

# The Value of Continuous Program Assessment: A Construction Owner's Perspective\*

by

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## Introduction

Traditionally, public sector audit has been systems-based, focused on financial accountability and fiscal regularity. The need for accurate accounting of Federal expenditures in the United States was institutionalized by the Accounting and Auditing Act of 1950, which required internal audit functions to be established in Federal agencies. The accounting was considered to be satisfactory if it demonstrated that transactions were formally authorized, and reported accurately.

The disciplines and functions of performance auditing and program evaluation have evolved over the past 30 years as part of an ongoing global shift in government administrative culture to a post-positivist, quality-oriented stance. The Inspector-General Act of 1978 was a response to public concerns about fraud, waste, and abuse, promoting the assessment of efficiency, economy, effectiveness, and integrity. The tide shifted and, while continuing to require audits for financial accountability, began to focus on accountability to the public. Thus, in the United States during the Reagan and Bush administrations of the 1980's and 1990's, auditors focused on the legalistic inspection approach of stopping poor or illegal practices, and reviewing operations in terms of whether rules were observed and enforced.

These philosophical shifts resulted in a number of efforts at performance measurement and improvement, including (among others): benchmarking, balanced scorecards, output measurement, statistical process control, spiral analysis, total quality management (TQM), and six sigma. Although it has been said that what is measured will likely be acted upon, organizational paralysis was more often the result, with middle managers focusing on narrow local objectives and single measures of success instead of the broader performance perspective. This likely occurred because performance measurement quantifies results against pre-established goals, but does not provide a means by which improvement can be effected. This is the realm of performance auditing.

Now, in the early 21<sup>st</sup> century, the “new” performance audit is based on the concept of public sector entities as adaptive organisms. While for statutory reasons there remains a component of focus on control and accountability, there is renewed growth of the common global movement toward performance evaluation. Whereas accountability focuses on the use and abuse of resources and authority within a statutory box, performance focuses on progress, continuous improvement, and evolution. Where traditional accountability asks, “Was it done right?” and verifies the reporting, the performance focus asks, “Was the right thing done?” and questions whether the rules serve their intended purpose. The accountability sphere has been broadened to include procedural (internal control), compliance (contractual and statutory), professional (peer), and political (stakeholder) accountability. While the systemic audit component continues to provide assurance through data validation, the substantive evaluation component assesses how well the program is working and applies best practices to underperforming activities.

Traditional control-based systems can be effective in an environment where tasks are repetitive and predictable. However, the construction environment is considerably less stable, such that it is not feasible to create detailed procedures and controls to cover all possible eventualities. The majority of construction audits involve the ex post process of collecting data at a single point in time, yet performance is not a discrete event and the built environment continuously evolves (from project inception through construction to completion and operations), which results in audit reports becoming outdated almost as soon as they are issued. Here a blend of traditional systemic and continuous substantive evaluation is needed.

Further, in the current dynamic construction environment, the construction management process requires that project managers play a proactive and assertive role to tackle issues and concerns that may have no pre-defined answer. When put into the context of a traditional hierarchical organization that attempts to maintain control through compliance with rules and laws, there can be a tendency to let bureaucracy hold sway and individual initiative, a critical skill in construction project management, take a back seat. Stated another way, project managers working in a bureaucratic environment can experience a virtual “hardening of the arteries” when it comes to decision making, hampering their ability to push the boundaries towards project success. An active evaluative function can help identify these blockages and re-establish a smooth flow of decisions, enabling the necessary assertive behavior. Without a real time evaluative / audit role, opportunities for improvement would otherwise have to wait for the next audit cycle rather than seizing the opportunity in real time and effecting immediate improvement.

## Discussion

For organizations that receive public funds for capital improvement programs, an annual audit is often mandatory. One owner has taken the process a step further, involving its auditor on a year-round basis and thus embracing continuous organizational evolution.

Through on-going review and comment, the audit staff facilitates the process of continuous quality improvement, allowing progress to occur on a real-time basis.

The Los Angeles Community College District is one of the largest community college districts in the country, educating more than 200,000 students every year. The nine campuses of the District serve students in more than 36 cities, covering an area of approximately 900 square miles in Southern California. The District currently is undertaking the largest public sector sustainable building effort in the United States. The Proposition 'A' Community College Facilities Construction and Repair Bond Program was approved by voters in April 2001 to provide \$1.245 billion in improvements to District facilities. That bond was later supplemented by Proposition 'AA' (May 2003), Proposition 'J' (November 2008), and State funds for a comprehensive capital program totaling \$6.1 billion.

The State of California Proposition 39 requires an annual independent performance and financial audit for all school capital programs receiving public bond funds. According to Generally Accepted Government Auditing Standards (GAGAS), performance audits involve "a determination of the economy, efficiency, and effectiveness of government organizations, programs, activities, and functions, in addition to their compliance with laws and regulations" (Davis, 1990). The District has expanded that definition to include a comprehensive operational program evaluation against corporate and industry standards, which assesses how and to what extent the program achieves its goals. This assessment provides a deeper appraisal of the District's capital program activities than can be obtained from conventional internal and statutory financial audit, looking not just at historic expenditures but also at the present and future of the program. LACCD's auditor compares actual operations to established policies and procedures, at the same time comparing both of those to industry-wide performance standards and traditional capital project expectations.

Throughout the entire operation, the participants maintain "...a questioning attitude as to why operations are conducted as they are." (Dittenhofer, 1971) The team examines capital expenditures to assure controls are functioning, while at the same time assessing nonfinancial aspects such as organizational structure, planning and decision making, communication, staffing, reporting, and more. It has been noted that operational audits of public entities have often "been performed by non-accountancy consulting firms, indicating a definite shift from audit in the financial sense to audit of the operations and management performance of companies" (Lane, 1983). Where the audit has been performed by a traditional accounting firm, the team may include specialty consultants with deep expertise in project controls and capital program management. Since the District's bond program inception in 2001, audits by three firms have yielded 157 improvement opportunities, balanced by a lengthy list of good practices. The impacts from the performance audit over the years have included the evolution of contract language, streamlining of the program team, simplified reconciliation with the finance department, more frequent team communication, commissioning process improvement, and change management. Items that needed improvement in previous years have been listed as good practices in subsequent years, representing continuous improvement on

the part of the District staff and Build-LACCD expanded team.

What owner or project culture is best suited to engaging an auditor as a continuous participant in the capital program life cycle? The following characteristics apply:

- “Strong commitment by the executive;
- Independence...to avoid the perception of undue bias;
- Willingness to address tough questions and challenge the status quo;
- Clear goals and accountability for results — focus on performance and productivity;
- Talented staff of management and technical experts as well as auditors;
- Access to outside experts to bring new perspectives and knowledge;
- Ability to create partnerships — public and private experts working in tandem to improve operations;
- And identification as an agent of change...promoting a culture oriented toward superior performance, high-quality services, and cost consciousness.” (Clark, 1993)

The Los Angeles Community College District meets these criteria, and more, acting as a change agent and catalyst in public sector construction.

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