of improvement, and alternative strategies to achieve program goals (Raaum et al., 2020; Wheat, 1991).

While financial auditing is common to public and private sectors, performance auditing is strictly a public-sector phenomenon. No similar activity exists in the private sector. As a more significant difference from traditional financial auditing, performance auditing is a central organizational activity that is expected to improve the performance of public organizations and broadly inform policy discourse. In contrast, financial auditing is usually considered a minor adjunct to the control provided by bureaucratic governance (Power, 2003). As such, traditional financial auditing lacks status in administrative or management hierarchies. In addition, performance auditors exercise judgment about the extent to which resources are aligned with goals and constraints, whereas traditional auditors stop short of those judgments, seeing their role as limited to verifying information, detecting discrepancies between financial transactions and formal standards, and ensuring the integrity of operations (Barzelay, 1996). Performance auditing has grown in popularity because of its potential to complement and supplement the limited financial audit model historically favored by public oversight authorities (Shand & Anand, 1996).

Performance Auditing and Program Evaluation

Similarly, performance auditing differs in some respects from program evaluation. In terms of standing and power, performance auditors belong to a public system of controls. Their work is often established in an explicit mandate that defines their operations' purpose and scope (Summa, 1999). They enjoy a level of statutory power seldom granted to evaluators, and their recommendations cannot be rejected without any serious consideration (Pollitt & Summa, 1996).

Evaluators lack such statutory authority, which they often compensate for with the power of rigorous methodology and expertise (Pollitt & Summa, 1996).

While both performance auditing and program evaluation are systematic evaluative activities concerned with results, they diverge in their purpose. Performance auditors are concerned with record verification and the value of money, whereas evaluators emphasize theory and explanation (Pollitt & Summa, 1996). Some scholars capture this difference by explaining that performance auditing answers a What question (i.e., whether what had been achieved complied with standards, minimized waste and resources, and produced desired results) and evaluation a Why question (i.e., understanding the intended and unintended effect of a program; Pollitt & Summa, 1996). Performance audits are essentially normative, examining the match or discrepancy between “what is” and “what should be” (Chelimsky, 1986). Though program evaluations may involve a similar normative component, they are more likely to focus on the relationship between the changes that have been observed and the counterfactual (i.e., what might have happened in the absence of the program) and the empirical evidence that supports this relationship (Chelimsky, 1986). By design, performance audits do not, and are not intended to, permit causal inferences, counterfactual assessments, and broader generalization of findings as with program evaluation.

This fundamental distinction in purpose influences performance auditors and program evaluators’ criteria, approach, and methods. Performance auditors use more established and explicit standards in their work, making it easier to control the technical quality of their reports (Chelimsky, 1986; Davis, 1990). Evaluators rely less on professionally-given standards and consider the selection of evaluation criteria part of the program or problem they need to address (Pollitt & Summa, 1996). When designing their studies, performance auditors devise pragmatic

plans that allow them to deliver recommendations within a specific timeframe, whereas evaluators pay careful attention to developing theoretically and methodologically sound designs (Pollitt & Summa, 1996). Performance auditors also focus on a program's process more than evaluators, motivated by the assumption that deficiencies in performance may be attributed to the lack of correspondence between prescribed procedures and program implementation (Davis, 1990). The extent to which evaluators care about program implementation is limited to its relationship with observed program changes, such as in cases where there are noticeable variations or distinct forms of implementation in one or multiple program sites (Chelimsky, 1986).

Performance auditors receive more uniform professional training than evaluators and enjoy more independence from agency leadership (Chelimsky, 1986; Davis, 1990). Reflecting their disciplinary backgrounds and orientation, performance auditors and program evaluators also gather evidence differently (Newcomer, 1994). Where performance auditors use both financial management techniques and social science research methods, evaluators limit themselves to social science research theories, skills, and analytical methods that have economics at their core, such as causal inference, cost-benefit analysis, and cost-effectiveness analysis (Chelimsky, 1986; Newcomer, 1994). Performance auditors rely heavily on descriptive evidence, devoting much of their attention to detecting discrepancies and deviations, and use questionnaires or structured interviews to supplement this evidence. In contrast, evaluators emphasize the compatibility of data collection methods with the research design and the adequacy of instruments and measurements to their analysis needs (Chelimsky, 1986). Despite attempts to draw clear boundaries that delineate performance auditing and program evaluation, interactions and interdependencies between the two fields still exist. Their

similarities in terms of goals (i.e., performance improvement and accountability) and values (e.g., objectivity and independence) provide a basis for mutual understanding and methodological cross-fertilization (Chelimsky, 1986). For example, evaluators borrow financial management methods from performance auditors to conduct cost-benefit analyses and, at the same, lend them their methodological devices, such as statistical sampling and regression analysis techniques.

Performance Auditing and Performance Measurement

Another distinction can be drawn between performance auditing and performance measurement. Performance measurement is an essential part of the audit process. Performance auditors rely on the information produced by performance measurement in assessing organizational performance and presenting their audit findings. This close relationship raises the question of the difference between the two types of activity. Performance measurement is a routine activity that is the responsibility of management, whereas performance auditing is conducted less frequently and is independent of management (Summa, 1999). Performance measurement aims to produce information about organizational activities and results, and the purpose of performance auditing is to verify this information and decide if it meets the standards (Summa, 1999).

Rationale and Purposes

The interest in performance auditing is predicated on the assumption that it can potentially contribute to improving government performance (Lonsdale, 2011; Rainey, 2009). The rationale is that public agencies will be more willing to improve their performance, knowing

that it will be monitored and assessed (Barzelay, 1996). They will likely become more performance-oriented if their services, programs, and operations are subject to performance audits (Barzelay, 1996).

This expectation is consistent with the principal-agent model that has, along with other theories, influenced the intellectual thinking behind the NPM movement (Cigler, 2004; Halachmi & Bouckaert, 1996; Hood, 1991). The model is based on three assumptions (Figure 1). First, agents are rational actors seeking to maximize their self-interest. Second, agents have more information than their principals. Third, goal conflict exists between principals and agents. Under information asymmetry, agents (public managers) have more information about what is happening inside public organizations than their principals (the legislatures and executives). When the agents' goals diverge from those of the principals, the agents, as rational actors, may take advantage of this information asymmetry and maximize their self-interests rather than the public interest. The rise of such imperfect incentives promotes inefficiencies that hurt performance (Halachmi & Bouckaert, 1996). Performance auditing aims to correct these inefficiencies by employing a monitoring mechanism that limits the agents' incentives to engage in shirking, creaming, and under-delivering on their responsibilities (moral hazard) or any other types of dysfunctional behavior (Bouckaert, 1996). Performance auditing also employs a mix of incentives, sanctions, and reporting procedures that align agents' actions with the principals' goals and ensure that agents fulfill the terms of the contract by delivering expected results and improving their performance.

As a result of fulfilling their role, performance auditors produce information that can be used in decision making, including planning, budgeting, management, evaluation of programs and services (Poister, 2003), and reporting to the public and other stakeholders (de Lancer Julnes

& Holzer, 2001). Auditors assess the information produced through routine management activities and judge the level of organizational performance. The information they generate through their audit reports serves a range of possible purposes (Moynihan, 2010). Improving performance, especially in relation to service outcomes, is the core and most agreed-upon purpose (Ammons, 1995; Behn, 2003; Epstein, Coates, Wray, & Swain, 2006; Hatry, 2007; Kopczynski & Lombardo, 1999; Poister, 2003). Performance improvement is a desirable goal because it yields significant benefits to the cost and quality of public services and overall citizen well-being. Accountability is another fundamental purpose of performance auditing, which uncovers to the elected executives, the legislature, and the public whether or not they were successful in eliminating waste and corruption (Moynihan, 2010; Sanger, 2008).

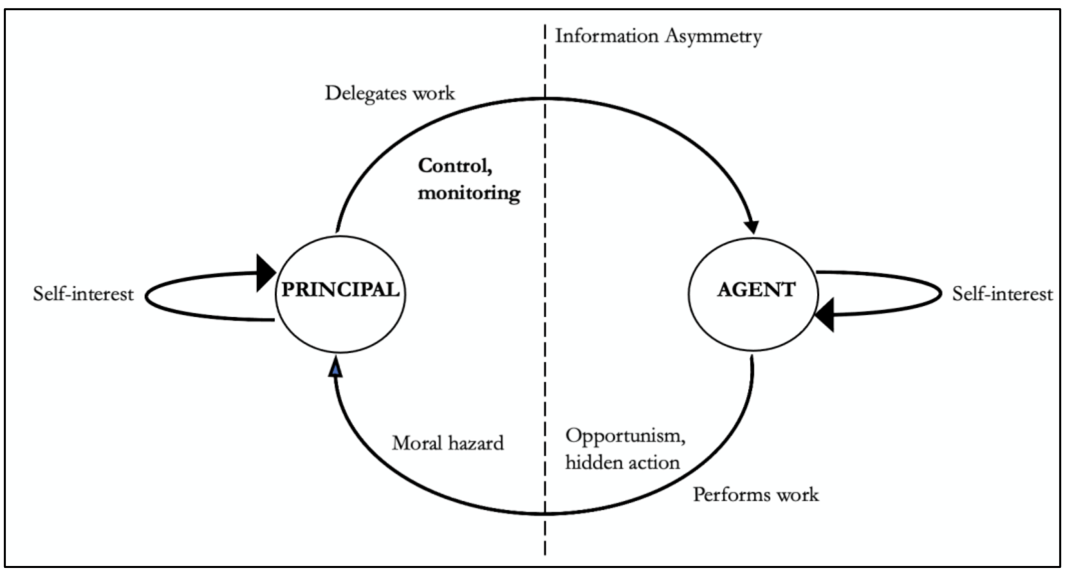

Figure 1. Principal-Agent Model
Adapted from Snippert, Witteveen, Boes & Voordijk (2015)

Statement of the Problem

Despite its ubiquitous growth, performance auditing has received little academic attention. Most studies on the topic are more than a quarter-century old concurrent with recognizing performance auditing as a distinct practice. Since the 1990s, only 24 articles on performance auditing have been published in public administration and management journals, and only three are about the U.S.

For example, Stipak and O'Toole (1990) examined local governments' adoption of performance auditing, concluding that it increases the parallel adoption of results-based budgeting and sophisticated financial forecasting methods. Wheat (1991) made a case for performance auditing as a central feature of American public administration, arguing for a proactive role for "activist" auditors in state and local policymaking processes. Newcomer (1994) interviewed managers at the federal inspector general level to assess variations between performance auditing and program evaluation, eventually concluding that auditors and evaluators aim to improve agency performance by assessing processes and impact and identifying feasible solutions to programmatic issues.

There has been precious little additional research on performance auditing in the decades since these studies. A notable exception is a book that examined the growth of Inspector General Offices in U.S. state and local governments, their design variations, and contributions to accountability (Kempf, 2020). This status of the literature is somewhat surprising given the rich scholarship on other performance management practices such as strategic planning, performance measurement, and performance budgeting. It is even more surprising considering the role of performance auditing in public management and its relevance to public service efficiency and effectiveness in the increasingly austere global fiscal conditions. One plausible explanation for

this oversight by the academic community is the traditionally closed-off nature of audit institutions which can create data collection challenges for scholars. Much of the interest in performance auditing revolves around the impact of performance auditors who have been cautious about putting themselves and their organizations under too much scrutiny for legal and institutional concerns (Furubo, 2011; Pollitt et al., 1999; Posner, 2011). Performance auditors have restrictions on the information they can share and can be particularly wary of data leaks, adding another incentive to keep themselves insulated (Posner, 2011).

As Pollitt and Summa (1999) argue, the lack of scholarly work on performance auditing makes this research endeavor easier and more challenging at the same time. It is easier because, unlike other well-studied topics, performance auditing is a "fresh ground" that affords extensive exploration, stressing the significance of this dissertation and any future studies on the topic. The downside is that the dissertation could not build on the work of other scholars who "had done the spadework" on performance auditing (Pollitt & Summa, 1999). Developing a reasonably robust theoretical model necessitated synthesizing multiple streams of literature in accounting, program evaluation, and generic and public management. I could not address all the questions I would have liked to answer, and those that I did are discussed with several limitations and caveats in mind.

Research Questions

With these considerations, this dissertation is designed to address the lack of research and improve understanding of performance auditing by examining what this contemporary practice looks like in U.S. local governments as reported by performance auditors themselves. The dissertation develops and tests a theoretical model of the factors that may influence performance

auditing effectiveness. It also examines the relationship between auditor independence and performance resource changes. The dissertation seeks at least preliminary answers to such questions as:

1. What do performance auditing offices in local governments look like in terms of such characteristics as size, the form of government, and degree of independence?
2. What factors could facilitate or impede performance audit effectiveness?
3. Are the resources dedicated to performance auditing growing, holding steady, or, as some experts suggest, drastically declining?
4. Finally, does independence make a difference in performance auditors' ability to acquire and maintain resources?

Research Contributions

By answering these questions, the dissertation offers several contributions. First, the dissertation advances understanding of the current status of performance auditing in local governments by assessing its adoption and characteristics. To date, little efforts have been made to explain the extent of performance auditing use, how performance auditors conduct their processes, and how they perceive their ability to improve government programs and services and influence decision making.

Second, this dissertation is one of few studies to examine performance auditing effectiveness empirically. It develops an elaborated theoretical model that extends and integrates performance auditing with public management, political science, and organizational theory constructs to explain the conditions and mechanisms that can lead to successful performance auditing. Understanding these conditions is essential for improving performance auditors' role in

democratic governance and potential contributions to performance improvement, government accountability, and organizational learning. It is even more critical considering the increasingly austere context of public sector operations in which discussions of the value of practices such as performance auditing become front and center.

Third, considering this fiscally austere context, the dissertation tests the assertion that performance auditing resources have been drastically declining. It also investigates whether and how independence affects performance auditors' ability to acquire and maintain resources. Compared to the rich knowledge on the link between organizational resources and performance, less is known about how the structural design of public organizations may affect these resources. Testing the relationship between independence and performance audit agencies' resource changes contributes to the literature on organizational design and structure, political control, and decision-making and has practical implications on performance auditors' ability to perform their work effectively.

Fourth, considering the absence of studies on performance auditing in public management literature, this dissertation aims to encourage more academic interest in the practice of performance auditing by laying the preliminary groundwork for more research on the topic.

CHAPTER 3: THEORETICAL MODEL AND HYPOTHESES

Performance Auditing Effectiveness

The impact of performance auditing on government performance, decision making, and accountability has been a subject of debate (Power, 2005). Performance auditors across local governments assert that their work has led to improvements in performance (Funkhouser, 2011). For example, the Kansas City Auditor's Office issued six performance audit reports in FY 2021, with a recommendation agreement rate of 95% and an implementation rate of 70%. They reported that their audits had a direct financial impact of approximately $20.3 million through recommendations to reduce costs or increase revenues. Their recommendations also had an estimated indirect financial impact by improving the management of $12.4 million (Office of the City Auditor Annual Report, 2021).

Despite these estimated benefits, skeptics question the value of performance auditing and argue that it has limited or negative effects (Guthrie & Parker, 1999; Jacobs, 1998). From an institutional theory perspective, the adoption and diffusion of performance auditing can be explained by isomorphism pressures to adopt practices that enhance their legitimacy and decision credibility, even if these practices do not achieve their expected objectives (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Oliver, 1991; Pina, Torres, & Yetano, 2009). Several scholars have expressed the concern that performance auditing may have no added value apart from its symbolic or ritualistic appeal in answering calls for greater accountability (Blume & Voigt, 2007; Braithwaite, 2008; Morin, 2001; Power, 1997; 2003). They have argued that performance auditing provides citizens with a sense of comfort and reassurance about government accountability in a context of growing distrust and uncertainty without generating meaningful improvements (Morin, 2001; Power, 1997).

Additional arguments warn that performance auditing may lead to negative outcomes such as decreasing organizational trust by creating elaborate and costly compliance mechanisms that distract professional attention (O'Neill, 2002). It may also compel the audited organizations to resort to blame assignment and defensive strategies, which lower employee morale and stifle innovation (Hood, 2002; Hunt, 2003). Kells (2011) identifies seven critiques of performance auditing that can detract from its potential value, including impeding innovation, nitpicking on minor problems, overestimating audit scope and findings, sugarcoating or underreporting problems, creating unnecessary systems and procedures, seeking media attention, and comforting people with a hollow ritual that does not bring substantiative benefits.

Empirical evidence assessing the validity of both claims is mixed. Some studies find that performance auditing has positive effects. For example, in an experimental study, Funk and Owen (2020) examine municipal performance by assigning over 5,000 Brazilian municipalities from 2001 to 2012 to control (unaudited) and treatment (audited) groups. They find that audited municipalities experience significant performance improvements compared to their unaudited counterparts. Santiso (2009) studies national auditing institutions in Latin America and finds a positive association between effective auditing institutions and fiscal governance and accountability as measured by bureaucratic quality, the rule of law, and control of corruption. Similarly, Schelker (2008) finds a positive association between the adoption of performance auditing in U.S. states and the scores on the government performance rating, a scale of good management practices such as human resource management and information technology management. Qualitative studies that assess performance audit effectiveness also show significant to partial impact. For example, Morin (2001) finds that out of the six performance audit functions in Canada and Quebec, two were successful, two were moderately successful,

and two had little success in influencing the management of audited organizations. Lapsley and Pong (2000) find that performance audits in the United Kingdom have an operational and a strategic impact. However, they do not define the exact meaning of "impact" in their study. After collecting and analyzing evidence from five countries, Lonsdale (1999) finds that performance audits lead to significant positive changes in government activities, primarily financial but also deterrent and educational effects. He concludes that determining performance audit impact is not as simple as the linear auditing model may suggest due to the confluence of factors that affect auditors' work.

Contradictorily, other studies report harmful effects of performance auditing. In a large study of 40 countries, Blume and Voigt (2007) assess the effects of auditing on government effectiveness, fiscal policy, and productivity. They find that auditing does not have a clear effect on any of those dependent variables. However, they show that adopting a court auditing model is significantly associated with perceived levels of corruption. The authors conclude that auditing is superfluous for the effectiveness of organizations.

Whether performance auditing can deliver its potential benefits to management and policymaking remains an unresolved question. Many factors, such as auditor independence, stakeholder engagement, and professional proficiency, may affect the success of performance auditing.

Possible Determinants of Performance Auditing Effectiveness

In developing the conceptual model and hypotheses, the dissertation builds on the accounting, program evaluation, and the public management literature that has considerable research on the effectiveness of other performance-oriented practices, such as strategic planning,

performance measurement, and performance management. These streams of literature underscore that performance auditing effectiveness can be influenced by a set of structural characteristics, stakeholder engagement, as well as factors related to professional proficiency. Among these factors, the dissertation focuses on the ones that have been widely acknowledged as critical for performance auditing, including organizational size, the form of government, independence, stakeholder involvement, and training. The theoretical model (Figure 2) investigates the relationships between these factors and performance auditing effectiveness.

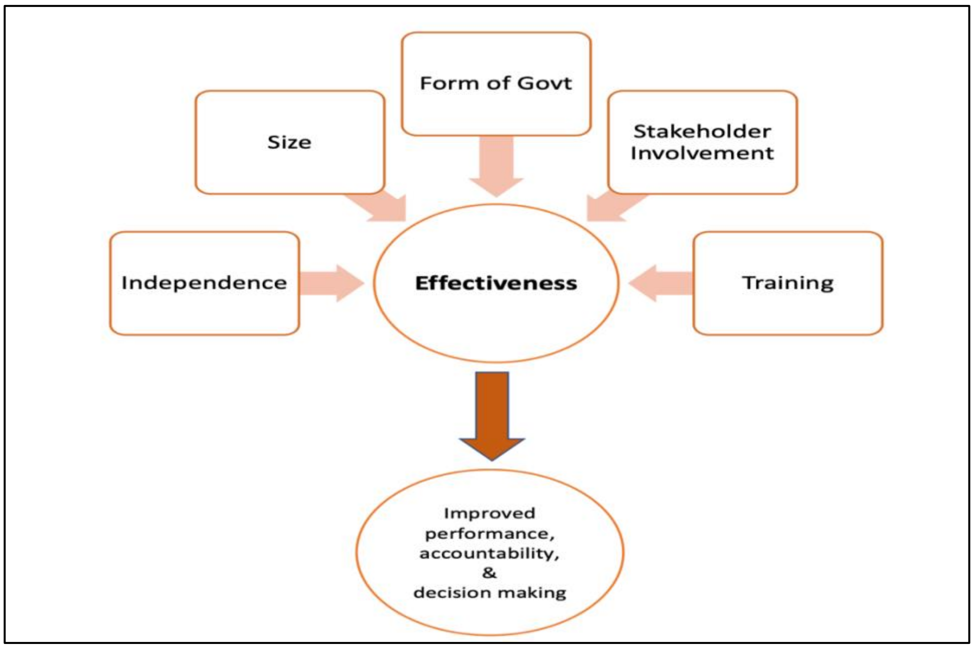

Figure 2. A Theoretical Model of Performance Auditing Effectiveness

Organizational Size

The impact of size on organizational effectiveness is a long-standing debate in organization theory (Armandi & Mills, 1982; Blau & Schoenherr, 1971; Daft, 2010; Dalton et al., 1980; Kimberly, 1976; Van de Ven, 1976). Organizational size can be a strong indicator for

established reputation and impact (Ajila, 2006). Larger organizations can be more specialized, owning various facilities and departments that promote effectiveness (Damanpour, 1992). Their productivity and performance can be higher due to the bigger personnel size (Brewer, 2005; Gooding & Wagner, 1985). Larger organizations also have higher technical knowledge and capacity because they employ more skilled and professional staff (Kroll, 2015). They accumulate and dedicate resources for technological developments and other advancement opportunities that enhance service effectiveness. Alternatively, smaller organizations can be more effective because they are more flexible and responsive, and their ability to progress is better (Damanpour, 1992). They also have lower communication and coordination costs, fewer information distortion problems, and less conflict (Jung, 2013).

Empirical evidence on the effect of size on organizational effectiveness is mixed. Inconsistency in findings can be attributed to a variety of conceptual and methodological factors. For example, some researchers conceptualize size as the scope and responsibilities of an organization (Blau, 1972), while others argue that size refers to the scale and operations of an organization and is not related to the personnel size (Aldrich, 1972). As a result of this variation in conceptualization, researchers have derived several measures of size such as the number of employees, departments, supervisory levels, or budget size, which can lead to different findings (Blau, 1972; Gooding & Wagner, 1985; Kimberly, 1976; Van de Ven, 1976).

Some studies find that size positively impacts several aspects of organizational performance, such as efficiency, effectiveness, and innovation (Aiken & Hage, 1971; Damanpour, 1992; Dewar & Dutton, 1986; Kimberly & Evanisko, 1981; Moch & Morse, 1977; Sullivan & Kang, 1999). Other studies show a negative relationship (Aldrich & Auster, 1986; Hage, 1980; Wade, 1996) or no relationship (Aiken, Bacharach, & French, 1980). The numerous

studies conducted on the topic have led to a common conclusion: organizational size matters; however, the direction of its influence on effectiveness is inconclusive. Given this discussion, I hypothesize that:

Hypothesis 1: Performance auditing effectiveness is likely to be higher or lower in larger organizations than smaller organizations.

Form of Government

Government structural or design features can profoundly strengthen or weaken the role and impact of performance auditors (Kells, 2011; Kempf, 2020, Morin, 2004). Government form directly influences organizational processes and outcomes as it determines who participates in policymaking and how decision-making power is allocated among the participants (Jimenez, 2020). U.S. municipal governments are categorized into four broad types: council-manager, mayor-council, commission, or town meeting forms (Nelson & Svara, 2012). Of these four, mayor-council and council-manager are the most common forms of government. The mayor-council government has its origin in the spoils system that dominated local American politics during the late 1800s and early 1900s (Jimenez, 2020). The council-manager form developed in the early twentieth century out of the Progressive movement that attempted to reduce the pervasive abuses of the patronage-driven political machine by reforming municipalities and promoting professionalism and rational decision-making in government (Jimenez, 2020; Trounstine, 2010).

The distinction between the two forms is fundamentally drawn based on whether the legislative and executive authority is separated or unified (Nelson & Svara, 2012). Power in the

mayor-council form is separated, similar to the federal government, vesting the legislative authority in the council and the executive authority in the mayor. In the council-manager form, the council (including the mayor) exercises both the executive and legislative authority. The council appoints a city manager with a strong professional background to implement the city's policies and ensure efficient management of government services. A predominant theoretical expectation in the public administration literature is that council-managers forms are superior in their management and adoption of innovative practices that improve government performance. This expectation is grounded in three main arguments that explain how the distinct incentives, preferences, and orientations of elected executives and professional public managers impact the management and performance of governments (Feiock & Kim, 2001).

The first argument is derived from transaction cost economics which explains how power incentives shape organizational outcomes. Williamson (1985) distinguishes between two types of incentives in the private sector: high- and low-power incentives. In markets, incentives are high-powered because individuals' interest in profit makes them highly responsive to changes in economic demand. However, these high-powered incentives lead to opportunistic behavior that creates high transaction costs inimical to social efficiency. In hierarchical organizations, incentives, such as a raise or promotion, are low-powered because they are less effective in inducing responses to changes in market demand. Low-powered incentives have the advantage of reducing the risk of opportunism and associated transaction costs (Feiock & Kim, 2001). Because the appeal of large profits is replaced by the promise of organizational advancement within the hierarchical structure, the stakes become smaller, and opportunism decreases (Jimenez, 2020).

Public administration scholars have applied Williamson's concepts of high- and low-powered incentives to explain how the distinct incentives of an elected or appointed chief executive influence organizational decisions and outcomes (e.g., Frant, 1996; Feiock & Kim, 2001; Jimenez, 2020). In mayor-council governments, high-powered incentives predominate. Since the government's primary goal is not profit-seeking, vote rather than profit maximization strongly motivates the elected chief executive to respond to voter demands. The desire to be reelected in the political market can lead the mayor to engage in opportunistic behavior in the same way profit leads to opportunism in the private market (Jimenez, 2020). To maximize votes for reelection, a mayor may opt for symbolically adopting policies that are popular among voters for short-term political gains without investing the financial and political resources necessary for their substantive and comprehensive implementation. For example, a mayor may advocate for adopting performance auditing to promote the image of an efficient and effective government but seldom implements the audit recommendations. Several studies show that mayor-council forms are more likely to adopt symbolic policies (Krause, 2011; Sharp, Daley, & Lynch, 2011).

Another possibility is that high-powered incentives may discourage the mayor from adopting practices such as performance auditing altogether because they may uncover instances of political opportunism that can ruin the mayor's reelection chances. A mayor may also implement policies that provide clear benefits to politically influential groups or increase spending on visible projects that facilitate credit claiming and reelection chances, both of which are forms of political opportunism created by high-powered incentives (Carr, 2015; Frant, 1996). Minimizing political opportunism requires depoliticizing local policymaking to remove the perverse effects of high-powered incentives (Frant, 1996). A council-manager form replaces high-powered incentives with low-powered incentives such as organizational advancement.

Compared to an elected mayor, the appointed manager is subject to less voter pressure and thus is not as strongly impacted by a high-powered incentive such as vote maximization. Weakening this tie with voters reduces the motivation to choose politically advantageous policies at the expense of the public (Jimenez, 2020). Instead, the appointed manager can make decisions based on professional norms and expert knowledge motivated by a desire to build a career and reputation that demonstrates effective and efficient management (Frant, 1996; Jimenez, 2020; Teske & Schneider, 1994). Because of this focus on advancing career goals and reputation building, a city manager is more likely to commit to policies and management practices that improve government performance. The pursuit of efficient management and reputational gains can help increase the manager's employment opportunities, such as moving up to cities with larger budgets and staff (Ruhil et al., 1999; Stein, 1990).

The second argument is based on the principal-agent theory that explains the relevance of government form to authority relationships (Jimenez, 2020). City governance entails a set of contractual relationships in which the agent delivers a specific outcome to the principal in exchange for a sort of payment (Moe, 1997). In one of these relationships, the voter is the principal, and the politician is the agent that enacts the voter's preferred policies in exchange for votes. In another relationship, the politician becomes the principal and the city manager the agent who carries out the politicians' plans and policies and receives a salary and other benefits in return (Jimenez, 2020). A common assumption is that only the agent is predisposed to moral hazard. However, since principal-agent relationships are bidirectional, the principal can also be susceptible to this problem (Miller & Whitford, 2016), which is evident in politicians' failure to deliver their promises to cut wasteful spending once elected for fear of voter mobilization against cuts to programs that benefit them (Jimenez, 2020). A politician's desire to be reelected increases

the responsiveness to voter preferences and creates an incentive to adopt policies that they favor, even if these policies are not efficient or effective. When such imperfect incentives arise, the principal's decisions cannot be trusted as they may lead to inefficient organizational outcomes. This problem is further exacerbated by the agent's responsiveness to the principal (Jimenez, 2020; Miller & Whitford, 2016). As a solution, the agent should not have similar preferences as the principal, and their decision-making authority should also be independent. A city manager who is relatively insulated from voter demands and motivated by professional standards and expert knowledge can commit to implementing policies and practices that lead to improved organizational outcomes.

The third interrelated and perhaps most common argument in the public administration literature is that of professionalism. The intellectual underpinning of this argument is based on the politics-administration dichotomy that emphasizes the need to rest public administration in the hands of professionals (Nalbandian, 1990; Zhang & Feiock, 2010). In addition to formal mechanisms such as laws and standard operating procedures, professionalism functions as an informal control mechanism against bureaucratic opportunism (Jimenez, 2020; Miller, 2000; Miller & Whitford, 2016). Aspects of professionalism, including education, expertise, training, and technical knowledge, reduce incompetence by preventing less qualified candidates from entering the government (Miller & Whitford, 2016). They also ensure that a city manager is familiar with and receptive to best management practices. Studies show that council-manager governments are more likely to adopt rational management approaches, such as strategic planning, than their mayor-council counterparts (Kwon, Berry, & Jang, 2013; Nelson & Svara, 2012; Poister & Streib, 1989; 1994). Through membership in professional organizations such as the International City/County Management Association, a city manager abides by the espoused

code of ethics and stays updated with professional standards and norms (Nalbandian, 1989). Attention to professional norms and ethical standards serves as an "inner check" for the manager and brings reputational gains by improving how outside observers, including professional peers, perceive the manager (Jimenez, 2020). These reputational gains, as previously discussed, help expand the manager's employment prospects.

The professional requirements for a city manager in terms of training and experience also prompt a long-term career orientation that mitigates opportunism and reduces motivations to choose short-term strategies of limited impact on government performance (Jimenez, 2020). A city manager may be careful about engaging in short-term opportunism, realizing that it can instantly destroy the reputation and career they built (Jimenez, 2020). In addition, a city manager's career typically outlasts the short electoral cycles of an elected official, motivating the manager to focus on achieving long-term rather than short-term organizational goals (Alesina & Tabellini, 2007).

Empirical evidence supports the above theoretical assertions by showing that council-manager governments have lower spending levels (Anderson, 1979; Chapman & Gorina, 2012; Lineberry & Fowler, 1967; Morgan & Brudney, 1985), spend more time on management (Eskridge, 2012; French & Folz, 2004; Newell & Ammons, 1987), and are more likely to adopt comprehensive policies (Hawkins & Wang, 2013; Homsy & Warner, 2015; Svara, Watt, & Jang, 2013), innovative policies (Feiock, Steinacker, & Park, 2009; Kwon, Berry, & Feiock, 2009; Nelson & Svara, 2012), and rational management practices (Poister & Streib 1989, 1994). Based on the theoretical and empirical literature, a case can be made in favor of council-manager governments in terms of positively impacting performance audit effectiveness.

A less common counterargument is that that city managers are likely to compete professionally with performance auditing offices, especially when those offices are independent of the manager's office. As a result, a city government's executive management may cut performance auditors short of resources necessary for their effectiveness. Funkhouser (2000) finds that a council-manager form is negatively correlated with performance auditing adoption in municipal governments. Therefore:

Hypothesis 2: Performance auditing effectiveness is likely to be higher or lower in council-manager governments than mayor-council governments.

Independence

The definition of performance auditing underscores the importance of independence for the value, credibility, if not the very purpose of performance audits. Some scholars assign independence the same value as "what Hippocratic Oath is to the practice of medicine" (Mutchler, Chang, & Prawitt, 2001). Independence ensures that performance audits are based on objective judgments free from the interference of any interested party, strongly signaling to the public that performance auditors can be trusted as agents of accountability and catalysts of performance improvement. The ability to determine priorities, access records, conduct work, and report results to the public without outside direction allows auditors to "speak truth to power" and enhances their non-partisan status in an otherwise highly political environment (White & Hollingsworth, 1999). Independence is also critical for providing public managers and policymakers with accurate information about the performance of their organizations to facilitate sound decision making. Independence is embedded in legal and institutional frameworks

established by legislation and professional standards that emphasize auditor independence, both in fact and appearance, from any impairments that could affect the impartiality of audit reports. Independence "in fact" implies that the auditor should perform the audit with an independent mindset that allows for unbiased opinions. Independence "in appearance" indicates that the auditor must avoid circumstances that would lead to questioning audit integrity and objectivity (GAO, 2018).

The degree of independence can be described in terms of performance auditors' position and reporting relationship with the auditee (GAO, 2018). Structurally, public sector auditors are either externally or internally situated within an agency. External auditors are placed outside the organization under audit in a separate branch of government (e.g., legislative auditors auditing an executive branch program) or in a different level of government (e.g., federal auditors auditing a state government program; GAO, 2007). External auditors report to and disseminate their audit findings to third parties. In contrast, internal auditors are placed inside the organization under audit and report to its head or deputy head. Although located within the agency, internal auditors operate separately from the units responsible for the activities under review (GAO, 2007; Hollingsworth, White, & Hardin, 1998).

Both external and internal auditors must be independent. However, prima facie, internal auditors' independence is relatively harder to achieve because they are part of the organization subject to the audit and do not enjoy the same administrative independence as external auditors (Hollingsworth et al., 1998; GAO, 2018). Their location inside the organization exposes them to management and peer pressures and the effects of organizational socialization and loyalty that may cause a "lingering suspicion" about their perceived objectivity (i.e., independence in appearance) and render their reports as politically motivated or biased (Weiss, 1972, p. 38). As a

result, the GAO considers auditors' internal location within government as a structural threat to independence (GAO, 2018).

The internal audit function is nested within a hierarchical structure where the decision-making power is exercised at the upper levels of the organization. With its formal authority, senior management may undermine auditor independence in two ways. First, it can exert direct pressure on internal auditors and degenerate their responsibilities to public relations (Patton, 2012). Internal auditors may be compelled to provide audit information that demonstrates program or service effectiveness to improve the organization's image (Patton, 2012). Second, senior management establishes organizational direction and governing tone, indirectly influencing internal auditors' orientation (Claybrook, 2004; Nagy & Cenker, 2002).

Internal auditors may also be influenced by peer expectations and organizational loyalty that bias audit results. Internal auditors develop interpersonal relationships with their peers and organizations through organizational socialization processes (Lopez-Lee, 1986). The more positive these relationships are, the more likely internal auditors will have a favorable bias toward their organizations. The group conformity literature confirms these assertions by showing that peer expectations and authority pressures can compromise an individual's ability to make neutral judgments (Lopez-Lee, 1986).

Ultimately, these organizations are not only the social environment in which internal auditors have worked for some time but also their "paymasters" (Scriven, 1997, p.487). Internal auditors rely on the organization for their job and career, adding another pressure that may bias audit outcomes (Patton, 2012). These influential pressures can reduce auditors' willingness to raise performance issues, challenge management statements, or give an unfavorable audit opinion for fear of negative consequences on their career, colleagues, and organizations (Conley-

Tyler, 2005). Judgments clouded by authority pressures or organizational loyalty do not serve the purpose of performance audits in informing sound decision-making. In their reluctance to pass along bad news to top management, internal auditors may suppress warnings about emerging problems, distorting the view of the organization's performance.

Psychological research shows that individuals' identification with their formal roles distorts their ability to interpret evidence and increases the probability of making biased decisions (Bazerman, Morgan, & Loewenstein, 1997). This bias is exacerbated by monetary incentives, being well-acquainted with the auditee, having an ongoing relationship with the organization, and realizing the immediate negative consequences of decisions such as loss of employment or friendship (Bazerman et al., 1997). However, to the extent it occurs, internal audit bias is not deliberate. When internal auditors are called to make impartial judgments, they are typically unaware of the biases they are introducing to the audit outcomes (Lopez-Lee, 1986). Bias at the judgment-making stage is unconscious and unintentional, but that does not preclude the possibility of deliberate misreporting (Bazerman et al., 1997).

Based on this explanation, it is plausible to expect that external auditors' objectivity, and hence effectiveness, is higher than internal auditors based on four reasons. First, external auditors are not subject to the same authority pressures as internal auditors because they are accountable to a different level of government or a separate branch of government within the same level. Their separate reporting structure reduces the fear of punishment (in its different forms) if they reveal uncomfortable facts about the performance of organizations under audit. Second, external auditors are less vulnerable to the pressures of their peers and organizations because the time they spend with them is much shorter (Lopez-Lee, 1986). Third, external auditors' competition with private firms over diverse clientele within a context of ever-evolving audit standards is

likely to enhance objectivity (Lopez-Lee, 1986). Fourth, one could argue that independence might lead auditors to be more entrepreneurial, engaging higher levels of government more extensively and exerting more influence than might be the case with auditors who must work through higher-level managers. This is not to say that internal auditors are incapable of being objective or producing effective audits, but that the objectivity of external auditors is likely to be higher because of their greater independence.

While the existing evidence argues against internal auditors for their relative lack of independence and objectivity, the same evidence may be used to show the potential bias of external auditors. External auditors are not entirely insulated from authority pressures and peer expectations that bias audit outcomes (Lopez-Lee, 1986). Political considerations can impinge on the independent status of performance auditors and limit their effectiveness. Independence grants performance auditors authority to exert greater programmatic influence and participate in policy deliberations, which may undercut their ability to compete for budgetary resources, especially if perceived by politicians as overstepping their boundaries and meddling in politics.

The accounting and evaluation literature also argues that internal auditors may be better placed to understand the context, operating environment, and the nuances of their organizations' performance (Conley-Tyler, 2005; Patton, 2012). External auditors can be insensitive to organizational context, norms, and relationships and spend valuable time and resources learning only parts of an organization's performance that internal auditors already know and substantially understand (Lopez-Lee, 1986; Patton, 2012). Compared to external auditors who, upon completing audits, take with them invaluable insights about organizational performance, internal auditors keep this knowledge "in-house" and use it to improve the performance of their organizations. Another advantage of internal auditors is that they can build credibility over time

and promote audit utilization by ensuring the implementation of findings and recommendations (Patton, 2012). Reporting to the government's top appointive manager may also result in more engagement of at least that top management as well as more influence as a by-product of that management's clout. Therefore I hypothesize that:

Hypothesis 3: Performance auditing effectiveness is likely to be higher or lower in independent agencies that report externally than those that report internally to top management.

Stakeholder Involvement

The last decades have witnessed a growing emphasis in the public administration literature on collaborative governance and the importance of involving stakeholders in developing, providing, and assessing public services (Denhardt & Denhardt, 2000; Mulgan, 2009; Osborne, 2006; Pollitt, 1999; Thomas & Poister, 2008). Collaborative processes contrast with earlier "rational technicist" approaches that entrusted the assessment of organizational performance to subject matter experts and focused, rather exclusively, on the needs of management in pursuing the economy, efficiency, and effectiveness of public services and programs (Pollitt, 1999). The argument for including stakeholder needs and perspectives in organizational processes considers that some decisions are value-laden and require expanding decision-making beyond senior management (Thomas & Poister, 2008). This argument gains further ground in the face of increasing public-private partnerships and a networked environment that require the cooperation of various actors to ensure effective service delivery (Pollitt, 1999, Thomas & Poister, 2008). Public problem-solving necessitates power-sharing and collaborative relationships at multiple government levels and between government and for-profit and nonprofit

organizations, awarding stakeholder networks similar importance to markets and hierarchies (Salamon, 2002; Thiele, Devaux, Velasco, & Horton, 2007).

Broadly defined, stakeholders are "individuals, groups, or organizations that can affect or are affected by an [audit process] and/or its findings" (Bryson, Patton, & Bowman 2011, p.1). The public management, accounting, and evaluation literature distinguish between two types of stakeholders: internal and external. Internal stakeholders include all employees in the agency under audit, such as executive management, department heads, program managers, direct service staff, front-line employees, occupational specialists, and experts (Franklin, 2001). External stakeholders are individuals or groups outside the organization who frequently take actions that can affect organizational operations, such as elected officials, interest groups, the media, and citizens (Franklin, 2001).

Despite the growing consensus about the necessity of stakeholder involvement, less agreement exists about how many, how, and when stakeholders should be involved (Thomas & Poister, 2008). Some scholars argue for the inclusion of a wide range of internal and external stakeholders in all phases of assessing government performance to promote democratic governance (see Stake, 1980 and Campbell, 1969). Other scholars suggest involving a mix of stakeholders whose number, frequency, and method of involvement differ depending on the situation and the stakeholder directly affected (see Wholey, 1983 and Patton, 1986). Unduly restrictive views limit stakeholder involvement to key stakeholders such as audit subjects or individuals and groups that can directly affect the program under audit.

The literature presents several arguments for why active and ongoing stakeholder involvement would enhance audit designs, data collection and analysis, and results and use. First, stakeholder involvement increases the quantity and quality of information that stakeholders

could share about problematic issues (Thomas & Poister, 2008). Because information is typically decentralized, including multiple stakeholders increases the informational input necessary for the effectiveness of performance audits (Galbraith, 1973). Allowing stakeholders to share their perspectives also facilitates trust-building (Alchian & Demsetz, 1972), which reduces the incentive to "sugar coat" negative feedback or distort performance information and improves the quality of shared information.

Second, involving stakeholders in performance audits enhances the sense of ownership over organizational decisions and reduces stakeholder veto-power and resistance (Edelenbos & Klijn, 2006). When stakeholders are included in performance audits, they may be more willing to implement audit recommendations because they perceive the process as legitimate (Pollitt, 1999). They are more likely to feel respected and that their insights are considered. By virtue of their expert knowledge (Mechanic, 1962), some stakeholders exert power over organizational decision-making and can obstruct the implementation of audits if they perceive the audit as threatening to their interests. Through argumentation and deliberation, stakeholder involvement improves the perception of being taken seriously and builds support for audit recommendations even when they do not align with stakeholder interests (Schalk, 2015).

Third, stakeholder involvement increases the diversity of ideas, cultivates innovation, and fosters organizational learning (Morabito, 2002). Achieving performance improvement highly depends on finding innovative solutions that motivate actors to invest their knowledge and resources to solve performance problems (Edelenbos & Klijn, 2006). Involving various stakeholders encourages creativity and the open exchange of attractive ideas in designing and implementing performance audits. Stakeholders bring new perspectives and increase the diversity of information available to solve problems. They share different performance data

about the program’s target population, economic and socio-demographic conditions, and information on best practices (Schalk, 2015). Stakeholder involvement can also reduce uncertainty and inadequacy by allowing auditors to learn from stakeholders (Arnold, 2006). In addition, stakeholder involvement improves communication between performance auditors and stakeholders and allows stakeholders to understand audit purpose and process, increasing the likelihood of using audit findings (Van Loocke & Put, 2011). Overall, stakeholder involvement is a collective activity in which performance auditors and stakeholders can simultaneously collect, combine, and analyze information to facilitate organizational learning (Moynihan, 2005; Schalk, 2015).

Fourth, ensuring that stakeholders are involved in performance audits helps build consensus and garner political acceptance of ways to solve performance problems (Bryson et al., 2011). Audit findings will have greater validity when they reflect different stakeholders’ opinions, perspectives, conceptualizations, and values (Pollitt, 1999). Effective stakeholder involvement can improve the standing of the performance audit agency within the larger political environment by signaling to the legislative and executive stakeholders that the audit agency understands and is responsive to the stakeholder environment in which it operates (Thomas & Poister, 2008). Enhancing audit agency status in the political environment is critical because it can help the agency acquire the resources necessary to manage unexpected events (O’Toole & Meier, 1999) and improve performance audit effectiveness. Performance audits that involve stakeholders may be considered ethically superior because they allow stakeholders to have “a full and equal say,” promoting democratic ideals and the image of “parternarial” government (Pollitt, 1999).

Empirical studies in program evaluation and public management provide evidence on these positive effects. For example, a systematic literature review on stakeholder involvement in program evaluation shows that involving stakeholders facilitates understanding, commitment, and support of evaluation activities and improves evaluation design, process, methods, use, and impact (Brandon & Fukunaga, 2013). The review also provides strong cumulative evidence that stakeholder involvement helps stakeholders feel empowered, enhances communication, and promotes organizational learning. (Brandon & Fukunaga, 2013). The public management literature shows that stakeholder involvement promotes the use of both performance measures (de Lancer Julnes & Holzer, 2001) and performance information (Kroll, 2015). Similar evidence exists in the business management literature in terms of promoting trust and cooperation, improving firms' competitive advantage (Jones & Wicks, 1999), and discovering new opportunities (Vandekerckhove & Dentchev, 2005).

While few scholars would argue against the benefits of stakeholder involvement, some express concerns that responsiveness to stakeholder perspectives may raise questions about auditor independence and the credibility of audit findings (Put & Turksema, 2011). Stakeholders should be involved when their participation is necessary and valuable, but not when their involvement is impractical or unwarranted (Bryson et al., 2011). Greater stakeholder participation in performance audits may delay the decision-making process, blur the lines of accountability, cause stakeholder exploitation, and reduce decision legitimacy (Pollitt, 1999). These concerns present auditors with the challenging task of balancing between involving stakeholders and safeguarding their independence (Lonsdale, 2008; Van der Meer & Edelenbos, 2006; Wilkins & Lonsdale, 2007). Despite these concerns, the theoretical arguments and empirical studies on balance support the principle of stakeholder involvement. Therefore:

Hypothesis 4: Performance auditing effectiveness is likely to be higher with more stakeholder engagement.

Training

Training is defined as “a planned effort by an organization to facilitate the learning of a job-related behavior” (Wexley 1984, p.13). The public administration literature identifies training as an essential factor for the effectiveness of performance-oriented practices and explains its several benefits. First, training offers a systematic and structured learning environment that entails valuable opportunities for knowledge acquisition, information sharing, and multisource feedback among performance auditors, trainers, and other organizational members such as managers and coworkers. Training offers knowledge about performance auditing concepts, practices, and standards and how to apply this knowledge in practice. Second, training can strengthen auditors’ capacity to think, analyze, and report organizational performance problems (Seidle, Fernandez, & Perry, 2016; Yang & Hsieh, 2007). Management studies explicitly argue that training can generate specific skills and capacities that help individuals accomplish intended actions, achieve organizational goals, and succeed within their organizational contexts (Huber, 2005; Kroll & Moynihan, 2015). Third, training improves auditors’ rational cognition and increases self-awareness, including “the ability to know how well one is performing, when one is likely to be accurate in judgment, and one is likely to be in error” (Kruger & Dunning, 1999, p.1121). When auditors receive such feedback, they can develop meta-cognitive skills that encourage them to address any deficiencies in their performance (Seidle et al., 2016). Fourth, training can promote shared mental models that improve auditors’ understanding of their roles and relationships with the auditees and the

organizational system (Kroll & Moynihan, 2015). Training in professional settings also communicates appropriate norms and standards that define group identity and form members' expectations, perspectives, and social behaviors (Kroll & Moynihan, 2015). Fifth, training as a socialization process enhances auditors' confidence and "reduces [their] uncertainty, fear, and cynicism" (Yang & Hsieh, 2007).

There is considerable empirical support for the benefits of training for organizational activities and practices. Albrect, Howe, Schueler, and Stocks (1988) examine training as an aspect of auditors' professional proficiency and find that it positively influences effectiveness. Endaya and Hanefah (2016) conclude that training strengthens auditors' capacity, which facilitates their job effectiveness. Using thematic analysis, Shwarzman et al. (2018) show that training is essential for the success of evaluative practices. Studies on other performance-oriented practices such as performance measurement find similar positive effects. Yang and Hsieh (2007) show that technical training addresses the lack of capacity in public agencies to analyze performance data and facilitates its use. Cavaluzzo and Ittner (2004) find that training is positively associated with the GAO's development and use of result-oriented performance measures. Kroll and Moynihan (2015) find that training positively affects the implementation of performance management reforms in public agencies. Other studies find positive associations between investing in training and the success of information technology and activity-based costing implementations (Anderson & Young, 1999; Kwon & Zmud, 1987). Given this discussion, it is plausible to expect that training will positively impact performance auditing effectiveness. Therefore:

Hypothesis 5: Performance auditing effectiveness is likely to be higher when auditors receive more training.

Performance Auditing Resource changes

In addition to performance auditing effectiveness, the dissertation examines perceived changes in performance auditing resources and tests the effect of independence on such changes. As O'Toole and Meier (2003) contend, any attempt to study organizational performance must account for the resources organizations possess, a perspective firmly maintained in the Resource-Based View (RBV) of the firm. The central premise of the RBV is that resources are critical for organizational survival, growth, and overall effectiveness as they allow organizations to develop strategic capacities that enhance their competitive advantage (Barney, 1991; Peteraf, 1993). Scholars have categorized and studied the impact of various types of organizational resources. Relying on Penrose's (1959) conceptualization, Hansen, Perry, and Reese (2004) classify resources into productive resources necessary for goal achievement and administrative resources to manage the use of productive resources. Bozeman and Straussman (1990) categorize resources into three types: financial resources, personnel resources, and organizational structure. Fry, Stoner, and Hattwick (2004) divide resources into financial, physical, materials, people, and information. Lee and Whitford (2013) follow a more expansive classification that includes six types of resources: financial resources, administrative resources, human resources, physical resources, political resources, and reputation resources.

Adequate and consistent resources are critical for conducting effective performance audits. Each stage of the audit process (planning, choosing methods, collecting and analyzing data, and reporting results) requires identifying, investing in, and protecting different types of

organizational resources that help performance auditors achieve their missions and create public value at a reasonable cost (Bryson, Ackermann, & Eden, 2007). For example, financial resources help organizations purchase other resources such as employees, equipment, and advertising (Lee & Whitford, 2012). Sufficient funding is crucial for developing the administrative and technical capacity for achieving performance audits' statutory objectives (Fernandez & Rainey, 2006). Offering competitive salaries draws competent and experienced personnel, an investment that yields positive outcomes for organizations (Crutchfield & Grant, 2008). Investing in information technology allows organizations to collect and analyze performance data and report to stakeholders. Acquiring administrative resources which entail organizational leadership positively affects the quality of decision making, ultimately improving agency performance (Lee & Whitford, 2012). Similarly, ensuring that audit agencies have professional human resources enhances their autonomy and ability to make objective decisions.

The availability of adequate resources is a necessary but not sufficient condition for the effectiveness of performance audits. These resources must be consistent. Underfunded organizations act reactively as they constantly search for ways to increase their resources. In contrast, organizations with stable resources are more likely to take a proactive approach to solving performance problems (Moynihan & Landuyt, 2009). Organizations with greater resources are also more likely to develop an adaptive capacity in the face of fiscal distress and turbulent conditions (Johnsen, 2016). They are more innovative and entrepreneurial in experimenting with methods and adopting strategic stances that enhance their effectiveness (Johnsen, 2016).

Previous studies present corroborating evidence of the positive effects of organizational resources. For example, de Lancer Julnes and Holzer (2001) find that organizational resources

are essential for the success of performance measurement systems in state and local governments. Berman and Wang (2000) show that an adequate technical infrastructure positively affects performance measurement use. Boyne, Gould-Williams, Law, and Walker (2004) find that organizational resources are crucial to strategic planning initiatives in Welsh local authorities. Moynihan and Landuyt (2009) show that adequate resources improve organizational learning. Smith, Campbell, Subramanian, Bird, and Nelson (2001) find that budgetary constraints were a problem for St. Louis' municipal strategic planning initiative. Wheeland (1993) finds that the success of the strategic planning initiative in Rock Hill city is partly attributed to the availability of the necessary resources. Lee and Whitford (2012) show that different types of administrative, personnel, financial, and political resources positively impact agencies' effectiveness.

Considering the austere fiscal conditions in the public sector, performance auditors face challenges in maintaining effective audit services with constrained resources. Reports by national audit associations suggest that, during periods of fiscal crisis, performance auditors are often "the first to get the ax," experiencing staff reductions and other budget cutbacks that obstruct their oversight roles (Maciag, 2017). For example, the Governing magazine published an article that analyzed auditing staff positions reported by the National Association of State Auditors, Comptrollers and Treasurers (NASCAT) between 2007 and 2017. The data shows that state-level auditing offices experienced "an aggregate decline for all of about 7 percent over the decade ending in fiscal 2017, with 30 of 47 agencies reporting that their staff was smaller than in 2007" (Maciag, 2017, p. 1).

Notwithstanding these reports, we have little comprehensive understanding about whether and how performance auditors' resources have changed at the local government auditing

offices. The public administration literature has predominantly focused on the link between organizational resources and performance, paying less attention to public agencies' resource changes and the factors that determine such changes. Absent this knowledge, the literature suffers from a crucial omission. If, theoretically speaking, independence matters for performance auditing effectiveness, does it also make difference in terms of performance auditing resource changes? This study answers these questions in the context of local performance auditing offices by empirically examining whether and how independence influences resource changes. The findings have practical implications on strengthening performance auditors oversight roles and ability to improve the performance of the governments of which they are a part.

Independence and Resource change

In organization theory, independence is considered a structural design feature that determines the extent of the authority of an organization and prescribes and constrains the relationship of its members with stakeholders and the external environment (Selin, 2015). Like other structural features, such as centralization and hierarchy, independence affects an organization's strategic choices and outcomes, including resource acquisition and allocation (Andrews, Boyne, Law, & Walker, 2009; Dalton et al., 1980; Hage, 1965; Pfeffer & Salancik, 1978).

Though a strong structural feature, independence is not absolute (Grasso & Sharkansky, 2001). Political and policy considerations often encroach on the independent status of auditors and undermine their effectiveness (Funkhouser, 2008). Independence may limit an agency's willingness to respond to political influence, allowing for more autonomous and objective policy decisions (Hammond, 1986; Hammond & Thomas, 1989). However, it cannot completely shield

the agency from its political overseers. As scholars have argued, independence in its pure form is untenable because of the inherently sensitive and political nature of the activities about which auditors inquire (Grasso & Sharkansky, 2001; Ennser-Jedenastik, 2016).

Grasso and Sharkansky (2001) discuss several factors contributing to this tension between auditor independence in principle and practice. First, the close connection between auditors' work, public policy, and politics blurs the borders between audit targets, policy, and politics, a problem further exacerbated by the increasing and proactive participation of performance auditors in policy debates and decisions. Second, performance auditors have gained a prestigious status among elected officials who take advantage of these indistinct borders to coopt auditors' prestige as a tool for securing political gains. Third, the increasing professionalization of performance auditors prompts them to inquire about various areas of governmental activities and seek solutions to social problems that may be professionally relevant but are also politically sensitive. By virtue of their expertise and the information advantage over their political overseers, audit agencies may also pursue objectives that are at odds with the desires of politicians who may accuse auditors of overstepping their formal mandates (Banks & Weingast, 1992). Fourth, general societal changes along with the growing complexity of social problems contribute to audit assertiveness and their involvement in decisions that have political implications.

Overall, performance auditors are situated in a highly political environment, and their participation in public policy inevitably leads to involvement in politics (Sutherland, 1986). Even when auditors presume that their reports are free from political implications, other policy actors may perceive them as in favor or opposition of certain political positions (Grasso & Sharkansky, 2001). For example, politicians who find that the audit report aligns with their positions give

“fulsome praise” to the auditor and draw implications from the report to support their positions (Grasso & Sharkansky, 2001). In contrast, politicians who find that the audit report opposes their positions attack the audit methods and findings and question the auditor’s decisions and motives (Grasso & Sharkansky, 2001). Policy areas that have been subject to audits that affected political interests include deficit reduction, immigration reform, agricultural support programs, and military base closing strategies (National Academy of Public Administration, 1994).

Such interference from politics can undermine all aspects of audit independence, including audit agencies’ fund allocation, control over personnel, the right to choose what and when to audit, and the discretion to publish audit findings. In principle, independence should guarantee the audit agency the funds necessary to implement its work effectively. However, political overseers have the means to control supposedly independent agencies and can use these agencies’ budgets to influence decision making (Schinkel, Tóth, & Tuinstra, 2020). Perceived as meddling in policy and politics, audit agencies may come under attack by political overseers who can limit their independence and ability to exercise control over their budget and staffing decisions. In that sense, independence may make it more challenging or costly to acquire and maintain resources. For example, in 1994 there were strong calls for drastic cuts in GAO’s budget (up to 50% within the following fiscal year) by politicians who criticized the agency’s policy-oriented work and involvement in policy advocacy. Eventually, GAO’s budget was reduced by 25% over two fiscal years, forcing the agency to cut 1,500 personnel and close two of its regional offices and several other facilities, among other reductions (Grasso & Sharkansky, 2001).

This example clearly demonstrates how greater agency independence may come at the cost of budget reductions due to the influence of politics. Audit agencies’ budgets depend on the

legislative bodies that may leverage their power to undermine the independent status of auditors (Funkhouser, 2008). They can impose significant budget constraints on audit agencies to limit the size and scope of audit offices.

While internal auditors are also subject to political influences, their less independent status may mitigate the severity of their budget cuts for several reasons. First, local governments have an independent revenue-raising capacity which can offset any reduced levels of support and protect internal auditors from the pressures of national legislative bodies. Second, local governments that face financial stress can target cuts to non-essential programs and services (Jimenez, 2014b), avoiding their internal audit function the brunt of across-the-board cuts that independent audit agencies may have to bear. Even if local governments resort to across-the-board cuts, some city codes or charters make spending on audit functions mandatory, unlike other discretionary spending categories (Hudak & Wallack, 2015; Funkhouser, 2008). Third, in the context of fiscal contraction, local governments may hesitate to drastically cut the resources of internal auditors because auditors can help them save much more resources than the cost of their operations (i.e., return on investment). Local governments can turn to performance auditors to identify areas that need pressing attention, rank priorities, and guide decisions about efficient resource allocation and personnel management (Jimenez, 2016). Prior studies show that, during fiscal stress, information produced using performance-oriented practices can help local governments cut waste, reduce duplication of efforts, and eliminate non-essential programs and services, all of which can improve organizational effectiveness (Jimenez, 2014b). Recognizing the importance of internal audit function, local governments' chief executives (e.g., city or county managers) can strongly advocate for supplying performance auditors with ample resources to carry their work effectively. Finally, internal auditors are more likely to establish

positive ties with their organizations due to their location inside local governments, which can further safeguard them against budget cuts. In contrast, independent investigative agencies often lack political popularity, giving legislative bodies little incentive to protect them from spending reductions (Hudak & Wallack, 2015).

Variations of the degree of independence across local governments also suggest a potentially negative relationship between independence and performance auditing resources. Evidence shows that local governments' top management tend to compete with
with performance auditing functions and may perceive them as a threat, especially if they are independent (Funkhouser, 2008). Lacking their managements' support, these auditors may constantly struggle to secure the resources and protection that internal auditors may enjoy (Funkhouser, 2008). Therefore:

Hypothesis 6: Independence is likely to reduce performance auditing agencies' resources.

CHAPTER 4: DATA COLLECTION

To test my hypotheses, I draw on data from a national survey of performance auditors who work in state and local governments in the U.S. The survey instrument was developed collaboratively with the International Center for Performance Auditing (ICPA), a small nonprofit group of scholars and experienced practitioners in the field of performance auditing, and conducted with the assistance of the National Association of State Auditors, Comptrollers, and Treasurers (NASCAT), and the Association of Local Government Auditors (ALGA), the principal professional associations for public auditors in U.S. state and local governments, respectively.

Survey Development and Implementation

Development of the survey instrument began with a questionnaire that the ICPA members had drafted to assess the knowledge, skills, and abilities (KSAs) entailed in performance auditing. The survey instrument was revised to address some additional issues, principally concerning the size of the survey and the practice of performance auditing. The revision process followed best practices in survey design and implementation to improve the accuracy of responses and minimize measurement error (See Dillman, Smyth, & Christian, 2009). Survey respondents were promised confidentiality and data protection. The instrument's language was clear, concise, and accurate to minimize misunderstanding and confusion. In the end, the final survey instrument required about 15 minutes for a typical respondent to complete. The instrument mainly consisted of close-ended questions about the character and scope of performance auditing in state and local governments, including the importance of and current proficiency in the various KSAs needed for performance auditing. Other items asked how

performance auditors conduct their work and how influential or effective they believe they are. The questionnaire was worded to ask the same questions of both state- and local-level respondents. Before going into the field, the instrument was pretested for question relevance, clarity, and understandability with a small sample of local performance auditors whom the ICPA recommended. Their feedback was used to revise the questionnaire instrument to its final form.

Using online software, the survey targeted the membership of ALGA for local government auditors and NASCAT for state government auditors. By their nature, these two organizations appear to include most professional auditors at the state and local governmental levels in the U.S. Before contacting potential respondents, the executive directors of both organizations alerted their members by email that the survey would be coming, explaining its purpose and value to the performance auditing field and requesting members to respond. Having recognized leaders in a field endorse a survey in advance can increase the likelihood of respondents buying into and ultimately completing the survey (Newcomer & Triplett, 2004). Four days after those notifications were sent, a cover letter of explanation, including a web link, was sent to the entire memberships of the two organizations. The cover letter invited respondents to participate, explained the purpose of the study, and emphasized the confidentiality of the results. The letter also asked that only individuals with at least five years of experience in performance auditing respond to the survey, a criterion recommended by the ICPA leadership. Due to their superior knowledge and broad networks within and outside their agencies, experienced performance auditors are better positioned than less experienced auditors to answer survey questions related to the trends and the workings of their organizations.

Response Rate

The initial survey request was sent on November 6, 2017, asking for completed surveys to be returned in two weeks' time. Subsequent multiple reminders were sent to non-respondents in late November 2017 and in February and March 2018. Responses continued to trickle in until the survey closing date on April 17, 2018. Of the 245 requests sent to the state level, 107 were completed for a response rate of 43.7%, while, at the local level, 311 of 2360 requests produced completed surveys for a response rate of 13.2%.[1] The response rates for cities and counties were 14.9% and 17.5%, respectively. [2]

However, the more meaningful response rate may be the proportion of jurisdictions represented in the completed surveys. That is, what proportion of the jurisdictions in the samples provided at least one response. That proportion seems more meaningful because many of those contacted likely did not respond because they either (1) work in areas of auditing other than performance auditing or (2) had less than five years' experience in performance auditing, groups we did not want to respond. In addition, some of those contacted, as a few potential respondents stated, did not respond because they felt a colleague had responded on behalf of their agency (despite encouraging multiple responses from each agency).

The jurisdictional response rates, in fact, look much better. At the state level, respondents represented 38 states. With six states not responding because they do not conduct performance audits, the response rate for the remaining states is 86.4% (38 of 44 states). At the local level, the completed surveys received were 158 of 344 jurisdictions for a jurisdictional response rate of

[1] Requests went to a few other local entities such as transportation authorities, school districts, and police departments. Their responses are not included in the data reported in the subsequent chapters.

[2]The survey also sought responses from federal-level performance auditors, but, since the General Accountability Office declined to participate and the responses from Inspectors General were very limited, the data for the federal government are not reported.

45.9%. These higher jurisdictional response rates suggest that the data can provide a reasonably representative picture of the performance auditing practice in U.S. state and local governments.

Additional Data Collected

To supplement the survey, I collected additional data from the Comprehensive Annual Financial Reports about the forms of government, council and commission composition, and other characteristics of the jurisdictions represented in the survey responses. I also gathered demographic information, such as the population and median household income, of these jurisdictions from the 2017 American Community Survey (ACS) 5-year estimates, and region from the Bureau of Census (BC).

I also collected additional data from the Governing magazine on recent changes in staffing levels for state auditing agencies. The Magazine’s writer Mike Maciag (2017) compiled this data through a review of “annual surveys of filled staff positions reported by the National Association of State Auditors, Comptrollers, and Treasurers.” This data provides a means for testing some expert assertions that performance auditing resources have been declining consistently and validating how well survey perceptions on resource changes match hard data. That latter comparison is possible because the two types of data reflect similar periods: the decade ending in 2017 for Maciag’s data and “recent trends” as of 2017-2018 for the survey question on performance auditing resource changes.

CHAPTER 5: DESCRIPTIVE FINDINGS

A Profile of Performance Auditing Practice

This chapter describes what performance auditing looks like in local governments in terms of (1) agency characteristics (e.g., size, form of government, degree of independence), engagement of stakeholders and elected and appointed superiors in the conduct of performance audits, (2) perceptions of training adequacy (3) perceptions of the influence and impact of performance audits, and (4) recent trends in agency resources. Although the dissertation focuses on local governments, understanding the characteristics of state-level performance auditing helps draw a comparison that adds valuable insights about the current status of performance auditing. If experience is indicative, respondents appear to have sufficient time in service to report accurately on their agencies. Most of the respondents (72.4%) have more than 10 years of auditing work experience (Table 1). They are also well-educated, with 56.4% having graduate degrees (e.g., M.P.A, Ph.D., J.D.) and another 43.0% holding four-year college/university degrees, leaving less than 1% without at least a four-year degree (Table 2).

Table 1. Performance Auditing Experience by Level of Government

Performance auditing experience	All	States	Cities	Counties
Less than 10 years	27.6	24.2	29.1	27.8
10-20	38.3	37.9	39.1	37.8
More than 20	34.1	37.6	31.8	34.5
Totals	100.0	100.0	100.0	100.0
N of cases	337	95	151	90

Table 2. Educational Attainment of Performance Auditors by Level of Government

Education	All	States	Cities	Counties
Some college	0.6	0.0	0.7	1.1
College/University graduate	43.0	43.2	41.7	44.4
Post graduate degree	56.4	56.8	57.6	54.4
Totals	100.0	100.0	100.0	100.0
N of cases	337	95	151	90

Agency Characteristics

Looking at agency characteristics, Table 3 shows the majority of city-level respondents come from council-manager municipal governments (59.4%) and the comparable council-administrator county governments (51.1%). The remainder come mostly from mayor-council municipal governments (40.6%) and the again comparable county commissions with elected executives (48.9%). As for the regional breakdown (Table 4), most respondents come from the South or West, a pattern especially pronounced for city- and county-level respondents (90.0% and 87.8% from the two regions, respectively).

At the state level, there are no dimensions like form of government or electoral system on which to compare respondents, making patterns more difficult to discern. One pattern, though, is consistent with a local-level pattern: The South and the West had relatively high response rates, with non-respondents coming almost entirely from elsewhere, especially the Midwest which accounts for five of the six non-responding states: Indiana, North Dakota, Oklahoma, South Dakota, and Wisconsin (the exception being New Mexico, part of the West or Southwest).

Table 3. Form of Government

Form of Government	All	Cities	Counties
Council Manager	56.2	59.4	51.1
Mayor Council	43.8	40.6	48.9
Totals	100.0	100.0	100.0
N of cases	233	143	90

Table 4. Regional Breakdown of the Performance Auditing Offices

Region	All	States	Cities	Counties
Midwest	11.0	19.0	8.6	6.7
Northeast	6.0	13.7	1.3	5.6
South	38.1	29.5	45.0	35.6
West	44.9	37.9	45.0	52.2
Totals	100.0	100.0	100.0	100.0
N of cases	336	95	151	90

As shown in Table 5, the state agencies tend to be substantially larger than the local agencies with the vast majority of state-level respondents (52.6%) reporting more than 51 full-time equivalent (FTE) auditors in their agencies and a 30.5% saying they were in agencies of 21-50 FTE auditors. At the local level, according to the respondents, median agency size fell in the 6-10 FTE range with municipal respondents reporting slightly larger agencies on average than did county respondents. To be clear, these FTEs reflect the total numbers of auditors, not those involved in performance auditing specifically.

Another important characteristic is independence as indicated by the place of performance auditing within governments—whether a freestanding independent agency or instead in a reporting relationship to the government's top management or chief financial officer (CFO). As Table 6 shows, most of these agencies (68.1%) fall in the first category as a separate branch of government with relative independence. That is especially true at the state level where

87.2% of the agencies are a separate branch of government, but majorities of local agencies (58.0% at the city level, 64.8% at the county level) hold that same standing. Where that is not the case, the responding auditors mostly report to their governments' top management with a small number reporting to their governments' CFO (Given the small number of the latter, they will be combined in later analyses with respondents who report to top management).

Table 5. Number of Full Time Employees by Level of Government

Number of Full Time Employees (FTE)	All	States	Cities	Counties
1–5	25.3	6.3	28.7	40.0
6–10	26.8	2.1	38.7	33.3
11–20	14.6	8.4	14.0	22.2
21–50	17.6	30.5	18.0	3.3
More than 51	15.8	52.6	0.7	1.1
Totals	100.0	100.0	100.0	100.0
N of cases	336	95	150	90

Table 6. Reporting Relationship by Level of Government

Reporting Relationship	All	States	Cities	Counties
Separate Branch	68.1	87.2	58.0	64.8
Top Management	25.0	9.6	32.7	28.4
Chief Financial Officer	6.9	3.2	9.3	6.8
Totals	100.0	100.0	100.0	100.0
N of cases	332	94	150	88

Engagement with Stakeholders

Respondents reported involving stakeholders substantially in most parts of the audit process, with majorities at all three levels of government citing extensive involvement of stakeholders in three of the four parts of that process. As Table 7 shows, the proportions reporting engaging subjects either "to some extent" or "extensively" totaled:

- 78.8% for “planning the audit.”
- 85.8% for “interpreting audit findings.”
- 95.5% for “reviewing and commenting on draft reports.”

As the one exception to that pattern, respondents were mostly disinclined to involve subjects in “choosing audit methods” with majorities (62.2%) saying they involved subjects “not at all” in this phase. Perhaps not surprisingly, while seeing themselves as welcoming stakeholder involvement in most parts of performance audits, these auditors prefer to keep the choice of audit methods mostly under their personal control.

Performance auditors also involve their executive management and governmental bodies (e.g., legislatures, city councils) to varying degrees. As Tables 8 and 9 show, involvement is more extensive with executive management than with government bodies. More than half (55.0%) of the respondents said they engaged executive management “frequently” in their audits, as compared to only 30.3% who engaged government bodies frequently. Engagement of executive management was most extensive for municipal respondents, with a substantial 64.9% majority of reporting frequent involvement with their executive management, as compared to only 48.9% of county-level respondents and 45.7% of state-level respondents. For those latter two groups, no involvement or only occasional involvement of executive management was more involvement.

Table 7. Engagement with Audit Subjects in the Stages of the Audit Process by Level of Government

Stages of the Audit Process	All	States	Cities	Counties
Planning the audit				
Not at all	21.2	25.5	18.5	20.2
To some extent	56.1	51.1	57.6	59.6
Extensively	22.7	23.4	23.8	20.2
N of cases	335	94	151	89
Choosing audit methods				
Not at all	62.2	53.2	67.6	62.2
To some extent	29.5	38.3	25.8	26.7
Extensively	8.3	8.5	6.6	11.1
N of cases	336	94	151	90
Interpreting audit findings				
Not at all	14.2	8.6	17.6	14.4
To some extent	53.6	61.3	49.3	52.2
Extensively	32.2	30.1	33.1	33.3
N of cases	332	93	148	90
Reviewing and commenting on draft reports				
Not at all	4.5	1.1	6.7	4.4
To some extent	36.1	34	33.3	42.2
Extensively	59.4	64.9	60	53.3
N of cases	335	94	150	90

Table 8. Engagement with Executive Management by Level of Government

Engagement with executive management	All	States	Cities	Counties
Not at all	3.0	4.3	1.4	4.4
Occasionally	42.0	50.0	33.8	46.7
Frequently	55.0	45.7	64.9	48.9
Totals	100.0	100.0	100.0	100.0
N of cases	333	94	148	90

The involvement of all three groups of respondents was more extensive with executive management than with their government bodies, with only 27.0-35.6% of each group saying they

involved those bodies frequently. In connecting with the top levels of their governments, performance auditors apparently look more to the executive branch than to the legislative branch.

Table 9. Engagement with Governing Body by Level of Government

Engagement with governing body	All	States	Cities	Counties
Not at all	10.5	8.5	12.2	10.0
Occasionally	59.2	60.6	60.8	54.4
Frequently	30.3	30.9	27.0	35.6
Totals	100.0	100.0	100.0	100.0
N of cases	333	94	148	90

Training Adequacy

The survey asked respondents about adequacy of their agency training of performance auditors. Respondents offered mostly positive assessments of their agencies, with 59.9% agreeing that their agencies "provide adequate training" for performance auditors and only 15.1% stating otherwise (Table 10). The remaining 25.0% were unsure about adequacy of training as indicated by their answer "maybe" to this question. This pattern is consistent across state, county, and city governments.

Table 10. Provision of Adequate Training for Performance Auditors by Level of Government

Provision of adequate training	All	States	Cities	Counties
No	15.1	11.8	16.7	15.9
Maybe	25.0	26.9	26.0	21.6
Yes	59.9	61.3	57.3	62.5
Totals	100.0	100.0	100.0	100.0
N of cases	332	93	150	88

Perceived Influence and Effectiveness

As perhaps the crucial bottom-line questions, respondents were asked about their perceived influence on their governing body and executive management and effectiveness in improving governmental programs. The responding auditors rated their organizations as mostly effective on all three counts. As shown in Table 11, the proportions who rated their agencies' work as very effective" totaled:

- 76.7% for "influencing decisions made by" their governing bodies.
- 78.8% for "influencing decisions made by" their governments' executive management.
- 88.9% for "improving programs and services."

State-level respondents held the most positive perceptions, with the highest proportions who perceived their organizations as "very effective" on all three dimensions. That said, the primary finding remains that the performance auditors who responded to this survey mostly see their organizations as effective in influencing their governing body, executive management, and improving governmental programs and services.

Table 11. Proportions of Respondents Perceiving Their Agencies as Very Effective in Different Types of Influence

Type of influence	All	States	Cities	Counties
Decisions by governing body	76.7	85.1	72.7	74.4
N of cases	335	94	150	90
Decisions by executive management	78.8	83.0	79.5	74.2
N of cases	335	94	151	89
Improving programs and services	88.9	93.6	87.9	85.4
N of cases	333	94	149	89

Resource Changes

To speak to the question of whether performance auditing resources have been in decline, I use two types of data: (1) the survey question which asked respondents whether their agency's resources had "increased substantially, increased slightly, stayed the same, decreased slightly, decreased substantially" in recent years, and (2) data shared by *Governing* magazine writer Mike Maciag on recent changes in staffing levels for state auditing agencies. To enhance that comparability, I initially limited my purview to the 36 states common to both sets of data. Since there were multiple survey responses from many of those states, I also calculated an average survey response for each state by averaging responses on the resource trend question across all state-level respondents from each state.

As shown in Table 12, the two types of data provide very similar results for the states they have in common. While the mean and median staffing losses are 4.9 and 3.5 positions, respectively, the percentage decline in actual staff positions is only 1% while the average score on the perceptual measure is 3.0, a hundredth of a point below the survey rating of 3 for resources "stayed essentially the same." In other words, the two metrics produce essentially the same conclusion about resource trends—a minimal decline in both resources in general and staffing specifically for the 36 states covered by both sets of data. That comparability adds to the confidence in the validity of the survey perceptions of agency resource trends.

With that added confidence, I turn to what the perceptual data suggest more broadly about resource trends in state and local auditing agencies. Staying at the state level, the first column in Table 13 shows that state-level respondents were slightly more likely to report their agencies experiencing increases than decreases in resources in recent years. That contrasts with Maciag's findings—for a slightly different set of states—of "an aggregate decline for all state-

level auditing offices of about 7 percent over the decade ending in fiscal 2017." Taken in combination, the two findings suggest that resources for state auditing agencies have trended somewhere between slightly increasing and slightly decreasing in the years leading up to 2017.

Table 12. Changes in Agency Resources: State Auditor Employment Changes, 2007-2017, Versus Perceived Changes, 2017

Variable	Mean	Median	S.D.	Min	Max	N
Change in employees (number)	-4.9	-3.5	35.0	-114.0	98.0	36
Change in employees (percentage)	-0.0	-0.1	0.2	-0.3	0.4	36
Perceived resource change	3.0	3.0	0.9	1.0	4.0	36

The survey paints a more positive picture for city and county auditing offices. In the eyes of survey respondents, more of those agencies experienced resource increases than decreases in recent years. At the county level, 33.3% of the respondents reported increased resources for their agencies while only 2.2% reported decreases. Increases were also perceived as more common than decreases at the municipal level, but to a lesser extent. As with county-level respondents, about a third (31.5%) of municipal respondents reported increased agency resources, but, differing from county-level perceptions, a much higher 20.8% perceived decreased resources.

Table 13. Perceived Change in Resources for Auditing Offices by Level of Government

Perceived resource change	All	States	Cities	Counties
Decreased	15.9	21.3	20.8	2.2
Stayed the same	53.2	51.1	47.7	64.4
Increased	30.9	27.7	31.5	33.3
Totals	100	100	100	100
N of cases	333	94	149	90

CHAPTER 6: RESEARCH DESIGN AND METHODOLOGY

Performance Auditing Perceived Effectiveness

Dependent Variable

The dissertation examines performance auditing effectiveness in local governments. Effectiveness has many definitions in the literature, but it most commonly refers to the extent of agency success in achieving desired results (Boyne, 2002). Public administration scholars have widely relied on perceptual measures that consider the subjective and multidimensional nature of the concept of effectiveness (Pandey, Coursey & Moynihan, 2007; Walker & Boyne, 2006). Unlike objective measures that can be susceptible to gaming and upward bias, perceptual measures in the public sector have the advantage of reflecting the views and knowledge of employees who work in and, arguably, know their organizations the best (Pandey et al., 2007; Walker & Boyne, 2006).

To capture the multidimensional nature of effectiveness, I rely on three measures. The first measure concerns performance auditors' effectiveness in achieving performance improvement in public organizations, as indicated by the survey item "How effective do you think the work of your audit organization is in improving your government's programs and services?" The second and third measures relate to performance auditors' effectiveness in influencing decisions made by the governing body and executive management. In addition to their ultimate performance improvement goal, auditors exert influence on the decision-making process. Audit reports are not the end product of auditors' work but rather an intermediate step in discussions with various stakeholders and influencing decisions made by the executive and legislative bodies (Put & Turksema, 2011). Any effort to implement performance audits successfully must involve both branches of government (Ho, 2006). Elected officials are

important consumers and stakeholders of performance auditing reports. Without strong support from elected officials, performance auditors cannot make meaningful changes to the legislative and budgetary processes (Ho, 2006). Similarly, it essential to develop high levels of commitment from senior management to implement audit recommendations (Yang & Hsieh, 2007). Top management's support helps mobilize resources, reduce employee resistance, and ensure commitment to carry out these recommendations successfully (Fernandez & Rainey, 2006; Yang & Hsieh, 2007).

For these two measures, I use answers to the survey items that asked respondents to indicate, "How effective do you think the work of your audit organization is in influencing decisions made by the governing body of your government?" and "How effective do you think the work of your audit organization is in influencing decisions made by the executive management of your government?" respectively. Survey respondents rated the three items on a 5-point Likert-type scale that ranged from "1 = Very ineffective" to "5 = Extremely effective," The literature provides evidence of a strong and positive correlation between subjective and objective measures of organizational effectiveness, further supporting the use of such perceptual measures (see Walker & Boyne, 2006).

Independent Variables

The primary variables used for predicting performance auditing effectiveness are organizational size, government form, independence, stakeholder involvement, and training. I measure organizational size using the survey item that asked respondents to indicate "How many full-time equivalent (FTE) auditors does your audit organization have (rounded to the nearest whole number)?" on an ordinal scale ranging from "1" "2-3" "4-5" "6-10" "11-20" "21-50" "51-

100” “More than 100.” The number of employees has been a well-established measure of size in organizational studies. “[S]ince it is people who are organized,” this measure reflects the structural properties of an organization better than other measures of size (Child, 1972, p.170). The form of government is a dummy variable, with 1 indicating council-manager and 0 mayor council. The data for the form of government are from the city Comprehensive Annual Financial Reports.

Independence is measured using the survey item that asked respondents “Which of the following best describes the nature of your audit organization’s reporting relationship?,” a dummy variable coded 1 if the “audit organization is considered a separate branch of government or reports to a branch of government other than the branch responsible for implementing the programs under audit” and 0 if the “audit organization reports to top management and may also report to an audit committee composed of executives and/or legislators” or “reports to the chief financial officer or agency head within the government.”

For stakeholder engagement, I use three measures to assess the engagement of influential stakeholders: audit subjects, executive management, and governing body. Engagement of audit subjects is measured using the survey item which asked respondents to indicate “How much does your audit organization engage the subjects of your audits in each of these components of the performance audit?” on a 3-point Likert-type scale that ranged from “1 = Not at all” to “3 = Extensively.” The components respondents were asked to assess are “Planning the audit,” “Choosing audit methods,” “Reviewing and interpreting audit findings,” and “Reviewing and commenting on draft reports.” These four items were converted into an index that reflects performance auditors’ engagement with audit subjects. The reliability analysis shows that this measure has acceptable reliability with a Cronbach alpha’s coefficient alpha of 0.73.

For engagement of executive management, respondents were asked to indicate “To what extent does your audit organization engage with the executive management of your government as part of its auditing work?” on a 3-point Likert-type scale that ranged from “1 = Not at all” to “3 = Frequently.” The same question was asked about the extent of engagement with “the governing body” using the same 3-point Likert-type scale.

For training adequacy, respondents were asked to assess whether they “think [their] audit organization provides adequate training for [their] performance auditing staff” on a 3-point Likert-type scale that ranged from “1 = No” to “3 = Yes.”

Control Variables

The effectiveness model controls for several factors, including agency resources, performance auditor proficiency, and familiarity with other result-oriented approaches such as performance measurement and program evaluation. Agency resources allow auditors to develop the technical, strategic, and leadership capacities necessary for achieving their objectives effectively (Barney, 1991; Peteraf, 1993; O’Toole & Meier, 2003). Performance auditors’ professional proficiency, especially in the audit process (i.e., from conducting background research to developing objectives to writing final reports), improves the quality of their work (Cohen & Sayag, 2010). In addition to performance auditing, local governments use several other performance-oriented approaches such as performance measurement and program evaluation. Understanding these tools and the information they generate can positively impact auditors’ effectiveness in influencing decision making and improving government programs and services. These variables all come from the survey.

The model also controls for differences in regional and economic conditions. The two variables come from the Census Bureau and the 2017 American Community Survey. The median household income indicates the demand for government services (Jimenez, 2013). A wealthier population may create more service demand and performance auditing services, which could be challenging to meet with constrained resources. Alternatively, cities with a bigger or more affluent population, as proxied by median household income, have a more diverse and richer economic base that provides a stable flow of revenues necessary to enhance performance auditing effectiveness (Hendrick, 2011; Jimenez, 2014a). Table 14 provides detailed descriptive statistics of all variables and their data sources.

Estimation Method

Because the dependent variables are ordinal measures, the analysis employs ordered logistic regression to estimate the models following the equation:

$$\mathit{Effectiveness}_i = \alpha + \mathit{Size}_i\,\beta + \mathit{Council\text{-}manager\ Government}_i\,\beta + \mathit{Independence}_i\,\beta + \mathit{Stakeholder\ Engagement}_i\,\beta + \mathit{Training}_i\,\beta + C_i\,\beta + \varepsilon_i$$

where C represents the control variables: resource change, program evaluation, audit process proficiency, performance measurement, and program evaluation, median household income, and region.

Table 14. Data Sources and Basic Descriptive Statistics

Variable	Data Source	Obs.	Mean	SD	Min	Max
Dependent Variables						
Influence governing body	Survey	240	3.77	0.92	1	5
Influence executive management	Survey	240	3.82	0.94	1	5
Improve programs and services	Survey	238	4.09	0.74	1	5
Independent Variables						
Organizational size	Survey	240	3.88	1.40	1	8
Council-manager	CAFRs	233	0.56	0.50	0	1
Independence	Survey	238	0.61	0.49	0	1
Engage audit subjects	Survey	241	8.10	1.93	4	12
Engage governing body	Survey	238	2.19	0.62	1	3
Engage executive management	Survey	238	2.56	0.55	1	3
Training adequacy	Survey	238	2.43	0.76	1	3
Control Variables						
Resource change	Survey	239	3.19	0.85	1	5
Program evaluation	Survey	239	2.79	1.19	1	5
Audit process proficiency	Survey	240	4.12	0.85	2	5
Performance measurement	Survey	240	3.37	1.07	1	5
Median household income	ACS	241	62599.30	16815.78	27854	147537
Region	BC	241	3.29	0.86	1	4

Note: ACS—American Community Survey; CAFR—Comprehensive Annual Financial Reports; BC—Bureau of Census.

Performance Auditing Resource Changes

Dependent Variable

The dissertation also examines performance auditing resource changes. Resource change is broadly defined as "any assets that an organization might draw on to help achieve its goals" (Bryson, Ackermann, & Eden 2007, p.704). Resource change is measured using the survey item, which asked respondents to indicate "How have the resources (such as staffing) for your organization's performance auditing changed in the past three years?" on a 5-point Likert-type scale item ranging from "1 = Decreased substantially" to "5 = Increased substantially."

Independent Variable

Independence is measured using the survey item that asked respondents, "Which of the following best describes the nature of your audit organization's reporting relationship?" a dummy variable coded 1 if the "audit organization is considered a separate branch of government or reports to a branch of government other than the branch responsible for implementing the programs under audit" and 0 if the "audit organization reports to top management and may also report to an audit committee composed of executives and/or legislators" or "reports to the chief financial officer or agency head within the government."

Control Variables

This model controls for several factors that may affect agency resource changes, including organizational size, the form of government, stakeholder engagement, and training. A government's structure can influence performance auditing effectiveness (Dalton et al., 1980). Larger organizations have bigger budgets and other resources such as facilities, staff, and

technology that promote effectiveness (Damanpour, 1992; Kroll, 2015). Council-manager governments are argued to be more professional than mayor-council governments (Jimenez, 2020). Empirical findings show that they are more likely to adopt and dedicate resources to result-oriented practices than their mayor-council counterparts (Nelson & Svara, 2012; Poister & Streib, 1989, 1994).

To understand performance auditing resource changes, it is imperative to consider political support for performance auditors and their engagement with stakeholders (Dekker & Hansén, 2004). Auditors must involve both branches of government in their work if they desire to acquire resources crucial for their success (Ho, 2006). Elected officials have the "power of the purse" and can substantially influence auditor budgets (Walker, 2007). They can also impose statutory changes to control the flow of resources to audit organizations (Fernandez & Rainey, 2006). Similarly, a local government's executive management exerts power over budget allocations and can help marshal resources for performance auditing (Fernandez & Rainey, 2006; Yang & Hsieh, 2007). Adequate training improves auditors' professional proficiency and their ability to secure resources. Finally, the model accounts for variations in demographic and local economic conditions that directly influence local government resources. All these variables come from the survey, except for the form of government from the Comprehensive Annual Financial Reports. Population size and median household income are from the 2017 American Community Survey. The region variable is from the Census Bureau.

Estimation Method

Because resource change is also an ordinal measure, the analysis uses ordered logistic regression to estimate the model following the equation:

$$Resource\ change_i = \alpha + Independence_i\,\beta + C_i\,\beta + \varepsilon_i$$

where C represents the control variables: organizational size, form of government, stakeholder engagement, training, total population, median household income, and region.

Table 15 reports the correlations between variables. Without introducing controls, training adequacy is positively and significantly associated with all three indicators of effectiveness. Engaging executive management is positively and significantly correlated with influencing decisions by the governing body and executive management. Both organizational size and engaging governing body are positively and significantly correlated with influencing decisions by the governing body. Independence is positively and significantly associated with influencing decisions by the governing body. Table 15 also shows that multicollinearity is not a concern. Resource change and independence are not significantly correlated.

Table 15. Correlation Matrix for Variables

Influence governing body	1															
Influence executive management	0.68 ***	1														
Improve programs and services	0.56 ***	0.65 ***	1													
Resource change	0.04	0.03	0.08	1												
Organizational size	0.14 *	0.02	0.04	-0.02	1											
Council-manager	-0.03	0.08	-0.07	-0.06	-0.27 ***	1										
Independence	0.21 **	0.09	0.14 *	-0.13 *	0.28 ***	-0.21 **	1									
Engage audit subjects	-0.05	-0.03	0.04	-0.02	-0.13	0.11	-0.06	1								
Engage governing body	0.28 ***	0.15 *	0.05	-0.03	0.08	0.03	0.23 ***	0.26 ***	1							
Engage executive management	0.25 ***	0.35 ***	0.15 *	-0.04	0.05	0.19 **	0.07	0.06	0.34 ***	1						
Training adequacy	0.41 ***	0.38 ***	0.31 ***	0.03	0.03	0.05	0.05	-0.02	0.18 **	0.19 **	1					
Program evaluation	0.24 ***	0.21 ***	0.24 ***	0.09	0.06	-0.06	0.06	0.07	0.17	0.19 **	0.19 **	1				
Audit process proficiency	0.32 ***	0.36 ***	0.31 ***	0.02	0.02	0.04	0.03	-0.02	0.09	0.11	0.36 ***	0.39 ***	1			
Performance measurement	0.34 ***	0.26 ***	0.23 ***	0.05	0.09	0.05	0.08	0.07	0.23 ***	0.24 ***	0.22 ***	0.70 ***	0.45 ***	1		
Median household income	0.07	0.00	-0.01	0.23 ***	0.20 **	-0.15 *	0.12	-0.04	0.15 *	-0.03	0.02	-0.02	-0.01	-0.01	1	
Region	0.08	0.07	0.08	0.11	0.04	0.12	-0.03	0.00	0.01	0.00	-0.16 *	-0.05	-0.01	-0.03	0.49 ***	1

CHAPTER 7: FINDINGS

Performance Auditing Perceived Effectiveness

Models 1, 2, and 3 represent three specifications of perceived auditor effectiveness: influencing decisions by the governing body, influencing decisions by the executive management, and improving government programs and services.

In Model 1, independence, engagement with the governing body, and training are significant factors for influencing decisions by the governing body. Specifically, reporting to a separate branch instead of top management positively and significantly influences the governing body's decisions ($p < .05$). This finding is consistent with the theoretical expectations and literature. Independent auditors deal directly with the governing body where other auditors do not. Auditors under the executive management may indirectly influence the governing body, as mediated by top management. In addition, those auditors are more likely to focus on management's agenda than the governing body's since they report to management. Independence is significant because independent auditing agencies report directly to governing bodies. Auditors under executive management do not have that direct interaction. Engagement with the governing body also increases auditor effectiveness in influencing the decisions of that body ($p < .05$). This finding supports Hypothesis 4 as more engagement nurtures more influence. These two factors indicate that independent auditors are more likely to influence the governing body and that auditors that engage more with the governing body are more likely to influence that body's decisions. Finally, training adequacy is positively and significantly associated with influencing the governing body's decisions ($p < .05$).

Model 2 focuses on the factors that shape auditors' influence over executive management. Engagement with the executive management is a significant principal factor as it is

positively and significantly associated with influencing their decisions ($p < .01$). Consistent with Model 1, this finding confirms that more engagement leads to more influence. Training adequacy is also a positive and highly significant factor ($p < .01$).

Model 3 focuses on the factors influencing auditors' effectiveness in improving governments' programs and services. Auditors in council-manager governments report lower effectiveness in improving government programs and services ($p < .05$). Independence ($p < .05$) and training adequacy ($p < .01$) are both associated with higher levels of effectiveness in achieving this goal. The council-manager form of government and independence appear as conflicting significant variables. Independence is perceived as resulting in more influence for auditors in influencing programs and services, whereas a council-manager government leads to less auditor influence in this area. This finding supports the competition argument proposed in Chapter 3. Both managers and auditors aim to improve government programs and services. Pursuing this common goal may create professional competition between them, which can be more apparent when auditors are independent of management.

Table 17 reports the predicted probabilities for the significant independent variables to make the results more understandable. Because improving programs and services is the ultimate goal of performance auditing, the following section focuses on interpreting the significant results in Model 3.

Holding the other variables in the model at their means, auditors who work in council-manager governments have a 22 percent chance of reporting that they are very effective, compared to auditors who work in other forms of governments who have a 35 percent chance of reporting the same. In other words, performance auditors who work in council-manager governments are 13 percentage points less likely to say that they are very effective compared to

auditors working in other forms of government. Similarly, auditors who report to a separate branch are 12 percentage points more likely to say they are very effective than those who report to top management. Finally, respondents who receive adequate training are more than three times as likely as those without adequate training to say they are very effective in improving government programs and services.

Table 16. Results of Ordered Logistic Regression for the Effectiveness Models

	Dependent Variable: Performance Auditing Effectiveness					
	Model 1		Model 2		Model 3	
	Influencing Governing Body		Influencing Executive Management		Improving Programs and Services	
Variables	Coefficient	SE	Coefficient	SE	Coefficient	SE
Main Independent Variables						
Organizational size	0.099	0.105	-0.039	0.107	-0.072	0.109
Council-Manager	-0.233	0.312	-0.152	0.319	-0.769 **	0.327
Independence	0.640 **	0.316	0.442	0.312	0.761 **	0.325
Engage audit subject	-0.133 *	0.079	-0.010	0.079	0.089	0.079
Engage governing body	0.532 **	0.257	0.005	0.258	-0.274	0.257
Engage executive management	0.365	0.287	1.128 ***	0.299	0.327	0.294
Training	1.021 ***	0.225	0.624 ***	0.224	0.724 ***	0.231
Control Variables						
Resource change	0.236	0.173	0.227	0.167	0.251	0.176
Program evaluation	-0.096	0.171	-0.039	0.170	0.090	0.173
Audit process proficiency	0.269	0.193	0.701 ***	0.198	0.629 ***	0.206
Performance measurement	0.580 ***	0.192	0.202	0.195	0.164	0.193
Median household income (Log)	-0.929	0.714	-0.979	0.714	-1.539 **	0.726
Region						
Northeast	-0.069	0.963	-0.892	0.872	1.328	1.013
South	0.550	0.570	1.047 *	0.561	1.760 ***	0.583
West	1.252 *	0.641	1.155 *	0.630	2.099 ***	0.643
Pseudo R^2	0.175		0.152		0.141	
Observations	216		216		215	

*** p<0.01, ** p<0.05, * p<0.1

Table 17. Predicted Probabilities for the Effectiveness Models

Model	Variable		Very ineffective	Somewhat ineffective	Uncertain	Somewhat effective	Very effective
Model 1 (Influencing Governing Body)	Independence	Reporting to top mgmt (0)	0.024	0.128	0.160	0.556	0.132
		Reporting to a separate branch (1)	0.013	0.086	0.124	0.572	0.204
	Engage Governing Body	Not at all (1)	0.024	0.135	0.164	0.557	0.119
		Frequently (3)	0.010	0.070	0.108	0.572	0.240
	Training	Did not provide enough training (1)	0.050	0.256	0.241	0.415	0.038
		Provided enough training (3)	0.006	0.056	0.109	0.611	0.218
Model 2 (Influencing Executive Management)	Engage Executive Management	Not at all (1)	0.259	0.294	0.198	0.237	0.011
		Frequently (3)	0.016	0.051	0.086	0.612	0.235
	Training	Did not provide enough training (1)	0.065	0.145	0.179	0.542	0.069
		Provided enough training (3)	0.018	0.054	0.090	0.619	0.219
Model 3 (Improving Programs & Services)	Council-Manager	Other (0)	0.003	0.030	0.059	0.564	0.345
		CM (1)	0.006	0.058	0.096	0.621	0.220
	Independence	Reporting to top mgmt (0)	0.007	0.063	0.101	0.631	0.199
		Reporting to a separate branch (1)	0.003	0.034	0.063	0.583	0.317
	Training	Did not provide enough training (1)	0.010	0.099	0.153	0.634	0.104
		Provided enough training (3)	0.002	0.025	0.055	0.604	0.313

Independence and Resource Changes

The model in Table 18 investigates the impact of independence on auditing agencies' resource changes. All else equal, performance auditing offices that report to a separate government entity are less likely to increase their resources than those that report to the top management of the government entity where they reside ($p < .05$). A council-manager form of government also negatively and significantly affects auditors' resources ($p < .05$). Independence and council-manager are again conflicting significant variables. Independent auditors do not do as well with resources as auditors under the executive management. In this case, independence may cause auditors to be isolated and consequently vulnerable in terms of resources. This model and Model 3 show that auditors fare worse under council-manager governments regardless of their reporting status. Managers appear less sympathetic to performance auditors, whether those auditors are independent or report to them.

Table 18. Results of Ordered Logistic Regression for the Resource Change Model

	Dependent Variable: Auditing Resource Change	
Variables	Coefficient	SE
Independent Variable		
Independence	-0.636 **	0.298
Control Variables		
Organizational size	0.040	0.129
Council-Manager	-0.573 **	0.301
Engage audit subject	-0.020	0.075
Engage governing body	-0.115	0.252
Engage executive management	0.078	0.266
Training	0.013	0.190
Population	-0.121	0.175
Median household income (Log)	2.121 ***	0.643
Region		
Northeast	0.068	0.931
South	0.028	0.590
West	-0.031	0.627
Pseudo R^2	0.045	
Observations	220	

*** p<0.01, ** p<0.05, * p<0.1

In terms of predicted probabilities (Table 19), audit agencies that report to a top management have about 42 percent chance to say that they increase their resources while those that report to a separate branch of government agencies have about 29 percent chance to say the same. In other words, independent agencies are 13 percentage points less likely to increase their resources compared to less independent agencies. Table 20 summarizes the results of all hypotheses tested.

Auditing agencies residing in council-manager governments are less likely to increase their resources compared to other forms of governments, including mayor-council governments. Local jurisdiction's median household income is positively associated with auditing agencies'

ability to increase resources. In other words, agencies in wealthier jurisdictions are more likely to increase their resources.

Table 19. Predicted Probabilities of the Effectiveness Models

Variable		Decreased substantially	Decreased slightly	Stayed the same	Increased slightly	Increased substantially
Independence	Reporting to top mgmt (0)	0.028	0.049	0.503	0.340	0.079
	Reporting to a separate branch (1)	0.052	0.084	0.577	0.243	0.044

Table 20. Summary of Hypotheses

Hypothesis	Effectiveness			Resource Changes
	Influencing the Governing Body's Decisions	Influencing the Executive Management's Decisions	Improving Programs and Services	
1: Performance auditing effectiveness is likely to be higher or lower in larger organizations than smaller organizations	Not supported	Not supported	Not supported	–
2: Performance auditing effectiveness is likely to be higher or lower in council-manager governments than mayor-council governments	Not supported	Not supported	Supported (–)	–
3: Performance auditing effectiveness is likely to be higher or lower in independent agencies that report externally than those that report internally to top management	Supported (+)	Not supported	Supported (+)	–
4: Performance auditing effectiveness is likely to be higher with more stakeholder engagement.	Supported	Supported	Not Supported	–
5: Performance auditing effectiveness is likely to be higher when auditors receive more training	Supported	Supported	Supported	–
6: Independence is likely to reduce performance auditing agencies' resources	–	–	–	Supported

CHAPTER 8: DISCUSSION AND CONCLUSION

Performance auditing has evolved from conventional auditing and become an institutionalized government activity to ensure accountability, improve performance, and assist in administrative reform and policy change (Pierre, Peters, & de Fine Licht, 2018; Wheat, 1994). Despite the increasing prominence of performance auditing since the 1970s, the literature around it has been scant. The dissertation draws on survey data on local government auditors to (1) map out the extent of adoption, expansion, and characteristics of performance auditing in U.S. local governments, (2) develop and test elaborated theoretical models that examine various structural, political, and management factors that influence the effectiveness of this understudied practice, (3) investigate resource patterns and changes dedicated to performance auditing agencies, and (4) test whether and how independence as a critical structural factor contributes to exacerbating or mitigating the ability of these agencies to acquire and maintain resources. This chapter discusses the findings on each aspect and concludes by explaining the implications, limitations, and future research avenues.

Performance Auditing Expansion and Characteristics

Using the state-level data for comparison, the descriptive statistics show the extent of performance auditing expansion and characteristics in local governments. The results suggest that performance auditing extends to 36 states and more than 150 cities and counties.[3] This data support and expand previous findings that auditing agencies have proliferated across the country by showing that the performance auditing function has been well-adopted and institutionalized (Kempf, 2020, Light 1993, Newcomer, 1993). This growth of performance auditing reflects the

[3] The number of those governments represented by the survey respondents.

broader shift in the public administration paradigm in the 1970s from an emphasis on efficiency to a focus on outcomes and performance-oriented practices.

In terms of organizational characteristics, the size of audit agencies varies, with local audit agencies having substantially fewer FTEs than state agencies. The median local audit agency size falls in the 6-10 range compared to state agencies with more than 51 FTEs. The majority of survey respondents work in council-manager governments and report to a separate branch of government, compared to those who work in their governments' executive branch, reporting to top management.

Performance auditors in local governments engage stakeholders in their work, more similar to program evaluation than the traditional insular approach to auditing. The level of engagement varies depending on the stage of the audit process and the type of stakeholder. Performance auditors engage audit subjects substantially in all audit steps except choosing methods in which they do not engage them. This stage is highly technical, including social scientific, economic, quantitative, qualitative, and traditional audit methods, which may be beyond the knowledge of a non-specialized stakeholder (Pollitt et al., 1999). As experts have argued, performance auditors may also legitimately prefer to keep the choice of audit methods under their control to maintain the quality of the audit (Bryson & Patton, 2010). Performance auditors also engage their executive management and governing bodies (e.g., legislatures, city councils) in the audit process to varying degrees. They interact more extensively with their executive management than with their governing bodies.

Performance auditors have high professional proficiency as indicated by their level of education, years of experience, and training. They are well-educated, with the majority holding graduate degrees (e.g., M.P.A, Ph.D., J.D.), having more than ten years of auditing work

experience, and receiving adequate training from their organizations. In terms of influence, the findings indicate that performance auditors perceive their work as effective in influencing decision making and improving their governments' programs and services. Perceptions of effectiveness vary by type of influence. Performance auditors perceive their work as more effective in improving governments' programs and services than influencing decision making. They potentially consider improving government performance as the primary goal of their work on which they dedicate more effort than influencing decision making.

Contrary to some expert observations, performance auditing does not appear to be declining, at least not in the pre-pandemic years of 2017-2018. While state-level auditing resources have trended somewhere between slightly increasing and slightly decreasing, resources for local government audit agencies appear more often to have increased than decreased in recent years, especially with county governments.

Performance Auditing Effectiveness

Improving Government Programs and Services

All the proposed factors in Chapter 3 influence performance auditing effectiveness, except for organizational size. Specifically, performance auditors' perceived effectiveness in improving governments' programs and services is likely to be lower in council-manager governments. This finding is opposite to what is generally expected in the public management literature about professional managers' support of practices that improve government efficiency and effectiveness (Poister & Streib 1989, 1994) but is consistent with Funkhouser's study (Funkhouser, 2000).

There are several plausible explanations for this finding. First, as suggested in Chapter 3, local government managers may professionally compete with performance auditors (Funkhouser, 2000). As public problems have grown more complex, professional experts, including managers and auditors, have increasingly dominated the policy process (Zhang & Yang, 2009). Managers play a pivotal role in policymaking by identifying problems, assessing alternatives, and making recommendations to the council (Nalbandian, 2001). Like performance auditors, they perceive themselves as stewards of effective governance, organizational learning, and accountability (Nalbandian et al., 2013). City and county managers may compete professionally with performance auditors in pursuing these shared goals. This competition may become stronger when auditors are independent of the manager's office. In addition, managers and auditors seek to influence the governing body, which can create conflict between them. City managers probably prefer to be the only government actors influencing that body.

Second, elected officials may employ audit findings as a political foil to suggest problems in government management and policy implementation and make campaign promises to improve performance and accountability, also known as a fault-finding strategy or the blame game (Kells, 2011). Previous studies confirm that audit findings can be weaponized to advance political goals and agendas (Parker et al., 2021; Triantafillou, 2020). Media coverage of audit reports can facilitate this strategy, leading to tension between auditors and managers. A common critique of auditors is that they are "headline hunters" seeking coverage for their audit findings (Kells, 2011, Bringselius, 2014; Lonsdale, 1999; Morin, 2008). Audit offices may release press statements that carry an adversarial language or publish controversial findings of no added value to managers either because they address single incidents, unique circumstances, or untimely issues (Blume & Voigt, 2007; Kells, 2011; Lonsdale, 1999). Although press coverage of audit reports can

showcase the audit value to decision makers and the public and pressure agencies to take corrective actions, it hurts the reputation of managers and the auditor-manager relationship. Prior studies argue that managers reproach auditors for providing recommendations that are impractical, misaligned with their organizations' culture and values, or nitpick on minor issues rather than major problems that are fundamental to service delivery (Funnel & Wade, 2012; Morin, 2008; Parker, Schmitz, & Jacobs, 2020; Pollitt & Mul, 1999). In such cases, audit recommendations can widen the gap between what is "politically acceptable" and what is "administratively feasible," especially in council manager-governments where administrative responsibilities are complex and political compromise is unappealing (Nalbandian, O'Neill, Wilkes & Kaufman, 2013). Actions that focus on identifying managers as scapegoats for performance problems rather than making constructive suggestions for improvement may breed antagonism and reduce managers' acceptance of audit recommendations (Kells, 2011).

Third, from an institutional logic perspective, managers and auditors have competing institutional logics that shape their cognition, perspectives, and behavior (Friedland & Alford, 1991; Parker, Schmitz, & Jacobs, 2020; Reichborn-Kjennerud, 2014; Thornton & Ocasio, 1999). Auditors' institutional logic embodies historical reforms that expressed mistrust in managers and employed elaborate control mechanisms, contractual forms, and strong incentives to limit bureaucratic power and influence (Fukuyama, 2013; Horton, 2006). As a result, city and county managers may perceive performance auditors as a threat and vest efforts to protect their professional discretion and their organizations from imposition and exposure (Ferlie & Geraghty, 2005; Parker et al., 2020; Power, 1997). Professional judgment and discretion are very integral to managers' role that the imposition of auditing as a control mechanism can strain in the auditor-manager relationship (Dirsmith, Fugarty, & Gupta, 2000). Conversely, as the descriptive findings

indicate, performance auditors positively perceive their role in improving government performance and accountability (Funnell & Wade, 2012; Morin, 2003).

Performance auditing effectiveness in improving government programs and services is also likely to be higher when auditors are more independent, engage influential stakeholders, and receive adequate training, which all are consistent with the literature. Independence is an essential requirement if performance auditors are to perform their roles successfully (Tepalagul & Lin, 2014). Independence ensures that auditors' opinions, findings, and recommendations are credible impartial and to the interests and demands of the auditee (GAO, 2018; Kempf, 2020). Independence also enhances auditors' ability to determine what, how, and when to audit and what to conclude without undue interference (Lonsdale, 2008).

The results show that auditors who report to a separate branch of government are more likely to be effective in improving government programs and services than those who report to top management within the government. Auditors' who report internally may feel reluctant to challenge the executive management and report performance problems. Their location within the government may also expose them to peer and organizational loyalty pressures. Equally important, these auditors may have less freedom in setting their agenda and selecting what to audit and what to conclude, which can negatively affect how their findings are perceived. Higher independence mitigates those pressures and consequently strengthens auditors' ability to perform their tasks successfully (Triantafillou, 2020).

Despite the cynicism toward training in the practice of management (Kroll & Moynihan, 2015), the results support Hypothesis 5 by providing additional evidence of its importance to the effectiveness of performance auditing. This is not surprising considering the emphasis on training in the public management theory and literature as a critical factor for the success of

result-oriented approaches (Hatry, 1999; Newcomer et al., 2002; Yang & Hsieh, 2007). Training aims to give performance auditors adequate opportunities to reinforce, refine, or acquire new knowledge, skills, and abilities that improve their organizational performance (Spreen, Afonso, Gerrish, 2020). With the expansion of the audit scope in the public sector, performance auditors need to be proficient in accountancy and a wide range of other skills, including audit design and implementation, strategic planning, program evaluation, and performance information use and analysis, which can be gained through training. Another essential aspect of training is that it allows performance auditors to stay informed about the legal requirements and the application of professional standards in their work. In addition to improving job performance, training has other positive impacts at the individual level, such as enhancing team communication, engagement, and job satisfaction (Aguinis & Kraiger, 2009). At the organizational level, training can help the audit agencies reduce costs, improve the outputs' quantity and quality, decrease employee turnover, and enhance their organizational reputation (Spreen et al., 2020).

Influencing Decision Making

The two models on influencing decisions of the governing body and the executive management offer nuanced findings. Independence improves auditors' effectiveness in influencing decisions of the governing body but not the executive management because independent auditors report to the governing body directly. Performance auditors who report to the executive branch deal with the governing body only indirectly through the chief executive (usually a city manager or a mayor), which likely limits their influence on the governing body. This finding adds further evidence about the importance of independence for strengthening auditor positions in shaping the legislative and budgetary processes (Leeuw, 2011). The negative

relationship between the council-manager form of government and auditors' effectiveness in influencing decisions of the governing body gives rise again to the auditor-manager competition argument. The two parties may conflict because they compete for the governing body's time, attention, and budgetary resources. The governing body faces information limitations that impede their budgeting and policymaking decisions. Performance auditors supply information for the governing body's officials, who also receive information from other sources, including city managers (VanLandingham, 2006). Plausibly, city managers prefer to have a greater influence on the governing body's decisions, but they need to compete with performance auditors to influence that body. Independence and the council-manager form are not significant factors in influencing executive management decisions because this auditor-manager competition is no longer present. Independence may not be conducive to influencing the executive management.

The two models also support the notion of stakeholder engagement by showing that engaging with each branch of government is more likely to improve auditors' effectiveness in influencing them, respectively. Performance auditors historically distanced themselves from stakeholders and followed an insular approach to their work to maintain their independence and credibility (Parker et al., 2021). However, scholars have argued that there has been a change in the "modus operandi" of performance auditing toward a more purposeful and continuous stakeholder engagement (Pierre & de Fine Licht, 2019; Lonsdale, 2008; Ling, 2007; Mayne, 2006; Pollitt et al., 1999; Power, 1997). A more engaged approach encourages executive managers to share relevant information with performance auditors, creating a collaborative environment in which both parties cooperate to improve organizational performance (Johnsen et al., 2001; Lapsley & Pong, 2000; Pierre & de Fine Licht, 2019; Power, 2003; Reichborn-

Kjennerud; 2014). Instead of withholding information internationally and hindering the audit process, managers become more receptive to performance auditors and willing to help them understand the organization's goals and culture (Reichborn-Kjennerud; 2014).

Engaging the top management can also help performance auditors tailor their recommendations for the needs of these organizations, thereby facilitating their acceptance of findings and improving audit outcomes (Parker et al., 2021). If managers do not have a voice in performance auditing, they are less likely to implement audit recommendations and may render them illegitimate (Bryson, 2004; Fernandez & Rainey, 2006).

While the results support stakeholder engagement, they do not preclude cautionary arguments in the literature about protecting auditor independence (Funnell et al., 2016; Pierre & de Fine Licht, 2019; Put & Turksema, 2011). Frequent stakeholder engagement and subjecting audit reports to intensive review by the managers can raise questions about the credibility of audit findings (Kells, 2011). Prior studies suggest that performance audit reports that were thoroughly cleared with managers had a milder tone and entailed polite and general recommendations (Roberts & Pollitt, 1994; Sharma, 2007). Without necessary protections of independence, stakeholder engagement can bring performance auditors too close to the auditee resulting in less critical audits and a soft form of accountability (Parker et al., 2021; see also Gendron et al., 2001; Kells & Hodge, 2009; and Skærbæk, 2009).

Independence and Resource Changes

The findings confirm Hypothesis 6 that independence reduces audit agencies' resources. The negative influence of independence on resources can be attributed to the suggested tension between managers and auditors. Managers are responsible for preparing annual government

budgets, including allocations for auditors' offices. The competition between the two types of professionals may lead managers to undercut auditors of resources critical for their effectiveness. Managers' negative perceptions of auditors and their potentially threatening position may exacerbate this problem.

The lower resources for independent auditors may also derive from elected officials who control these resources. Although auditors often express no desire to be involved in politics, performance auditing is unavoidably political (Funnell et al., 2016; Grasso & Sharkansky, 2001; Hazgui, Triantafillou, & Christensen, 2020; Kells, 2011; Radcliffe, 1999). It takes place in a highly political environment that affects the resources and behavior of all actors involved (Kells, 2011). Performance auditors have also been increasingly drawn into political debates and asked to comment on the merit of existing policies (Kells, 2011). They may select and assess visible and politically sensitive areas at odds with elected officials' objectives or seek media coverage of political scandals, drawing them further into politics (Kells, 2011; Hazgui et al., 2020; Morin, 2008).

The purpose of independence is to limit auditors' responsiveness to political influence and enhance their ability to be critical of those in power. However, this principle may come at the risk of reduced agency resources if auditors are perceived as overstepping their formal mandates through proactive participation in policy deliberations. The risk is further exacerbated when audit offices come into conflict with politicians who may perceive auditors as a threat and respond by reducing the size and scope of their offices. Previous studies report several instances of conflict between auditors and politicians who accused them of political interference (Morin & Hazgui, 2016; Triantafillou, 2017). Auditor offices lacking strong statutory protections of budgetary independence may suffer from these consequences. The World Bank lists inadequate

budgets as one of the common challenges of auditors (World Bank, 2021). Without sufficient resources, audit offices may struggle to purchase the necessary equipment, pay their staff, and implement their audits, all of which affect their ability to effectively exercise their oversight and performance improvement roles.

Implications

The dissertation findings have important implications for auditors, governments, and stakeholders interested in government performance and accountability. The growth of performance auditing in U.S. local government is likely to continue as accountability and improvement remain central themes in public administration (Funkhouser, 2011). To further institutionalize performance auditing and enhance its effectiveness, it is important to consider performance auditors' independence, relationships with city and county managers, engagement with the governing body and executive management, and training.

Performance auditors' mission to improve performance and accountability in public organizations may be seriously compromised if they cannot maintain their independence. Auditors are required to follow the GAO *Yellow Book* guidelines, which thoroughly discuss the requirements and threats of independence. The *Yellow Book* also entails a conceptual framework that helps auditors identify and assess situations that impair independence and apply appropriate safeguards to address those threats. Protecting auditor independence through constitutional and statutory protections is highly needed when the audit organization is located within the government entity to ensure that auditors are not susceptible to undue influence and can exercise their roles successfully. In conjunction with the *Yellow Book*, internal auditors are encouraged to

apply the *Auditors' International Standards for the Professional Practice of Internal Auditing*, which provides specific guidance on safeguarding internal auditors' independence.

Since the findings suggest potential conflict in the auditor-manager relationship, auditors may work on improving this relationship by following a consulting/collaborative approach instead of an adversarial approach. Previous studies indicate that auditors who follow a consulting approach are more successful in getting managers to listen to them (Nuijten, Keil, & Sarens, 2019). This approach focuses on building trust with the manager to facilitate information sharing and collaborative problem solving. Auditors who follow this approach use a less confrontational tone, involve managers in discussing auditors' concerns, and suggest appropriate actions that managers can take to address identified problems. Instead of assigning blame to managers, these auditors initiate solution-oriented discussions and provide actionable recommendations around the steps needed to implement proposed changes. While this approach is recommended, auditors still need to balance it with their independence to prevent accusations of bias by getting too close to managers. Although performance auditors are not formally required to consult with an organization's top management, they have increasingly included them in planning the audit, reviewing draft reports, and interpreting findings (Lonsdale, 2008; Sharma, 2007). Some studies also show that performance auditors initiate informal discussions with the audited organizations' senior managers about identified audit topics to ensure agreement about the value of auditing these topics for improving performance (Parker et al., 2021). Involving the executive management in commenting on draft report (i.e., the clearance process) helps corroborate the validity of statements and reach a consensus on whether they are representative of the audited organization (Sharma, 2007). Similarly, engagement with the governing body helps build political support for performance audits and increases bureaucracies'

willingness to faithfully follow their recommendations. Elected officials' participation in performance audits is an enabling condition for influencing budgetary and legislative decisions (Yang & Hsieh, 2007). It can also facilitate communicating auditor accomplishments to citizens (Ho, 2006).

Performance auditors need to balance their independent positions with responsiveness to stakeholders (Lonsdale, 2008; Van der Meer & Edelenbos, 2006; Wilkins & Lonsdale, 2007). To help achieve this balance, performance auditors may carefully consider when and how to engage the top management and governing body. Not all audit steps may necessitate stakeholder participation. As shown in the descriptive results, performance auditors prudently prefer not to consult with stakeholders about the choice of audit methods. Similarly, decisions about what, when, and how to conduct the audit should remain with the auditor even where stakeholder input is provided (Lonsdale, 2008). Keeping these decisions for auditors allows them to focus on important issues and be critical of those in power and hold them accountable for public resources and performance (Lonsdale, 2011).

The findings show that training is essential for conducting performance audits effectively. Following the Generally Accepted Government Auditing Standards (GAGAS), auditors are expected to complete at least 80 hours of Continuing Professional Education (CPE) every two years (GAO, 2018). They need to take courses to understand how to apply these requirements and stay up-to-date on any changes in the *Yellow Book*. Examples of accounting certifications that auditors obtain include Certified Internal Auditor (CIA) and Certified Public Accountant (CPA). Other subject matter areas in which auditors receive training, include data security, risk management, ethics, fraud, report writing, internal controls, and information technology. Local governments must ensure that auditor offices have sufficient funding to meet their training needs.

Many auditor offices confront substantial challenges that affect the availability of resources to fulfill their mandates (INTOSAI Development Initiative, 2017). The dissertation findings show that independence reduces auditors' resources plausibly due to the influence of professional competition between auditors and managers and the relationship of auditors with politicians. This corollary to auditor independence has been well-articulated by scholars who proposed the professional competition argument (Funkhouser, 2000) and warned against auditors' involvement in public policy (Grasso & Sharkansky, 2001; Normanton & Normanton, 1966).

Given their role in shaping government budgets, managers have the power to reduce resource allocations to audit offices. Politicians can also drive these reductions if they perceive auditors as overstepping their formal mandates. Auditors inquiry into inherently sensitive and political areas increases the risk that their reports will be seen as in favor or opposed to a particular policy or program (Grasso & Sharkansky, 2001). Auditors may find it very difficult not to transgress this delicate dichotomy between policy and politics when they are increasingly expected to produce "meaningful" results that, in practice, may equate to "politically significant" results (Sutherland, 1986). This difficulty is exacerbated by the high visibility, high relevance, and high public and press interest that characterize audits with political implications (Sutherland, 2003).

Although auditors may concede their involvement in policy, the responsibility of conducting audits with overt political relevance does not primarily fall on auditors (Grasso & Sharkansky, 2001). Elected officials violate auditing norms by requesting audits with conflicting values and policy priorities. The extent to which this is true depends on whether local governments have a mandate prohibiting auditors from commenting on public policy. Nonetheless, such a mandate does not necessarily prevent auditors from inquiring into areas with

political implications (Grasso & Sharkansky, 2001). To mitigate this problem, the National Academy of Public Administration recommended that legislators refrain from involving auditors in politically sensitive issues but concomitantly acknowledged that this might be impossible or undesirable (NAPA, 1994).

Similarly, suggestions to strengthen institutional arrangements may be equally implausible because they do not fend off political pressures. Any proposed institutional arrangement in a democracy would still entail a form of accountability for audit budgets to the legislative bodies who can leverage their power to reduce audit resources (Grasso & Sharkansky, 2001). It may be probable to separate audit units dealing with policy issues from those investigating administrative areas (e.g., financial management or program implementation), but this solution would not completely shelter auditors from accusations of political bias (Grasso & Sharkansky, 2001; Sutherland, 2003). Given these arguments, it may be preferable to accept the inevitability of politically significant audits instead of promoting an untenable purist view of independence. Both auditors and consumers of audit reports need to exercise diligence and recognize the risks of competition and political involvement (Grasso & Sharkansky, 2001). Auditors may use professional judgment to avoid conflict with managers or getting too close to politicians (Grasso & Sharkansky, 2001).

Limitations and Future Research Avenues

The dissertation has several limitations. First, because most of the dissertation's independent and dependent variables are drawn from the same survey results, the findings may be susceptible to common source bias (Meier & O'Toole, 2013; Podsakoff & Organ, 1986). However, evidence suggests that this threat is overstated and can be mitigated through careful

survey design and implementation that reduce the likelihood of measurement error (Altamimi, Liu, & Jimenez, 2022; George & Pandey, 2017; Spector, 2006; Yang & Hsieh; 2007). As discussed in Chapter 4, the survey was designed and carried out following best practices in survey research (See Dillman, Smyth, & Christian, 2009 and Podsakoff, MacKenzie, & Podsakoff, 2012). Data on some of the explanatory variables (e.g., form of government) were also drawn from other sources such as the Comprehensive Annual Financial Reports of local governments to attenuate this concern.

Second, questions about causality may arise because the analysis relies on cross-sectional data (Altamimi & Jimenez, 2021). However, the findings are largely consistent with the literature, and temporal precedence can be inferred for some variables, such as the form of government and independence. Future research may use longitudinal data to establish causality for the relationships uncovered in the dissertation.

Third, the dissertation only measures one aspect of independence (i.e., reporting or structural independence). The degree of independence among auditors varies greatly depending on other factors such as statutory creation, budgetary independence, and hiring and firing protections (Cohen & Sayag, 2010; Kempf, 2020). A recent report by the World Bank details additional indicators of independence, including transparency in the appointment process of the audit agency head, operational autonomy, staffing autonomy, the existence of an audit mandate, audit scope autonomy, access to records and information, right to report audit findings, among others (World Bank, 2021). Local government auditors may have several or none of these independence indicators. For example, the City of Berkeley, California, represents a strong model of auditor independence. The City auditor's authority is established in the charter provisions where the auditor is elected by citizens in general municipal elections and serves a

term of four years (Berkeley, CA, City Charter, Chapter 2.24, 2020). The charter also gives the auditor's office high budgetary independence by ensuring that it has sufficient funds to carry out its responsibilities (subject to available resources), exempting it from any city policy that requires targeted budget savings, and granting it the authority to transfer budgeted funds between personnel and non-personnel line items as deemed necessary for the completion of the audit plan. The City of Berkeley auditor has autonomy in hiring and classifying its staff, whose independence is also emphasized in the charter provisions. Although the auditor is encouraged to consult with the mayor, city council, and city manager about the selection of audit entities, the charter clearly states that the final decision of what to audit remains with the auditor. The charter also grants the auditor unrestricted access to employees, officials, and records and requires that audit reports are published to the public. By contrast, the City of Las Vegas, Nevada, has fewer guarantees of auditor independence in its charter (Las Vegas, NV, City Charter, Section 3.170, 1983). Their auditor is appointed by the council and can be removed by its majority vote at any time, indicating less protection. The charter does not give further protections to auditor budgetary independence, staffing autonomy, or audit authority, scope, and findings. Collecting additional to comprehensively assess auditor independence in local governments based on the World Bank index would be a valuable research opportunity.

Finally, the survey data do not explain the nuances of performance auditing practices and processes. Factors such as interference of politics, communication of audit results with elected officials and citizens, and quality of performance information produced are expected to impact performance auditors' self-assessments of their work and their organizations. Future studies that combine qualitative and large-sample quantitative analyses can better explain these nuances and how they affect performance auditing effectiveness. Interviews with performance auditors and

government managers can further unpack some of the relationships observed in this dissertation, especially those on the auditor-manager relationship and how independence may negatively affect auditor resources.

Notwithstanding these limitations, the dissertation advances our understanding of performance auditing characteristics, factors of effectiveness, and resource changes. Such understanding is essential for strengthening the performance audit function in local governments and its potential contributions to improving government performance, decision making, and accountability. Most importantly, the dissertation lays the preliminary groundwork to help garner more academic interest and research on performance auditing.

Some potential research questions to explore as a continuation of this research include the relationship between the council-manager form of government and performance auditing. Consistent with previous findings (Funkhouser, 2000), this dissertation suggests a negative relationship between auditors and managers. It would be worthwhile to closely examine this relationship and uncover its dynamics both quantitatively and qualitatively. Another question is whether there are differences between the effectiveness of elected auditors and appointed local auditors. Given the current debate in the literature around elections versus appointments of local government officials, examining this difference in the auditor position would make valuable theoretical and practical contributions in terms of understanding how the selection methods of public officials affect policymaking and the impact of politics on the auditing profession. Finally, investigating the interaction between independence and the council-manager form of government and its effect on audit agencies' resources may help expand understanding of the relationships among variables in this dissertation.

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