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October 31, 2006

Legislative Services Officer
Room 2129, Legislative Building
16 West Jones Street
Raleigh, NC 27601-1030

Dear Legislative Service Officer:

KPMG LLP (KPMG) is pleased to submit this informational response to the Legislative Services Office (LSO) regarding the future procurement and execution of a performance audit of the executive branch of North Carolina State (State) government. KPMG has significant experience in providing performance audit services to state and local governments throughout the United States and has specifically provided similar services to the North Carolina General Legislature previously. The purpose of this informational response is to provide the LSO with information that will assist in the development of a Request for Proposal (RFP) to perform the performance audit. As requested, information about KPMG is included in the main body of this response, and descriptions of similar projects are included as Attachment A.

In 2006, the North Carolina General Assembly passed Session Law 2006-248: "The Studies Act of 2006". Part 46 of that Act establishes a Government Performance Audit Committee (2006 GPAC) and outlines the Committee's responsibilities. Part of the 2006 GPAC's responsibilities includes the contracting for a performance audit of the executive branch of State government. The goals of the audit are to evaluate the efficiency and effectiveness of State government and to identify specific methods of improvement. It is our understanding that the audit will initially examine major management systems (planning and budgeting, personnel, purchasing, and information technology) that affect



project of this magnitude and scope will cross State agency divisional boundaries, and will require a professional project team comprised of numerous staff possessing multiple specializations. This massive responsibility and effort undertaken by the 2006 GPAC and selected professionals will require meticulous coordination of project planning, execution, and implementation. Due to the size and complexity of the performance audit, KPMG is emphasizing the need and importance for the overarching project standards and guidance as provided by the Federal Government Accountability Office's (GAO) *Generally Accepted Government Auditing Standards*, commonly known as "Yellow Book" Standards. These strict professional standards will help maximize the quality and effectiveness of the overall project, and specifically, the project staff, scope, execution, and results.

Yellow Book Standards

The Government Accountability Office (GAO) has published specific standards regarding both financial and performance audits. *Generally Accepted Government Auditing Standards*, more commonly known as "Yellow Book" standards or "GAGAS", detail standards pertaining to auditors' professional qualifications, the quality of the audit effort, and the characteristics of professional and meaningful audit reports. These standards and their guidance are intended for use by auditors of government entities and audit organizations to help ensure that they perform high quality work with competence, integrity, objectivity, and independence in planning, conducting, and reporting on government audits. GAGAS contains standards dealing with ethics, independence, auditors' professional competence and judgment, quality control, the performance of field work, and reporting. These standards are intended to help ensure that audits and attestation engagements performed under GAGAS provides reasonable assurance about the information needed for oversight and accountability of government programs and operations by requiring auditors to objectively acquire and evaluate evidence and report



the results. These standards will be crucial for the State of North Carolina as it looks to evaluate both the effectiveness and efficiency of its operations.

The Yellow Book provides detailed qualifications and guidance in three major areas for performance audits *General Standards, Field Work Standards, and Reporting Standards*. Some of the characteristics and attributes that are described in detail in the Yellow Book related to performance audits are detailed below.

General Standards for Performance Audits

- ***Independence*** – In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.
- ***Professional Judgment*** – Professional judgment should be used in planning and performing audits and attestation engagements and in reporting the results.
- ***Competence*** – The staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required.
- ***Quality Control and Assurance*** – Each audit organization performing audits and/or attestation engagements in accordance with GAGAS should have an appropriate internal quality control system in place and should undergo an external peer review.

Field Work Standards for Performance Audits

- ***Planning*** – Work is to be adequately planned.
- ***Supervision*** – Staff are to be properly supervised.
- ***Evidence*** – Sufficient, competent, and relevant evidence is to be obtained to provide a reasonable basis for the auditors' findings and conclusions.
- ***Audit Documentation*** – Auditors must prepare and maintain audit documentation. Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor, who has had no previous connection with the audit, to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions. Audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report.
- ***Exposure Draft Changes*** – The current exposure draft which is widely expected to be finalized in the end of 2006, makes significant improvements in the performance audit standards by introducing the concepts of audit significance and audit risk. Significance is defined as a synonym for materiality in financial audits, which



heretofore has not been included in GAGAS. The concept of audit risk is also introduced in the exposure draft, which requires the auditor to use professional judgment to plan the audit to reduce the likelihood of reaching incorrect conclusions and recommendations. KPMG has already taken efforts to understand the implication of the new revisions and has conducted multiple internal training sessions to educate relevant staff. We understand the updated revisions and are ready to implement upon issuance.

Reporting Standards for Performance Audits

- **Form** – Auditors should prepare audit reports communicating the results of each audit.
- **Report Contents** – The audit report should include the objectives, scope, and methodology; the audit results, including findings, conclusions, and recommendations, as appropriate; a reference to compliance with generally accepted government auditing standards; the views of responsible officials; and if applicable, the nature of any privileged and confidential information omitted.
- **Report Quality Elements** – The report should be timely, complete, accurate, objective, convincing, clear and as concise as the subject permits.
- **Report Issuance and Distribution** – Government auditors must submit audit reports to the appropriate officials of the auditee and to the appropriate officials of the organizations, including external funding organizations, such as legislative bodies. The Audit Reports are also generally made available to, among others, officials with legal oversight authority and officials responsible for acting on audit findings and recommendations. Generally auditors should clarify that copies are made available for public inspection.

The characteristics and attributes described above represent a high-level summary of the descriptive and detailed guidance included in the Yellow Book. By conducting the performance audit under GAGAS, the 2006 GPAC will help ensure objectivity and rigor throughout the audit process, leading to more meaningful results for the 2006 GPAC, the Legislature, State employees, and the citizens of North Carolina. GAGAS emphasizes both effectiveness and efficiencies. Governments operate in a unique environment and must balance efficient operating methods with effective discharge of its public policy responsibilities. Some encourage government to reengineer itself and act like a business, we think that governments can and should operate with efficiencies in mind, but should always act in a way that achieves its public purpose. A phrase that embodies this concept



is to “use private sector methods for efficiency with public sector motives”. We think North Carolina’s emphasis to look for ways to improve both efficiencies and effectiveness is the correct approach, and it is this approach that KPMG uses in serving our government clients.

KPMG – Helping Governments as Auditors and Advisors

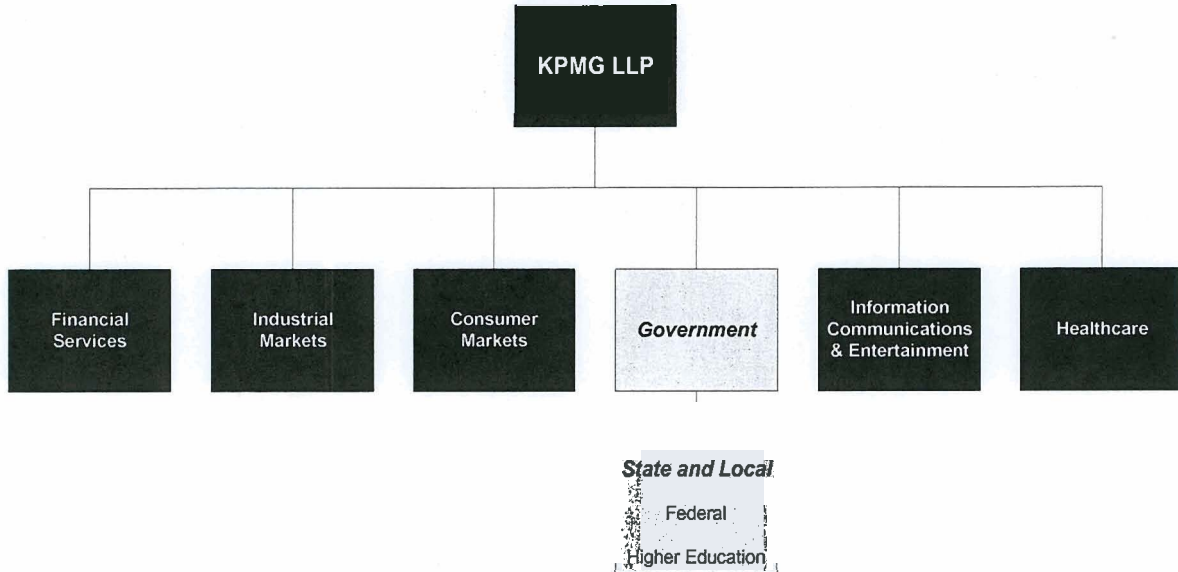
The effort being undertaken by the 2006 GPAC will require assistance from a project team that possesses knowledge and understanding of State government and operations; significant experience in providing performance audit services of similar magnitudes; and the diverse specialized skills required to adequately address and evaluate the various program areas included in the scope of work. In order to assemble such a project team, KPMG has teamed with International Business Machines (IBM) to add industry-leading technological knowledge and experience to the project team. The 2006 GPAC will have access to highly qualified professionals from KPMG and IBM – each bringing complementary skills to this engagement. The KPMG project team has the relevant experience, knowledge base, and resource pool specifically designed to meet the 2006 GPAC’s needs and objectives. A description of KPMG; the KPMG/IBM project team; and details of our dedication to this effort are described below.

Description of KPMG

KPMG is a private partnership and a leading firm providing audit and advisory services across the globe. KPMG is more than a firm of auditors and accountants. We are a firm of resource management specialists offering a unique blend of skills to help our clients face the challenges and changes of the future. KPMG recognizes that each of its clients operates in a unique business environment requiring products and services tailored to their needs. We believe that specific industry knowledge is critical to assessing, recommending, and delivering successful business solutions. To address client-specific challenges, KPMG has structured itself along six lines of business (as shown). This



market-based structure provides dedicated resources for each line of business and allows our client service professionals to focus on industry-specific issues.



KPMG’s Government Practice

At KPMG, we have made government a key focus of our business and our future. KPMG’s Government Practice is one of the fastest growing of our six lines of business. For over 80 years, this practice has assisted clients of all types, including federal agencies, states, cities, counties, school districts, public hospitals, transit authorities and virtually all other institutions that serve the public interest, and is today serving more than 2,300 clients. This practice consists of more than 2,000 professionals who devote their efforts to serving public sector clients. Leveraging our experience in the commercial sector, KPMG offers innovative services to help public sector organizations meet the needs of increasingly demanding constituencies with limited resources. As a recognized leader in government services, we anticipate the challenges our clients face as a result of legislative changes, economic trends and constituent needs. Additionally, we realize that today’s fast-paced economy and business world requires attentiveness to details—the details that influence the business of government today and tomorrow. KPMG



professionals are vigilant about keeping abreast of federal, state and local government issues that are encountered every day. Training is regular and required. Research and insight are expected.

KPMG has invested substantially and established a strong practice to provide the highest quality services to government clients. Our commitment is demonstrated by the quality of our professionals; the extent of their operational experience; their training in auditing and management matters that affect governments; and their understanding of financial and management information systems for governments.

KPMG has established strong industry practices in virtually all areas where government entities have direct contact. These areas include health care, transportation, supply chain, agribusiness, technology, financial institutions, research organizations, colleges and universities, not-for-profit institutions, and the federal government. We integrate these practice areas to provide access, communication, and state-of-the-art techniques to our government clients.

Clients of KPMG receive more than the skills and expertise of specific individuals or project teams. Our clients receive the benefits of an international audit and advisory firm that provides multidimensional services to numerous industries across the globe. KPMG employs standardized approaches, methodologies, and technology tools that are accessed by more than 100,000 employees via KWorld—our leading global knowledge management infrastructure. Our Performance Audit and Enterprise Risk Management approaches and methodologies are briefly described further in this response.

We believe that providing new information and perspective is a vital part of our role in serving our public sector clients. KPMG has long held a leadership role in the evolution of government auditing and government accounting. Because of our long-term involvement in the public sector, we can cite the following accomplishments:



- The vice chairman of KPMG's Government practice served as chairman for the AICPA's Expert Group on Government and Not-for-Profits, where he was instrumental in helping to augment the profession's understanding of the government and not-for-profit sectors.
- Our Government vice chairman also served as chairman of the U.S. Comptroller General's Government Auditing Standards Advisory Council, where he assisted in establishing audit standards for governmental organizations, functions, and activities, and for not-for-profit and private sector organizations receiving federal assistance.
- A KPMG partner currently serves on the Government Finance Officers Association's (GFOA's) Standing Committee on Accounting, Auditing, and Financial Reporting.
- KPMG has approximately 30 members on the GFOA Special Review Committee who are thoroughly familiar with the most recent requirements of the program.
- A KPMG partner chaired the committee that revised the audit guide, *Audits of State and Local Governmental Units*. The committee that revised an earlier edition of the audit guide regarding compliance, internal control, single audit, and reporting was also chaired by a KPMG partner.
- Only one practicing Certified Public Accountant, a KPMG partner, was a member of the National Council on Governmental Accounting (NCGA) during its formation and through the issuance of its basic statements on accounting standards. This partner served on the NCGA Executive Committee during the time NCGA Statement No. 1, *Governmental Accounting and Financial Reporting Principles*, was developed and published in 1979 in order to define generally accepted accounting principles for governments. This statement still serves as the basic definition of generally accepted accounting principles for governments.
- A former chairman of KPMG was appointed by the Financial Accounting Foundation (FAF) to the Governmental Accounting Standards Board (GASB) Organization Committee which allowed KPMG to play an important role in the formation of the industry's current standard-setting body.
- A former chairman of the Firm led the Committee to Review Structure for Governmental Accounting Standards, and another partner was a member of the committee. This committee was responsible for conducting the five-year review of GASB and the Governmental Accounting Standards Advisory Council., which recommend actions regarding their future in the standard-setting process. At the request of the chairman of the FAF, both provided continuing leadership and consultation to the FAF in its determination of appropriate changes to the government accounting standard-setting process.

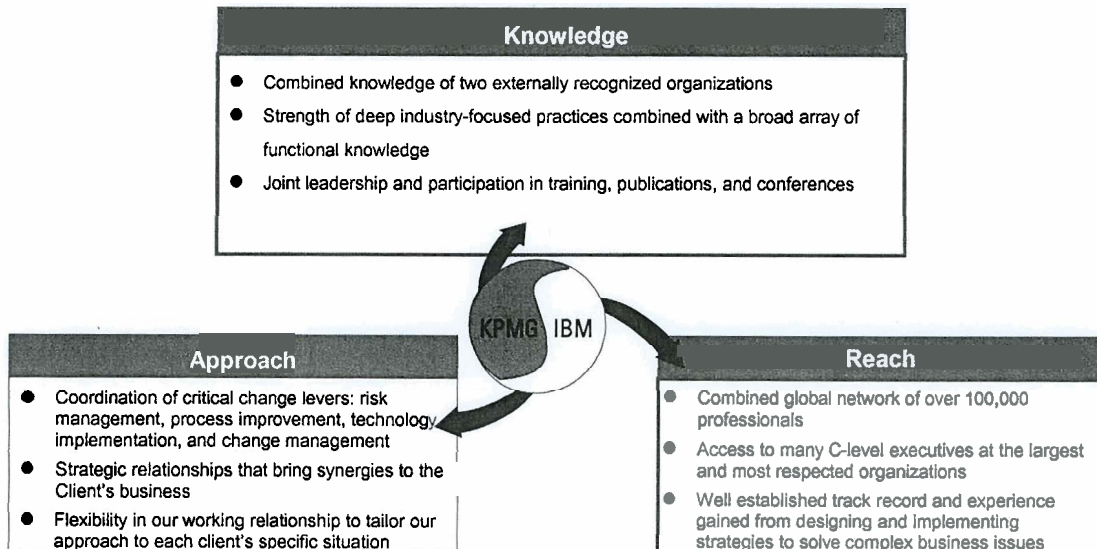
KPMG, in conjunction with our Teaming Partner, will be utilizing resources from across the United States to present the 2006 GPAC with a professional project team that will maintain the specializations and knowledge of North Carolina government required to



meet the objectives of the performance audit. By conducting a performance audit on the North Carolina executive branch, numerous specific areas or functions will be included in the scope of work. KPMG has assembled a project team that includes resources specializing in the specific areas required in the scope of work.

Description of KPMG Project Team

In addition to utilizing KPMG’s global resources pool for this effort, KPMG is teaming with IBM to complement our project team. IBM defines KPMG as a Tier 1 strategic and preferred partner, and a formal go-to-market relationship (Alliance) is in place between KPMG’s U.S. Advisory practice and IBM Global Business Services. The synergies of the two organizations will be leveraged for the State’s advantage. By taking advantage of KPMG and IBM’s strategic relationship we bring to bear a powerful suite of services, strong global brands and deep industry knowledge that create synergies to make a meaningful impact on clients’ businesses.





KPMG and IBM are engaged in numerous projects together to provide services to a variety of clients. As such, we will leverage teaming efficiencies learned and apply these shared experiences to this project. The 2006 GPAC will have access to highly qualified professionals from KPMG and IBM – each bringing complementary skills to this engagement.

Description of IBM

IBM is a large, multinational corporation with significant activities in almost every aspect of the information technology business in almost every country in the world. IBM is in the business of helping clients solve problems through the use of advanced information technologies. The company operates primarily along single industry segments in order to create value by offering services, software, systems, products, and technologies by people that know the needs of the industry.

Global Business Services (GBS) is the IBM global business unit created from the combination of PricewaterhouseCoopers Consulting and the former IBM Business Innovation Services (BIS) line of business. GBS provides business and industry consulting, and end-to-end e-business implementation of such offerings as Strategic Change Services, Financial Management Solutions, Human Capital Solutions, Supply Chain Management, Customer Relationship Management, Enterprise Resource Planning, and Business Intelligence. Within GBS, is IBM's Public Sector Consulting practice that has over 3,000 consultants that consult exclusively with the government, education, and healthcare industries. Our consultants thrive on the challenges posed by these organizations.

Looking ahead, North Carolina will depend on innovation to help meet the changing needs of its constituents. Improved adaptability and response helps public sector organizations capture and use customer information for faster decision-making, and creates adaptable processes allowing almost instantaneous response. In addition,



improving business processes and operational performance can bring about the organizational transformation required to strengthen the organization for the future. As organizational requirements change rapidly, IT can be a key business enabler. In supporting growth and innovation, we can help the State use IT to enable and enact changes in operational strategy. IT can help the State operate more effectively and efficiently within an environment requiring quick responses.

Using IT to Support Organizational Challenges

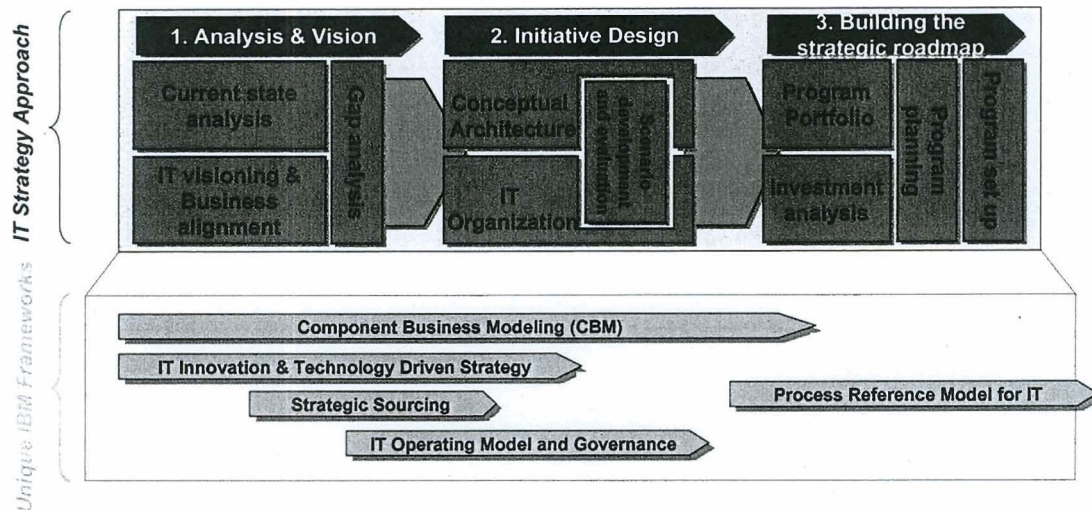
The dialog between operations and IT is evolving to ensure appropriate responses to rapidly changing requirements around organizational priorities. IT can support growth and innovation, promote operational excellence, and fuse business operations and IT architecture. IT can support organizational efforts to

- Respond quickly to external changes;
- Add new services in response to changing customer needs;
- Operate new business models when agencies combine or outsource;
- Realign core competencies;
- Improve the quality of integrated IT components;
- Anticipate emerging operational needs; and
- Improve IT's responsiveness to new operating models.

In too many public sector organizations, IT is seen as a constraint rather than an enabler. IT strategy and governance is the tool leveraged by CIOs to bridge the gap between operational and IT needs and requirements and turn IT from a constraint into an enabler. We align our approach to IT strategy and governance against three key CIO challenges.

- We help align IT and organizational operations by improving the ability for IT to react and respond to business strategy, and improving the ability for IT to drive business strategy.
- We can help you improve service delivery quality and excellence by managing IT as a horizontal function.

- We can help you focus on scale and cost reductions by reducing IT complexity through consolidation and optimization.



Putting IT Leadership at the Business Table

Many organization leaders have stated that they lack the leadership needed to drive change at the intersection of business and technology. We have the experience and knowledge to this intersection work to your advantage. IT can contribute significantly to strategic success when IT and operations are more closely aligned. When IT leadership is in the loop regarding business planning at a detailed level, they can keep pace with frequent changes. We help both IT and operations leaders improve the cultural attitude and perception of IT internally, assess IT’s access to business goals and strategy, evaluate IT planning and project prioritization, communicate on the same level, and determine IT’s most effective strategic role in your organization.

Aligning Business and IT

During an IT/organizational alignment, IT can react and respond to the organizational strategy, and at times can help drive the new strategy. An organizational change creates the need to assess the current IT organization and determine how it aligns with the new



organization, as well as develop a set of IT policies and priorities, and a new annual IT budget and plan. We can help the State understand the key business strategic goals, map the current IT organization against business goals, and prioritize activity and spend.

A change in organizational strategy will also require IT to align its spend with the new strategy, and restructure the current IT organization and activities to align with the new business goals. We can help you understand the impact of the new business strategy on IT, identify new IT priorities, find ways to reduce obsolete activity and investment, and optimize and improve existing activity in areas germane to the new strategy.

Defining IT's Organizational Function

Often, IT units within a larger organization lack an enterprise-wide view of the way the organization views overall IT spending. When individual departments can set their own IT agenda, they can conflict with the CIO on priorities and investments. Often the individual units perceive the larger IT function as providing poor service levels. We can help resolve this conflict by designing an optimal IT policies and organization based on overall priorities and culture. We can help you develop a governance model to define responsibilities across IT functions. We can help identify opportunities to improve service delivery quality and performance.

CIOs may sometimes feel left out of overall organizational decision-making. The CIO may not be involved in strategic planning, or may have a limited view of the details of the business strategy or goals. The CIO or CTO seeks to restructure current organization/activity to align to new business goals. The overall IT functions are not perceived as providing strategic value. We can work with organization leaders and managers to understand strategic goals. We can develop a merged operational/IT governance model with appropriate senior business leadership. We can establish policies and processes to treat IT as a business.



Leveraging Scale and Cost Reductions

CIOs can improve leverage of scale and manage IT costs by reducing IT's complexity through consolidation and optimization, and by improving the variability of IT costs. When an organization plans aggressive growth as part of the business strategy, it must maintain stable operating expenses and ensure proper integration of additional resources.

With a cost reduction strategy, the CIO seeks IT cost savings opportunities. The CIO must address the high cost of infrastructure application management where over 75% of the total IT spend can be on maintenance as opposed to new functionality. CIOs must also address the high proliferation of IT assets. We can help identify data, application or infrastructure redundancies, rationalize the IT application portfolio, and identify strategic sourcing opportunities.

IBM is a recognized leader in IT strategy and governance. By understanding that IT is part of your business, IBM can help set the policies, strategies and set up the governance model to make IT a business enabler, instead of a business constraint.

KPMG and IBM – Making Global and Local Impacts

KPMG and IBM are international organizations that provide professional services around the globe. The knowledge gained and skills learned will be applied to this project by both organizations that are dedicated to serving the North Carolina government and business communities. KPMG's North Carolina practice provides professional services to some of the top companies in the region, covering all lines of business and combining small-town accessibility with big-city vigor. Offices in Charlotte, Greensboro, Raleigh, and nearby Greenville, South Carolina have more than 400 employees, including 36 partners. IBM is North Carolina's largest IT company and the fourth-largest private employer, contributing nearly \$3.7 billion to the state's economy.



In addition, IBM employs approximately 11,000 employees in the Triangle Area and 2,000 employees in Charlotte, Winston-Salem, Greensboro and Wilmington, with a statewide payroll of \$1.4 billion.

Past Relevant Experience

KPMG maintains significant experience in providing performance audit services to state and local governments, and in fact, KPMG assisted the State of North Carolina with its performance audit efforts conducted in the early 1990's. Members of that engagement team will be a part of KPMG's team on this project. Provided below is a sample list of former KPMG state clients where performance audit or similar services were provided:

- California
- Connecticut
- District of Columbia
- Florida
- Georgia
- Iowa
- Kentucky
- Louisiana
- Maryland
- Mississippi
- Nevada
- **North Carolina**
- Oklahoma
- Pennsylvania
- Rhode Island
- United States House of Representatives

KPMG will utilize its established Performance Audit and Enterprise Risk Management methodologies in tandem to assist the State of North Carolina for this project. KPMG's approach for conducting performance audits complies with the Yellow Book's field work standards for performance audits. A brief description of the approach and methodologies are described below.

Performance Audit Methodology

KPMG understands that planning is critical to the success of a performance audit. In addition to providing the necessary skills and resources to meet the objectives of the



performance audit, engagement planning sets the stage for conducting the audit. Engagement planning is the process of identifying what should be done on the engagement, by whom, and when. To conduct an effective and efficient engagement, it is essential that it be planned and that the plan is documented in the form of a written work plan. Planning also serves as a basis for understanding the nature of the business including the external forces that affect the business, its customers, core products, services and its business processes.

KPMG's leadership team's experience will serve as the basis for the effective and efficient use of performance audit project staff. An engagement is "under control" when the highest quality of work is being performed, progress is being made in accordance with the established work plan, and project staff are assigned to meet the specific objectives of the performance audit. Engagement supervision is essential to ensuring that sound professional work is being achieved within the allotted time frame.

KPMG's performance audit approach is designed to identify and review the impact of significant laws, regulations, and rules and the organizations' compliance with and adherence to those laws, regulations, and rules.

KPMG's performance audit process is designed to identify those organizational issues and/or management controls that are relevant to the audit objective. The Yellow Book defines management controls as the plan of the organization, methods, and procedures adopted by management to ensure established goals are met. Management controls include the processes of planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting and monitoring program performance.

The KPMG performance audit process focuses on the identification of management controls and the understanding of key business processes. Business processes are



interrelated activities that cut across functional boundaries in the delivery of an output.

When we review management controls we look at three key business processes:

- **Strategic management** - Activities related to defining the entity's objectives and means of attaining them.
- **Core business** - the activities directly related to the core products and services of an entity.
- **Support** - the activities that support the other processes.

For each significant business process, we obtain the process objectives and management's views on what the agency must do to achieve the objectives. We identify the critical success factors for the process and we measure its performance with respect to financial, operational, organizational, and customer perspective measures. By measuring various components of the organization, we can make analyses and comparison regarding industry best practices.

KPMG's work paper documentation standards meet Yellow Book performance auditing requirements and help ensure supportable results. The project managers will be responsible for reviewing work papers prepared for the audit areas. The Engagement Partner will review this work to ensure it meets the Yellow Book and KPMG standards for work papers. The primary focus of the project manager work paper reviews will be to ensure that the work was performed in accordance with the work plan and those findings, conclusions, and recommendations are clearly supported. The project manager's review will focus on ensuring compliance with *Government Auditing Standards*.

Enterprise Risk Management Methodology

KPMG's Enterprise Risk Management (ERM) methodology helps to design and implement an organizationwide approach to the identification, assessment, and management of risks in a cost-effective manner. ERM incorporates a range of business activities, supported by conceptual models and frameworks, for integrating and

coordinating risk management and control activities across the entire organization. The ERM framework is comprised of five main elements depicted in the following diagram:



- ***Risk Governance*** – Establish an approach for developing, supporting, and embedding the risk strategy and accountabilities
- ***Risk Assessment*** – Identify, assess, and categorize risks across the enterprise
- ***Risk Quantification and Aggregation*** – Measure, analyze, and consolidate enterprise risks
- ***Risk Monitoring and Reporting*** – Report, monitor, and conduct activities to provide insights into risk management strengths and weaknesses
- ***Risk and Control Optimization*** - Use risk and control information to improve performance

KPMG’s proposed two-pronged methodological approach (performance audit and enterprise risk management methodologies) will help the State to improve current operating efficiency and effectiveness, and will also identify current and potential risks that inhibit operational objectives.



As indicated from this informational response, KPMG is dedicated to assisting the State of North Carolina on this massive undertaking. KPMG maintains the following qualities necessary for the successful completion of this project:

- A project team that consists of highly skilled and specialized upper level management and staff from both KPMG and IBM;
- An understanding of the needs and complexities of government environments and a dedication to helping to improve North Carolina's effectiveness and efficiencies;
- Significant experience in providing performance audit services to state and local government organizations; and
- A track record of successfully delivering services to the State of North Carolina, and
- A auditor who values our relationship with the State of North Carolina.

If desired by the LSO, we would be happy to further discuss any information provided in this informational response. We look forward to responding to the future RFP, and to assisting the State on such an important endeavour. If you should have any questions, please contact me at (407) 563-2227.

Very truly yours,

KPMG LLP

David L. Dennis
National Lead Advisory Partner for State and Local Government Sector
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Attachment A

Sample Descriptions of Past Relevant Experience

As indicated in the main body of the informational response, KPMG maintains significant experience in providing performance audit services to state and local governments. Brief descriptions are provided below for three past projects where performance audit or similar services were provided.

State of Louisiana

Select Council on Revenues and Expenditures in Louisiana's Future (SECURE)

KPMG conducted a statewide performance audit for the state of Louisiana to help identify savings opportunities and revenue enhancements to offset a projected \$750 million per year structural deficit. The project included a comprehensive assessment of major service delivery functions and management systems, including:

- Education;
- Economic development;
- Transportation;
- Public safety and corrections;
- Health and human services;
- Personnel and benefits;
- Statewide organization and staffing;
- Taxation and tax policy; and
- Cash management practices.

The SECURE project resulted in approximately 400 recommendations, many of which were submitted to the Legislature and passed during session. The recommendations represented significant potential savings and enhanced revenues to the State which were used to address budget deficit issues and investments in education, economic development, enhanced employee training, and technology initiatives.



Commonwealth of Kentucky

Governor's Commission on Quality and Efficiency

KPMG provided project management to a team of 42 volunteers (13 loaned executives and 29 state staff) to support the work of the Governor's Commission on Quality and Efficiency. A KPMG on-site project manager and 10 KPMG professionals from our Government practice offered specialized expertise to seven work teams organized around the major functions of state government.

The Governor's Commission on Quality and Efficiency analyzed the major areas of Commonwealth government to identify opportunities for service improvement and cost savings. The teams focused on the following functional areas:

- Fiscal management;
- Government operations;
- Human services;
- Personnel;
- Public safety;
- Technology; and
- Workforce development.

KPMG assisted the Commonwealth in identifying state employees for the project, organized them into teams, and provided a two-day training session. The training session focused on techniques for reinventing government, state government budgeting, performance auditing, and public management. KPMG also provided assistance in structuring, organizing, and designing the final report.

A key component to the success of the Quality and Efficiency study was outreach and communications. During the course of the study, KPMG staff along with Kentucky staff met regularly with employee groups, legislators, and cabinet secretaries to brief them on the progress of the study, solicit their input, and answer their questions. The outreach



effort proved to be a significant factor in building a consensus for the recommendations that resulted from the study.

State of Maryland

Governor's Commission of Efficiency and Effectiveness (Butta Commission)

KPMG was the only independent management consultant selected to work for the State of Maryland Commission on Efficiency and Economy. During the period of the engagement, KPMG conducted several studies for the Commission:

- A comprehensive study of the personnel policies and practices covering all state employees;
- A detailed study of the strategies and opportunities to restructure the state Medicaid program to allow control of the rate increase in the state share of support to the program;
- A study of the state's printing support services. Our study identified opportunities to consolidate these centers into more efficient printing service centers, and at the same time to reduce the overall cost to the state; and
- A study of the state's property management practices. We evaluated the effectiveness of the state's property management strategies, determined whether the cost of managing their properties could be reduced, and whether or not the state had an effective strategy to identify and dispose of surplus properties through either sale or lease to the private sector.