

Local Government Auditing Quarterly



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Auditing Human Resources



ALGA

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Table of Contents

From the Editor.....	2
Opportunities for Improvement: Hiring Performance Auditors.....	4
AudiTechie.....	6
Audit Shop Profile: Edmonton, Alberta.....	10
Auditing Human Resources: Managing Human Resources: Developing, Mentoring, and Leading Knowledge Workers in the Audit Shop.....	11
Auditing Human Resources: HR and Audit: It Applies to YOU Too.....	13
Auditing Human Resources: Workforce Health Indicators.....	15
Auditing Human Resources: Conducting Audits of Program-Wide Performance: Would Clients Benefit?.....	19
Auditing Human Resources: Jumping into Deep Water.....	22
Auditing Human Resources: Corporate Leadership Training and Development.....	25
Auditing Human Resources: Why Become a Performance Auditor: Recruitment from the Perspective of a First-Year Auditor.....	27
Auditing Human Resources: Government of Guam Personnel Analysis.....	29
Auditing Human Resources: Sounding the Alarm: Using Non-Audit Services to Disseminate Timely Human Resources Audit Findings.....	32
Auditing Human Resources: Challenges and Rewards in Topical Human Resources Audits.....	35
Submitting Abstracts.....	38
Submitting Articles and Member News.....	39



From the Editor



AMANDA LAMB

Editor

Performance Auditor,
Oregon Secretary of State,
Audits Division

I started my professional career in human resources (as an HR policy analyst) and really enjoyed learning about everything from classification and compensation to recruitment and labor relations. Since I transitioned into auditing, I had waited for an opportunity to apply my HR knowledge to an audit. Last year, I got that opportunity when I worked on an audit of the Oregon Department of Transportation's workforce management practices. At first, it seemed straightforward: the department's hiring had been very slow since about the early 2000s and now they were at risk of losing a sufficient percentage of their workforce to retirements with no one waiting in the wings to take their places.

Since I had worked under a workforce management professional in HR, I assumed I could conduct this audit quickly, accurately, and with little heartburn. The audit turned out to be the most difficult audit I have worked on. There are so many nuances to HR policy and so much guessing involved in implementation (Who will retire when? Will this new hire be a good fit? What training does my staff need for the next 10 years?). We struggled with making timely recommendations that could be implemented (without going to the union or legislature) and would fix the problems we sought to address. Needless to say, it gave me heartburn.

I am excited about this issue because human resources is so broad and all-encompassing; it would be difficult to find this much audit-related information on the topic in one location. For Winter 2014 our authors explore a variety of HR-related topics, including internal

audit shop HR issues (recruitment, training, etc.) and auditing external HR functions (leadership training, decentralized HR functions, and more). We hope you enjoy the content and find it as useful as we did.

Changes to the Quarterly

Does this Quarterly feel thinner to you? Does the Table of Contents or list of articles appear shorter? It should, because we have streamlined our content to better align with the mission of the Quarterly and consolidate communications to ALGA members. The new ALGA Member Update emails, the first of which went out on November 5, will be sent out every month, including timely updates on the organization (e.g., President's Message and committee updates), professional issues (e.g., the GASB Update), member news, and upcoming trainings, positioning the Quarterly to focus more on feature articles.

Looking Forward to Spring 2015

For the next issue, we will continue exploring specific audit topic themes and present an issue on Auditing Transportation. Articles are due on February 15. Please submit your articles using the form available on the ALGA website or submit to LGAQEditor@gmail.com.

It is never too early to start thinking about contributing to a future Quarterly issue, like our Summer 2015 issue on Auditing Purchasing (submissions due May 15).

Happy holidays ALGA Members!

Cheers,

A handwritten signature in cursive script that reads "Amanda Lamb".



ALGA 2015 Annual Conference

Sun, Surf, and Accountability

May 4-5, 2015 — San Diego, California
The Catamaran Resort

Watch for details at algaonline.org!



Earn up to 15 CPE May 4-5

Analysis, Risk Assessment, Stakeholders, IT, Fraud, Impact, and much more! Highlighted speakers include Kristy Dalton, Leita Hart-Fanta and Justin Marlowe.

Earn up to 16 CPE in Pre- and Post-Conference Workshops

Highlighted workshops include:

- Investigation Fundamentals
- Conducting a Peer Review
- Audit Basics
- And More!



Kristy Dalton, GovGirl,
CEO of Government
Social Media



Leita Hart-Fanta, Audit
Instructor and Author



Justin Marlowe,
Professor of Public
Finance at University
of Washington

Fees	Conference Early Registration (thru 2/15)	Conference Regular Registration (after 2/15)	4 CPE Workshop	8 CPE Workshop
Member	\$425	\$475	\$140	\$275
Non-Member	\$525	\$575	\$160	\$315
Guest	\$100	\$100		



GARY BLACKMER

Director,
Oregon Secretary of State,
Audits Division

Hiring Performance Auditors

"Our ideal auditor candidate is an experienced analyst or performance auditor who can work independently with minimal supervision. The candidate would have at least one year of analytical or auditing experience in a government setting, including experience reviewing operations or outcomes, exercising judgment and drawing reasonable conclusions, identifying areas for improvement, and generating possible solutions. Other important characteristics include an interpersonal style that encourages collaborative work efforts and professional growth among all team members, sound time management skills, and a good communications style."

I like our hiring profile but we never find the ideal candidate. It's an ideal, not an expectation.

My comments here are my own and I will be the first to admit that they don't capture all the keys to successful hiring. I also admit that 10-20% of my hiring decisions have resulted in individuals who struggle with the job or the fit and challenges for the organization in helping them overcome their deficits. My advice is to use probationary periods to save everyone the heartache of an unhappy match.

No candidate entering the auditing field possesses all the characteristics for success. Performance auditing is a profession with a never-ending learning curve and, for the many uncertain situations we encounter, the successful auditor must exercise sound professional judgment. Learning the mechanics of auditing and its procedures come first, but good auditors have a skill, innate or acquired, to help them spot findings and to shape the audit. Equally

challenging, the good audit report requires a writer who can express ideas that are clear, concise, compelling, and corroborated.

Because of these complexities, an applicant with auditing experience may not have the potential of a smart, enthusiastic prospect with no audit experience. And, I know it will upset some of you, but it's an extremely rare accountant who can succeed at producing audits of mission-level management issues. The skills and perspective are just different, not inferior in any way.

One more indelicate comment: a certification or PhD has never been a deciding factor for me. Practical skills and applied knowledge are most important. I'll describe the factors that seem to have succeeded for many aspiring auditors.

Government Work Experience

As I mentioned, practical knowledge is an important component of the successful performance auditor. Working life is more complex and less perfect than the textbook expectations of someone fresh out of college.

Anyone who has been employed in an organization learns something about how they really work, which helps an auditor see more as an outsider. In government, spotting problems that impede the outcomes is a bigger challenge. Government has distinctly different procedures and trade-offs than the private sector, and solutions to problems are often constrained by multiple and competing public priorities. The obvious solutions are often the wrong solutions.

Seeing the Whole and its Parts

People with criminal justice experience understand that the parts of the system – police, prosecution, courts, defense, jails, and community supervision – each play a role and

interact with the others. Many government programs are composed of elements, or elements in a bigger context, that auditors need to quickly understand.

Being able to step back and see the big picture, but to also bore down into the detail, is a key auditor characteristic. Losing sight of one or the other is a common audit failing. In interviews, listen for candidates who can tell the story of the whole and the parts simply and clearly. We also sometimes use a story problem that contains a narrative and a chart, and ask the applicant what issues or questions come to mind. We can hear how much attention is spent on the parts and how much on the whole.

Commitment to Learning, Natural Curiosity

While the auditing profession has a long learning curve, each audit is based upon learning the specifics of a program. Candidates should have a hunger to acquire an understanding of the program they would be auditing, and to build their own expertise as an auditor. Applicants have an opportunity to answer a written and at least one interview question with explanations that indicate this characteristic. Every performance audit is different. This continual learning with every audit is one of the best marketing components of the job.

This learning extends to audit tools and methods. We must apply the right approach to diagnose an agency's problem, not look for an opportunity to use the one or two tools we have, whether the agency needs it or not. Not every auditor will be competent in every kind of software but can call on another auditor to conduct the needed analysis. Adding new tools to our toolbox is one way to promote better audits and grow professionally.

Quantitative Skills

We want auditors who can use data to illustrate the findings, which is a narrower part of strong quantitative skills. We need some auditors with strong expertise in statistics and methods, but they can be enlisted when the occasional complex analysis is needed. It's an unfortunate fact that acquiring data and testing its reliability consumes much more of an auditor's efforts than the satisfaction of analyzing it with sophisticated tools.

We examine written applications for the software used by an applicant and, in the interview, assess their ability to discuss data-related experiences from their prior work.

Engaging

The flaws and failures of an organization's services can be seen on its front lines. Good auditors have learned to put employees at ease to hear their perspectives. Auditors also need to effectively engage with management, technical staff, peer agency personnel, stakeholders, elected officials, and members of the public.

If the interviewers can put the applicant at ease, the gift of conversation will be readily apparent. Unfortunately, this is often a challenge, when candidates are not able to relax and be themselves. Auditing is not a profession that requires quick critical thinking in high stress situations, so it's in everyone's interest for the interviewers to also be "engaging" to get a sense of the candidate.

Soft Skills

Some things are difficult to judge in an interview but they are key factors for success. Asking for an example or anecdote from the applicant may not be representative of their abilities or experience. The ability to work independently is as important as the ability to work in a team, though interpersonal dynamics add much more complexity to the latter. Of course time and project management skills are important to complete work in a timely way, but that is also difficult to judge outside a work setting.

Good writing is very difficult to determine in the hiring process. Examples are not always a sound gauge because work is often collaborative, or the writing had to be done in an academic or research style which has its own limitations.

One key gauge of an auditor's long-term success is the motivation to perform the work. What will drive this applicant to push toward excellence? Is it a dedication to public service? The satisfaction of finding problems and recommending solutions? The critical role of independence and accountability to effect positive change in government? The personal satisfaction of continually learning and applying that knowledge? Every applicant is enthusiastic about the job during the interview.

These are all aspects of the successful auditor and we try to enhance and strengthen them through guidance, training, mentoring, variety of assignments, and constructive performance evaluations. We want all our hires to grow and succeed.

Finding the right people to match our needs is the first and most important step. ■



IAN GREEN
M.Econ, CGAP
Senior Auditor,
Oregon Secretary of State,
Audits Division

Visuals Help Engage Readers

Last year, the Oregon Audits Division began expanding the use of Geographic Information System (GIS) software to improve the quality of our reports. If you have not heard of GIS before, it is a tool used to create maps.

In our modern world, policy makers face a steady barrage of reports from multiple sources. No one has enough time to read every page that passes by his or her desk. The reality is that legislators and their staff skim reports. As program evaluators, we should be aware of this fact.

We must strive to capture the attention of our audience. The use of striking visuals is a great method to do so. A wonderful visual can engage the reader, signaling them to read the accompanying text of the report.

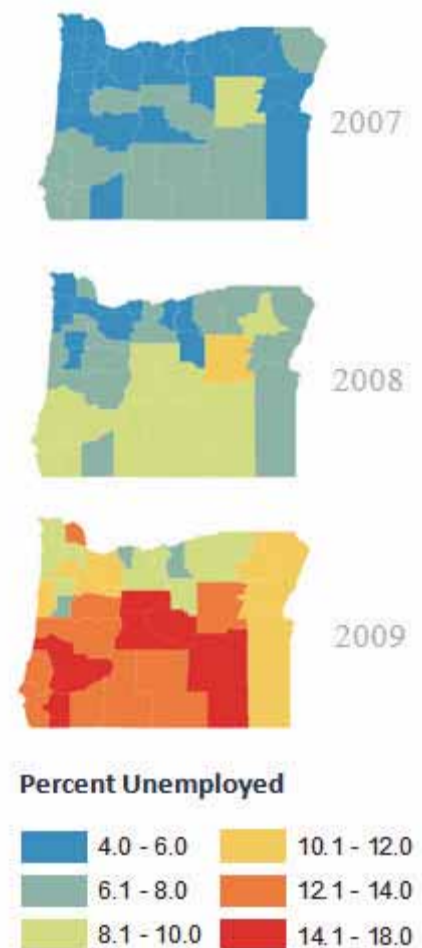
One important caveat: the quality of the text should match the quality of the visual. You can have the best graphic in the world, but if the text is dense and lifeless, you will lose the reader.

Maps are a great example of a striking visual. Everyone can easily relate to and interpret most maps. Not only are maps easy for the public to understand, but legislators often focus on issues in the districts they serve. By creating maps, you can effectively engage policy makers with the information they want.

Maps Can Tell Stories

The adage goes "a picture is worth a thousand words." I am here to tell you that maps can also tell a persuasive story. Figure 1 is an example from [our audit](#) of

Figure 1: Unemployment Rate by County, 2007-2009



Source: Bureau of Labor Statistics

Oregon's Temporary Assistance for Needy Families program.

The program is very sensitive to economic downturns. When millions of people lost their jobs during the Great Recession, they sought out public assistance in record numbers. That should not come as a surprise since helping people during tough times is the *raison d'être* of these safety net programs.

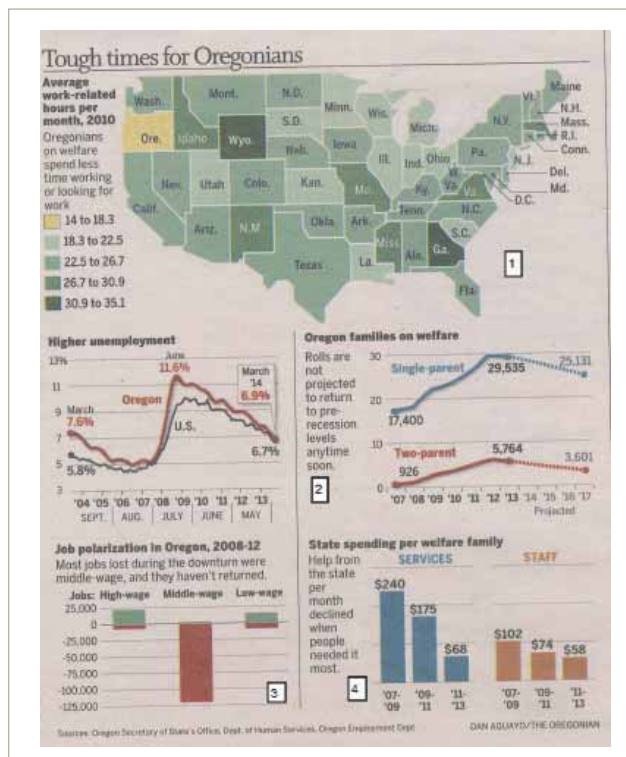
By highlighting the unemployment rates, we reminded our readers of the economic conditions of the time. This important context was essential for our readers to consider when evaluating our findings.

Working with the Press

The press loves including maps and graphics with their stories. By sharing your work with reporters, you will get more attention from the press and better articles than you would otherwise. Our office recently sent the maps and other graphics we worked on to a reporter who covered our audit. The reporter loved the free materials and the audit report ended up getting a second front page article that prominently featured four of our graphics.

Remember to check in with your leadership team before working with the press. The last thing you want is that to be a surprise. Here are some other things to consider:

1. p.m. will result in an article in the morning's paper.
2. Make yourself available. Provide your contact number or arrange an interview. Make sure you coordinate with communications staff and leadership so that the right people are involved.
3. Learn the lingo. When you tell a reporter that information is “on background” the reporter will not attribute the information to you. This is the origin of all the stories with lines like “Senior officials said...”. When you provide information “off the record,” the reporter can’t use the information unless they can confirm it with another source.
4. Establish clear expectations about when the material can be published. Providing an advanced copy of your report with an “embargo” can help ensure the information is published on the right day at the right time. Reporters respect embargos, but there are situations where other sources may leak the same material. In those circumstances, a reporter may publish their article early without your approval. This does not violate the embargo because the source of the information is someone else.
5. Build a working relationship with reporters between projects. It takes time to develop the trust needed for a successful relationship. Remember, it is a two-way street.



Maps Can Effectively Highlight Issues

One of the best benefits of maps is the ability to spot problems that would not be found without a geographic perspective.

Figure 2 is a classic map. In 1854, London was facing a daunting epidemic of cholera. At the time, no one knew how the disease spread. Day by day, more Londoners succumbed to the disease.

John Snow, a local physician, set out to identify the cause of the outbreak. Snow believed that once the cause was identified the city would be able to develop a plan of action to stop the outbreak.

Snow examined the relationship between the location of individuals who had died and the location of their water source. It was clear from his analysis that the Broad Street Pump in the center of the map was the source of the outbreak. By using maps, Snow helped quell the epidemic by convincing local officials to disable the pump.

1. Deadlines matter – hand off your materials sooner rather than later. Do your research and make sure you go directly to people who cover the topic.
2. Give advance notice when possible. Reporters need time to brief editors, call sources, coordinate with their graphics departments, and then write and fact check their stories. Do not expect that releasing information at 4:55



Figure 2

Fraud Detection

Recently GIS has found applications in fraud detection. GIS supplements other fraud tools by looking at fraud from a spatial point of view.

Consider for example the Medicaid program. The program has both clients and providers. It may be suspicious if you find a provider who is serving multiple clients that live hours away. Examining the average driving distance per provider might uncover fraud that would otherwise be missed. This concept can extend to any program where you can analyze some geographic component.

We can see a real world example of this type of fraud detection in Figure 3. [This analysis](#) was conducted by the Louisiana Legislative Auditor’s office in 2013. They examined the distance clients traveled to use SNAP benefits (food stamps) and found some suspicious patterns.

Some stores had individuals traveling five hours across the state to purchase food. These patterns support a case that fraud is being committed. GIS not only makes your findings stronger, but it will also help law enforcement prosecute the offenders. The best-case scenario is when you provide enough evidence to law enforcement that the individuals plead out, thereby avoiding the cost of a trial.

Another example of fraud detection could include looking at ambulance billings relative to distance traveled. If the company is billing for more time or mileage, a GIS analysis could quickly detect this.

Other Audit Applications

San Diego has conducted some interesting audits of their motor pool and fuel purchases that utilized GIS. [This 2011 audit](#) looked at the number of take-home vehicles from the motor pool relative to their duty location. The audit found a number of employees had vehicles they were allowed to take home that resulted in extra maintenance and expense for the motor pool. In some cases, employees were driving over 50 miles per day in a government vehicle. By reducing the number of take-home vehicles, the city was poised to save half a million dollars per year.

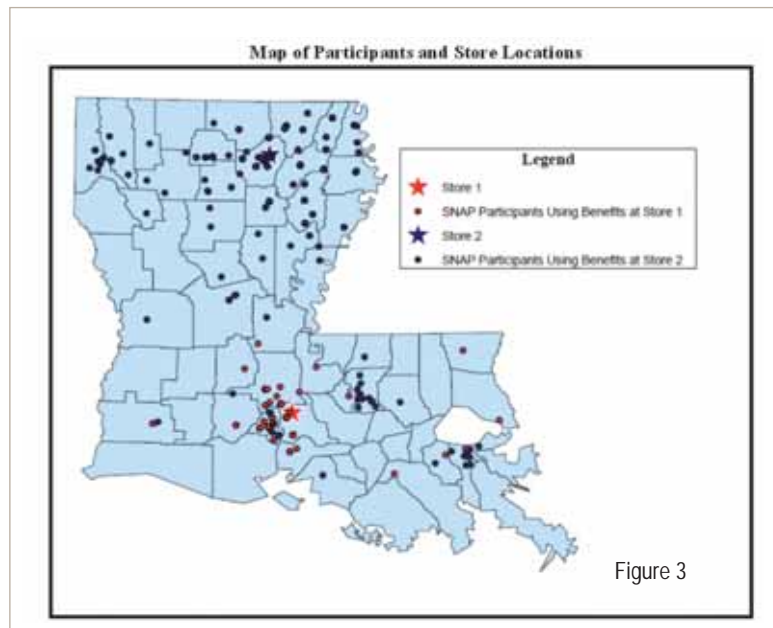


Figure 3

The audit also looked at fuel purchases. Each time a car fills up at a retail gas station, the city pays full price rather than the wholesale price at city-operated facilities. A number of individuals were filling up at retail locations even though city-owned facilities were nearby.

Exploring Demography

There is a world of free demographic information out there. The U.S. Census Bureau, as part of the decennial census, and the American Community Survey collect most of the information.

Analyzing available demographics can add depth to your work. Suppose you are tasked with assessing economic development projects. [The dot map in Figure 4 \(from the Cooper Center\)](#) takes basic census data and creates engaging visuals that highlight the demographically divided nature of many of our communities. By overlaying economic development projects, you could test if opportunities are being enjoyed equitably.

This same principle holds for looking at educational attainment or income. When evaluating a human services program it is very easy to pull up poverty demographics, to compare and contrast office locations relative to where clientele live. Alternatively, it is also possible to check to see what populations are being reached and if certain areas are being underserved. Dot maps emphasize density and groupings.

Free Tools

The U.S. Census Bureau is an excellent source to find data to map. Recently, the Census has also put together an easy to use [Census Data Mapper](#). Beyond data and interactive websites, there are a number of free analytic tools out there.

A quick internet search for “open source GIS” will yield multiple products to try. [QGIS](#) and [GRASS](#)

[GIS](#) are two great options. Google also has some easy-to-implement [interactive web maps](#) if you feel comfortable working with basic HTML.

Pay the Price

For some, the options mentioned above will meet your needs. For others, you may have to open your checkbook to get the right tool.

The simplest to use, and one of the least expensive options, is [SocialExplorer](#). It takes only a few seconds to create beautiful maps using the intuitive interface. SocialExplorer even has a free version with limited functionality. One of the drawbacks is that you cannot import your own data

and are limited to mostly U.S. Census surveys. It also lacks some customizable features found in other programs. If you want to start somewhere, SocialExplorer is a great option.

[ArcGIS](#) and [Tableau](#) are two power players in the data visualization market. The features and analytical

capabilities of their software are quite amazing. The biggest drawback though is the cost of the licenses and the amount of staff time you need to invest to learn the software.

A more-user friendly alternative is ArcGIS Online. This cloud-based software is an add-in for Excel 2010 and 2013. ArcGIS Online is easier to use and much cheaper to purchase than the full desktop version, but you also lose some of the more advanced features. For example, some of the fraud detection tools, such as calculating driving distance, have not been implemented in the online version.

In either case, the benefits of using GIS can far outweigh the costs when you leverage the tool properly.

Good luck on your journey with GIS. ■

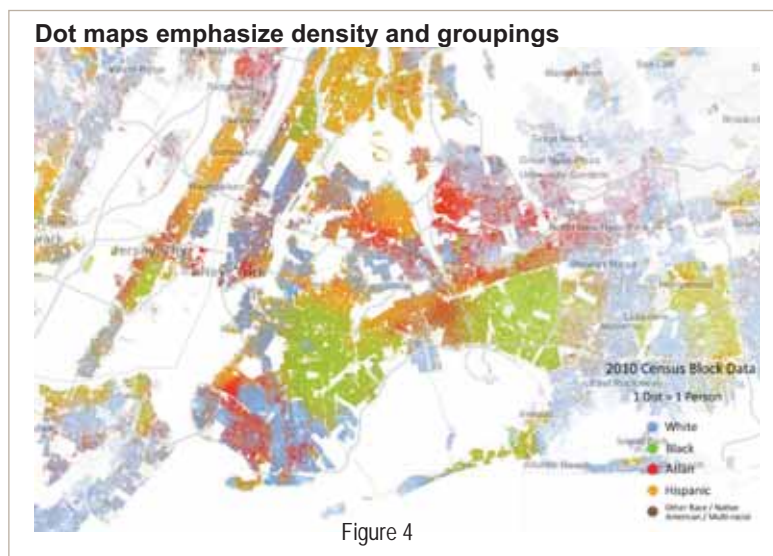


Figure 4

Audit Shop Profile: Edmonton, Alberta

Office of the City Auditor, City of Edmonton, Alberta, Canada

www.edmonton.ca/auditor

Left to Right

Back Row: Gordon Babey, Paul Ebenezer

Middle Row: Edwin Ryl, Bill Cook, Sophia Kasozi, Jason Solowan, Janine Mryglod, Larry Laver, Thomas Wong

Front Row: Queena Dong, Lisa Callas, David Wiun, Chrisy Burton, Leslie Glasbeek



City Auditor	David Wiun
Reporting Structure	Audit Committee consists of the Mayor, four City Councillors, and two members of the public, at least one of which must have financial literacy expertise.
Office Mission	Committed to adding value
Office Budget	\$2.2M (2014)
Organization Operating Budget	\$2.1B (2014)
Office Size	14 full time staff (2014)
Staff Backgrounds	Bachelor level degrees in Business, Management, Commerce, Engineering, English; Masters level degrees in Communications, Engineering, Business
Staff Certifications	CIA, CFE, CRMA, CGEIT, CCSA, CISA, P.Eng.
Standards Followed	International Standards for the Professional Practice of Internal Auditing
Types of Projects	Performance Audits, Proactive, Investigations, Follow-up Reviews, Governance and Leadership, Emerging Issues
Projects Per Year	Approximately 20 projects plus investigations
Years as an ALGA Member	More than 24 years
Awards Received	2010 Knighton Award – Honorable Mention Medium Shop 2008 Knighton Award Bronze
Favorite Audit to Date	23rd Avenue & Gateway Boulevard Interchange Project Review
Other Items of Interest	Offering a warm welcome even on the coldest days, Edmonton is the most northerly city in North America with over 1 million citizens. Edmonton's river valley boasts the longest stretch of connected urban parkland anywhere in North America – 22 times larger than New York City's Central Park. Nicknamed "The Festival City," Edmonton offers many year-round opportunities for citizens and visitors to experience this City's diversity and culture.



MARILYN J. DILLON
Audit Manager, City of
Oklahoma City (OK)

Managing Human Resources – Developing, Mentoring, and Leading Knowledge Workers in the Audit Shop

Internal auditing success is based on a reputation of independence, objectivity, and professional expertise. In order to build better auditors, it is imperative that we ensure that our own house is in order, and that we are managing the audit department for success, employee development, and individual accountability. The traditional silo-based, hierarchical structure of local government can inhibit the development of a collaborative, mission-driven culture.¹ In addition, hierarchical structures foster employee distrust through an "us-versus-them" mentality that encourages micro-management and a command-and-control approach to employee supervision.

In an audit shop, the employees are part of the new breed of knowledge workers. These individuals have advanced degrees, diverse skills, and experience. In other words, a knowledge worker thinks for a living. Unlike workers during the Industrial Age when tasks were well defined and progress could be measured clearly, knowledge workers have assignments that require a greater degree of creativity, and they will function better when given flexible assignments and the ability to think for themselves. Managing knowledge workers requires a different management style because the "means of production" or output from knowledge workers is their brains, which they can move to another organization if they are unsatisfied.² Both within the audit shop and throughout the organization, leaders should be trained to foster strength and independence, while coaching and mentoring to develop future leaders, increase accountability,

and foster management styles that sustain knowledge workers.

Leaders foster accountability through their behavior. We are all human and mistakes will be made, but leaders that do not hold themselves accountable to a code of conduct should not be surprised when their own bad habits and questionable behaviors filter down through their audit staff. Employees emulate the observed behavior of leadership through the "as above, so below" phenomenon, where leadership behaviors become a subconscious catalyst that employees will model as they seek their own advancement in the organization.³

Actions speak louder than words, and employees will evaluate a leader's ability and trustworthiness by continually examining the alignment of their actions and spoken promises or values.⁴ The leader exerts a high degree of influence on the culture and atmosphere within the audit workgroup and must strive to continuously model the behaviors desired because "people go in the direction leadership is walking, not pointing."⁵ If the official credo stresses open communication, employees will notice when the leader's behavior does not align or if exceptions are made for certain individuals or in specific circumstances. Employees look to the leader's behavior for clues and monitor what behavior is rewarded and discouraged.

Employees evaluate leaders based on mental models that are created from experiences in childhood, throughout schooling, and into adulthood. Early leadership behaviors are seen in parents, coaches, and teachers, and these mental models remain stable over time. When the individual enters the work force, supervisors are compared against early models of leadership and adjusted only slightly for new experiences. These mental models or prototypes are used to

make assumptions and understand behaviors, with the individual matching situational cues to past experiences. In effect, each employee has a mental map of what leadership looks like and they use this information to navigate through organizational life.⁶

To foster and retain highly skilled knowledge workers, leaders must learn to read these mental frames, find ways to help employees shift their mental models when appropriate, and move beyond the traditional supervisor role. Leaders must reframe their approach through the application of several steps:

1. Practice what you preach. Leaders must hold themselves accountable to the standards they expect from their employees. Rules must apply to everyone equally.
2. Set clear expectations for employees. How can employees be held accountable if they do not have a clear understanding of the job, the desired outcome, and any applicable deadlines? When managing knowledge workers, however, keep in mind that they do not like to be told what to do, so craft your messages carefully and avoid the tendency to micro-manage every aspect of a project.⁷
3. Understand that there is no one right answer or best way to complete a task. Just as there can be multiple routes from point A to point B on a map, employees may choose alternate approaches to a task. Outstanding leaders embrace this diversity in knowledge workers and allow it to thrive – provided that deadlines are met, standards are maintained, and the final deliverable meets the initial expectations.⁸
4. Function as a mentor and coach. This is best accomplished with face-to-face meetings where an atmosphere of honesty, mutual respect, and trust allows the employee to express opinions and ideas with confidence.⁹ While ongoing CPE requirements hone audit-related skills, leaders can use these coaching meetings to focus on soft-skills such as listening, communicating, and public speaking.¹⁰
5. Nurture employee growth through continual feedback that is shared immediately and often. Feedback should be specific and focused on what was said or done, without labeling the employee. Most leadership scholars recommend use of the S.I.S. Feedback Model that describes the **situation**, explains the **impact**, and **suggests** ways to stop/continue the behavior. Although this may feel awkward initially, employees will begin to see the feedback loop as an effective component of your overall leadership style.¹¹

Managing knowledge workers can be a challenging task. Workers on an assembly line can continue to produce a finished product even if they do not feel inspired by the work, dislike their supervisor, or do not care about the organization, but when managing knowledge workers this level of commitment matters. They place a great deal of emphasis on relationships. Knowledge workers require a visionary leader who is willing to step outside the traditional, hierarchical management model, become a mentor, and foster their creativity.¹² ■

Notes

¹ Leavitt (2005). *Top down: Why hierarchies are here to stay and how to manage them more effectively*. Audio-Tech, 14(6), 1-12.

² Davenport (2005). *Thinking for a living: How to get better performance and results from knowledge workers*. Audio-Tech, 14(9), 1-15.

³ Miller & Bedford (2014). *How to build a culture of accountability in 2014*. PM Magazine, 96(1), www.icma.org

⁴ Ingenhoff & Sommer (2010). *Trust in companies and CEOs: A comparative study of the main influences*. Journal of Business Ethics, 93(3), 339-355.

⁵ Goehrig (2008). *The role of leadership in building high performance, sustainable organizations*. Government Finance Review, 24(6), 6-14, p. 7.

⁶ Dillon (2014). *Leadership prototypes and employee behavior*. Doctoral Dissertation: Northcentral University.

⁷ Davenport (2005).

⁸ Bolman & Deal (2008). *Reframing organizations: Artistry, Choice & Leadership*. San Francisco, CA: Jossey-Bass.

⁹ Ibid.

¹⁰ Guillot (2014). *Mentoring that matters*. Internal Auditor, LXXI(II), 46-50.

¹¹ Miller & Bedford (2014).

¹² Davenport (2005).



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HR and Audit: It Applies to YOU Too

Introduction

The Human Resources (HR) operation revolves around capital, *human* capital. Personality conflicts, diverse cultures and beliefs, varying communication styles, and the like create HR-related issues every day at a tremendous cost. Audit plans include reviews of high-risk areas organization-wide, but confronting personnel issues in the audit entity can improve the entity's own internal culture, while also improving the foundational fabric of an organization. Internal Audit, just like any other department within the organization, expends human capital as a means of adding value and accomplishing missions. Building strong work environments both for the organization and the audit entity—and fostering positive relationships—are contributions toward mitigating the risks associated with poor management of our limited human resources.

Audit Plan

Most audit entities use risk analysis to craft audit plans. Given the intricacies of working with human capital, there is high likelihood that HR events will occur in the workplace, perhaps repeatedly for some. Below is a list of some common HR issues and examples that potentially pose significant risk to the organization, including the audit function.

Discrimination/inequity in hiring, discipline, promotion, and job duties

- Using race, culture, personal beliefs, friendships, and/or personal feelings and insecurities to make personnel decisions or assign job responsibilities

Fraud or abuse in worker compensation, insurance, and vacation and sick leave

- Filing false claims, “faking” injury/illness, using leave to work secondary employment

Harassment, sexual harassment, bullying, and constructive discharge

- Insults, intimidation, advances of an inappropriate nature; targeting employees and recruiting/coercing others to assist in “forcing” an employee to resign.

Background checks

- Criminal history, employment, and reference verification

HR-related problems can pose significant risks to the organization. For example, lawsuits and employee turnover lead to additional recruitment, hiring, and training efforts, all of which cost money and impact productivity and morale. Reputational consequences may occur, including outsiders believing that either a) the organization as a whole is a bad place to work or b) the department suffers from poor management/lack of leadership. Combined with the losses related to insurance fraud, false workers compensation claims, and the hiring of persons with criminal history, the resulting financial impact and destructive work environment hinders the ability of departments, including audit, to meet their mission and operate efficiently, effectively, and economically. As a result, one would expect more HR audits in the audit plan, but also significant introspection and evaluation within the audit entity itself.

Looking through the Mirror

Far too often, we do not apply the virtues of audit to our own operations, especially HR related functions. Although audit job descriptions may differ from those in another part of the organization, the expectations for recruiting, developing, and retaining employees are the same. Management is not only responsible for hiring and

training employees, but also holding staff accountable for their actions and job responsibilities. If the organization or the specific audit entity has a reputation – be it real or perceived – that personnel issues are rampant and turnover is frequent, there is potential difficulty in recruiting and retaining employees. For example, what actions are taken when a peer or supervisor is demeaning toward another employee, or when one employee recruits others to engage in hostile or threatening behavior against another employee? When these incidences occur within the audit entity, staff becomes just like any other employee within the organization. Most often these occurrences are accepted as business-as-usual and go unreported.

Overall, audit entities are just as susceptible to the tone-at-the-top breakdowns that signify management’s inability to protect its employees and establish a strong control environment. These weaknesses lead to lawsuits, turnover, and decreases in productivity and morale, which harm the credibility and reputation of the audit entity (and its management), as well as potentially costing significant amounts of money.

Approach with Caution – HR Audits and Internal Audit Entity Reviews

Audit entities should consider a variety of approaches to introduce internal controls to HR functions and mitigate common risks. It is the role of the Chief Audit Executive to set the tone and support the direction and expectations of the audit entity. Some suggestions include:

Encourage internal reflection about the work environment and HR operations without fear of retribution or retaliation. These are valuable opportunities to improve both the organization and the audit entity, train and educate staff in areas where policy may be misunderstood, and reinforce expectations.

- Responses should be analyzed. Some commentary may seek to personalize an agenda or be used as a mere “venting” forum; however most respondents will answer honestly. Management should be held accountable for developing strategies to improve any operational issues identified.

Consider conducting an HR audit that includes a self-review of the audit shop alongside the results of other departments. This approach opens an opportunity to announce to stakeholders that internal audit is not above reviewing itself in the same manner it reviews other departments.

- Some stakeholders may have the “no better than me” syndrome and use this opportunity to challenge the competency and credibility of the audit department. However, a good leader embraces the opportunity to demonstrate the value in this approach by acknowledging they need improvement. A great leader actually follows through on improvement.

Ensure the audit plan includes projects related to the most high-risk HR functions, as well as internal reviews and continuous improvement strategies.

- The audit potential and opportunity to influence significant improvement is met with the chance auditors will uncover issues that if revealed could lead to litigation. It is important to discuss certain HR audits with legal counsel and prepare for such things in advance in case attorney-client privilege becomes a necessity.

Support professional development. If staff is interested in advanced education and certification, always encourage and never discourage.

- The best gift a manager could give their staff is the ability to learn and grow. Managers who do not support staff growth will not be remembered for being supportive or nurturing, but will be perceived as selfish and hindering an employee’s long term career growth. Managers should not assume staff will always want to work for one employer. Part of long term career development is the ability to move to different organizations and learn new things.

These approaches potentially yield high impact results to the organization as well as to the audit entity, with the added benefit of building the audit shop’s reputation as a “helper” and not just a “news grabber.”

Conclusion

Overall, audit plans are filled with engagements designed to tackle the organization’s high-risk areas. Since human capital is the foundation of any work group, including internal audit, any enhancements to HR operations and work environment provide the first step toward mitigating risks associated with hiring decisions and interpersonal interactions. Applying the approaches above, in some combination, potentially aid audit entities to not only create an atmosphere where people want to work, but also show that auditors are able to hold themselves to the same standards as the rest of the organization. ■



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Workforce Health Indicators

In 2010, the City of Edmonton Office of the City Auditor received a Knighton award for an audit examining the use of overtime within the City. The audit made four recommendations, one of which was to improve the reporting and monitoring tools available to management. By the end of 2011, Edmonton's Department of Human Resources (HR) addressed the above recommendation by developing a comprehensive HR Dashboard that presents strategic leaders and operational managers with key HR metrics and information on a regular basis to help them manage their respective workforces. These metrics indicate areas of change, opportunity, or challenge within the organization. As auditors, these types of metrics can provide us with valuable insights as we develop audit objectives, plans, and procedures.

Overtime

Employee overtime can be expensive when unplanned; however, when planned and used strategically, overtime can provide an economical choice when compared to the cost of hiring permanent, part-time staff. Changes to this metric can be an indicator of both internal and external factors impacting the organization.

Increases in overtime may indicate:

- A decrease of available workers due to organizational changes
- Seasonal or temporary workload changes resulting in planned and unplanned overtime usage
- Emergency situations requiring expedited responses
- An unanticipated increase in workload where overtime is used to maintain service levels
- An employee recruitment or retention issue where overtime is used to manage work intended for vacant positions

Decreases in overtime may indicate:

- A decrease in workload where budgeted overtime may no longer be necessary
- A change in workload management strategy such as splitting shifts reducing the need for overtime
- A growing backlog of work that is not being completed because overtime is not being used, but no other strategy has been put in place

Overtime usage and trends may provide auditors with a snapshot of how management addresses fluctuating, unanticipated, or seasonal workloads, which may provide an opportunity to explore alternative personnel management strategies that may be more economical.

Vacation Liability

Employee vacation allotments provide employees with the chance to rest and refresh themselves, and to support their health and well-being. Vacation allotments mitigate the risk of fraud when another individual is temporarily brought in to manage the work. Allowing employees to carry over large amounts of vacation is problematic as employees may earn vacation at one salary rate and take it at a significantly higher salary rate in later years. In addition, if employees have a large amount of vacation to use prior to retiring, business areas may not have the ability to hire a new employee as the budgeted salary is tied up with paying out the retiring employee.

Increases in the vacation liability may indicate:

- Understaffed business areas where employees do not have an opportunity to take their vacation time and it continues to accumulate
- An aging workforce with seniority and more vacation time. (These functions may be faced with a

worker shortage due to retirements in the mid-to-long term.)

- Fraud-sensitive positions held by individuals with excess vacation may benefit from a review of controls.

Decreases in the vacation liability may signal:

- A decline in workload resulting in the opportunity for employees to use their vacation time
- A decline in service levels as employees take their vacation time but where appropriate coverage has not been arranged
- A workforce culture that values life/work balance

Monitoring excess vacation may allow auditors to flag fraud risks in the organization and provide an indicator of workforce culture.

Sick Leave

Sick leave can be more expensive than overtime for the organization when both the employee and his or her replacement are paid for the time. Even when there is no additional cost for coverage, there is a reduction of efficiency when the work normally done by the sick individual is delayed until he or she is well.

Increases in the rate of sick leave may indicate:

- Business areas with low employee morale. When employees do not want to come to work, sick leave often increases.
- Facilities or practices that encourage the spread of illness
- Poor monitoring of sick leave resulting in abuse

Decreases in the rate of sick leave may indicate:

- Health and wellness initiatives that may be working well
- Positive management changes that reduce stress and stress-related illnesses of employees

A review of sick leave can provide auditors with an opportunity to identify areas in the organization that may benefit from changes to policies and practices. However, anyone analyzing sick leave trends should account for illness trends in the community as well. A surge in sick leave in mid-September may be due to children back in school and bringing germs home and may not be reflective of any workplace-related activity.

Occupational Lost Time or Workplace Illness or Injury

Occupational Lost Time is the time employees are away from work due to workplace related illness or injury. Most employers in Alberta pay occupational health and safety premiums to the Workers' Compensation Board. Premium rates are determined by a three year average of safety performance.

Improved performance results in lower premium rates and significant cost savings.

Additionally, workplace illness or injuries can decrease efficiency because of the additional resources required to cover the position. It can also decrease productivity if a position remains unstaffed.

Increases in Occupational Lost Time or workplace illness or injury may indicate:

- Areas of the organization that are not compliant with existing worker safety policies
- Areas of the organization that require additional measures to support worker safety
- An increase in incident reporting

Decreases in Occupational Lost Time or workplace illness or injury may indicate:

- Improvements to worker safety practices
- A reluctance to report incidents
- A change from higher-risk to lower-risk work

This measure may be most valuable as an indicator of the importance of worker safety within the organizational culture.

Turnover

Employee turnover in an organization is expensive and significantly impacts the organization's efficiency and effectiveness. Recruiting, hiring, and training new employees require considerable organizational resources. Turnover can occur for a number of reasons including resignations, employee terminations, and retirements.

Increases in turnover may indicate:

- An employee morale issue
- An aging workforce with growth in retirements
- A competitive labor market
- Issues with the hiring practices
- Organizational restructuring and skill realignment

Decreases in turnover may indicate:

- Insufficient performance management resulting in a lack of employment terminations
- Stagnation in the operations when there are fewer new individuals introducing change
- A positive change in management practices resulting in higher retention

When low turnover rates are the result of exceptional management practices, identifying these may support the spread of these practices across the organization. High turnover can be expensive for the organization and negatively impact operations. However, unusually low turnover rates should also be carefully considered. Operational practices can stagnate when new people

and ideas are not introduced. Turnover rates used in conjunction with other HR data can give auditors a big picture view of organizational culture and help identify areas of the organization that may benefit from some form of audit support.

Recruitment Time-to-Fill

The Recruitment Time-to-Fill metric measures the length of time it takes to hire an employee into a position. Whereas Turnover can act as a broad indicator of organizational culture, the Time-to-Fill metric is more targeted to focus specifically on the hiring process.

Increases in the Recruitment Time-to-Fill metric may indicate:

- Overly cumbersome HR or candidate approval practices that delay hiring
- Inefficiencies or poor communication between the business unit and HR that delay hiring
- Management that has not prioritized recruiting to the position
- A competitive hiring market
- A lack of clear hiring criteria resulting in the inability to select a candidate
- A shift in the types of vacancies in the organization. Positions that require highly specialized skills are harder to recruit for than positions that requiring general skills that might be readily available in the hiring market.

Decreases in this metric may indicate:

- An under-controlled hiring process where candidates may not be properly screened.
- Improvement to the efficiency of the hiring process.
- Prioritization of hiring by management and HR.

As an auditor, this metric can provide an indicator of the efficiency and effectiveness of recruiting practices within the organization.

Position Vacancy Rate

Unstaffed positions in the organization can result in a decrease of efficiency and effectiveness. Although leaving a position vacant may be seen as a way to save money (thus the hiring moratoriums in times of fiscal challenge), increased costs for overtime and sick leave as other employees carry the load can quickly erode and overtake these savings.

Increases in the Position Vacancy Rate can indicate:

- Changes to a work environment where there may not be a clear job description to support hiring
- Decreases in workload or increases in efficiency so that the position may no longer be needed
- A competitive hiring environment with recruitment challenges

- Management that has not prioritized recruiting to the position

Decreases in the Position Vacancy Rate may indicate:

- The end of a hiring moratorium
- The abolition of unnecessary positions
- A consistent or immediate priority on hiring depending on the strength of the decrease

As an auditor, position vacancy trends can flag areas in the organization that may be struggling to appropriately budget for positions, or that face external or internal challenges attracting and retaining staff.

Insights by Combining Metrics

While each of these metrics on its own can signal a situation, issue, or change in the organization, identifying specific combinations of these metrics can narrow the investigative field and provide a more holistic picture of people management within the organization.

High Turnover, High Overtime, High Sick Leave

This combination of metrics can provide a very strong indicator that management practices in a business unit may need attention. In this combination, high turnover is likely to indicate that there is difficulty retaining employees. This may be due to poor orientation practices or a difficult work environment. High overtime, particularly when incurred by a small number of employees, may be the result of these employees picking up the slack. High sick leave rates may be the result of increased stress and demand on employees. When there is no clear explanation for this combination of metrics, there may be value in considering a culture audit.

High Vacation Liability, High Overtime

Rather than indicating any particular scenario or potential issue, this set of metrics should instead raise the question, "Why are these employees working more than they should be?" If this is a single individual, it raises fraud flags. As a business unit, this may indicate certain employees are carrying a greater load than others. If so, it may be prudent to review the unit's performance management and training practices. This scenario may also indicate a need for additional staffing to meet demand or a need to review existing processes for efficiency opportunities.

High Position Vacancy Rate, High Turnover, High Time-to-Fill

One potential explanation for the combination of these three metrics is that there is a strong hiring market. If there is also a low unemployment rate in the market, this adds further support for this explanation. When this occurs, it can be very difficult to attract candidates,

resulting in a high time-to-fill rate. It can be difficult to retain employees when private industry may offer higher wages or more attractive benefits, resulting in increased turnover. This can result in a high position vacancy rate and challenges meeting operational targets. Although there may not be many options to "fix" this problem, the identification of market conditions as a root cause may provide an opportunity to identify the competitive advantages of the organization and leverage these as much as possible to reduce the impact.

Conclusion

It would be unreasonable to expect any set of measures or metrics to act as a full diagnostic and pinpoint areas of the organization that need to be addressed. Instead, these metrics can serve as tools to monitor the HR health in the organization and provide a starting point for root cause analysis when a measure provides a result that is unexpected. ■



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Conducting Audits of Program-Wide Performance: Would Clients Benefit?

Are government performance auditing professionals conducting audits that provide information about program performance that legislators and agency managers need for oversight and decision making and that citizens would find meaningful?

In contrast with financial statement auditing where the focus is typically on organizations, in performance auditing the focus is typically on programs. Moreover, the focus is commonly limited to one, maybe two, aspects of performance within a given program. In choosing programs for audit, auditors (and requesters) often know or suspect that there is a problem with performance for the aspect or aspects targeted for assessment. This seeming deliberate focus on problems has potential shortcomings. One, it may inadvertently lead citizens to question the economy, efficiency, and effectiveness of government programs, and the competence of government and its workers. Two, it may lead some to view government performance auditors as “professional fault finders” rather than agents for good

government. Three, reports from such audits provide only a limited view of program performance. They do not provide a comprehensive perspective on both good performance and poor that decision makers need and citizens would find meaningful.

What Audits Best Serve Customer Interests?

My question here is, what type of performance audits best serve the interests of audit customers? **Targeted** audits that focus on assessing the adequacy of performance for one, maybe two, aspects of performance within a program? **Program-wide** audits that focus on assessing the adequacy of performance for all relevant aspects of performance within a program? Does it have to be one or the other? My argument here is for government performance auditors to place some emphasis on conducting program-wide audits, along with targeted audits.

Challenges in Conducting Program-Wide Audits

Choosing to conduct audits of program-wide performance will bring challenges. I see five as important. You may see others. In facing these challenges, local government auditors have the advantage of learning from each other – through their work in auditing similar programs.

**Exhibit 1
Performance Aspects that Warrant Consideration In Program-Wide Audits**

Performance Aspects That Will Usually Warrant Consideration:					
• Quantity	• Quality	• Timeliness	• Cost	• Efficiency	• Economy
Performance Aspects That May Warrant Consideration:					
• Purpose Achievement ¹	• Readiness ¹	• Customer Satisfaction ¹			
• Safety	• Security	• Equity			
• Cost Recovery	• Financial Condition	• Return on Investment			
¹ These are performance categories more than specific aspects.					

Challenge 1: *Deciding what aspects of performance are relevant and thus included in the audit.* This is a fundamental challenge. The good news is that deciding is easier than you might think. It is usually self evident. Also, it can be expected that agencies will have identified, and be measuring, aspects they see as important. Aspects of performance that commonly warrant consideration in an audit of a given program are shown in Exhibit 1.

Challenge 2: *Knowing how or learning how to measure performance.* While measurement is an essential task in conducting program-wide audits, I do not see this as a major concern for two reasons. One, most, if not all, performance auditors already know how to measure performance and have done so for many aspects of performance in programs they audit. Two, learning how is not overly difficult. To this end, books and training courses are available on performance measurement.¹

Challenge 3: *Learning how to present the audit results and write the reports quickly.* Using a start-from-scratch approach in writing a report for each audit will be time consuming and costly. One technique for limiting writing time is to develop a standardized report template. Here one would have an overall objective for the audit and have specific objectives addressing each performance aspect included in the audit. To meet auditing standards, the template must present the audit scope and methodology and provide brief background information on program operations for the benefit of readers unfamiliar with the program. See Exhibit 2 for an example template.

Challenge 4: *Keeping the report short. Busy readers, those auditors want to reach, simply do not read long reports.* To maximize the benefit of a program-wide audit, I think the findings (for all performance aspects covered by the audit) need to be summarized on the front and back of one page. This digest of the audit findings will permit decision makers to know from a quick read what aspects of the program are working well and which need their attention. For the print media, it would be helpful if the report were formatted so it could be printed, intact, within the columns on one page of a newspaper. See Exhibit 2 for an example audit report covering possible findings on the aspects of performance relevant to a city street lighting program.²

Challenge 5: *Keeping audit costs low.* This will likely be a formidable challenge for some programs, but not all. I think cost will be mitigated in three ways. One, agencies will often have measures for some aspects of performance which will limit audit work to verifying the measures. Two, where agencies do not have

measures, auditors will often be able to quickly develop them. Development of measures is not overly time consuming, although there will be exceptions. One exception is the aspect of quality. Three, auditors will only need to develop the cause and recommend corrective action for findings of poor performance. Identifying the cause of poor performance can be, but will not always be, time consuming.

The potential for keeping audit costs low is illustrated by my streetlight example. That audit could likely have been conducted in about six weeks with 480 staff hours. While my example may be an exception, it illustrates that audit costs will not necessarily be high. Also, subsequent audits of the same program, or a follow-up audit, can be conducted with a minimal number of staff hours.

Conclusion

I believe audits of program-wide performance would be beneficial to government managers and citizens. Managers would benefit by having information on the adequacy of performance for all relevant aspects within audited programs. With this information, they can take credit for good performance and take action in areas where improvement is needed. Citizens will benefit from knowing what programs are working well and deserve continued funding with their tax dollars.

I believe program-wide performance audits will also enhance the image of government and our audit profession. The public image of government is likely to be enhanced because program-wide audits will likely find and report instances of good performance as well as poor. Performance auditors will benefit because they will be more often seen as positive agents for good government and less often be seen as professional fault finders.

I acknowledge that for certain programs the first program-wide audit may be costly in terms of staff hours. However, I believe the benefits are worth the cost. Cost can be mitigated by conducting the audits in phases – over two or three years – and issuing a summary report for the entire program. Also, subsequent audits of the same program can be conducted with a minimal amount of staff hours.

I am not suggesting that auditors should only conduct program-wide audits. I believe there will always be a need for audits targeted at finding the answers to specific issues. My argument is for auditors to emphasize the conduct of program-wide audits, along with targeted audits. ■

Notes

¹ The Government Audit Training Institute has two courses on performance measurement, “Using Measures to Assess Performance” and “Auditing Performance Outcomes.” Two books: *Managing with Measures*, Robert I Wise, and *The Basics of Performance Measurement*, Jerry L Harbour.

² Data in Exhibit 2. The number of streetlights and operating costs, and some facts on audit scope and methodology, come from an audit report. The balance is fiction, some based on observations in my own neighborhood.

Exhibit 2 Example Report Program-Wide Audit of City Street Lighting Program
<p>Overall Audit Objective: To assess the overall performance of the City’s street lighting program.</p> <p>Scope and Methodology: We randomly selected 11 residential sections within the city limits and, over a two week period, observed and tested 1,435 of the city’s 91,500 residential streetlights. Our sampling method provides a statistically valid representation of the city at the 95% confidence level. On cost, we compared electricity use per light and total operating costs with those of three nearby cities. We conferred with the police and other responsible city officials on safety and security.</p> <p>Background: A contractor repairs outages and malfunctions and provides maintenance of the streetlight system.</p>
<p><u>Equity</u></p> <ul style="list-style-type: none">• Are street lights equally distributed throughout the city? The city is not effective in distributing streetlights equitably throughout residential areas. For example, one neighborhood of 98 houses had 16 streetlights, about one for every 6 houses, while an adjoining neighborhood of 92 houses had 4 streetlights, about one for every 23 houses. Both neighborhoods had similar size blocks. Police and responsible city officials knew of no differences in security and safety concerns between the two neighborhoods. <p><u>Mission Achievement</u></p> <ul style="list-style-type: none">• What level of increased safety or security (or other desired result) is attributable to the city streetlight system? The widespread disparity in distribution of streetlights throughout residential areas without regard to specific safety and security concerns suggests that, barring a specific issue, the same relative level of safety and security might be achieved in residential areas with fewer streetlights. The Mayor acknowledged our audit results and had, at conclusion of the audit, created a “street light” task force with instructions to review and revise the City’s policy for installing street lights giving consideration to cost along with safety, security, and equity. <p><u>Quality</u></p> <ul style="list-style-type: none">• Are streetlights providing the recommended level of illumination? City street lights are providing the recommended level of illumination. In our tests, using a light meter, 99.6 percent of streetlights were providing light within the design range of the lights in use. <p><u>Timeliness</u></p> <ul style="list-style-type: none">• Are a satisfactory percentage of city streetlights illuminated after dark; i.e., are failed lights and sensors that turn lights on and off being replaced quickly? The city is effective at keeping streetlights illuminated. In our tests, 99 percent of streetlights were illuminated after dark, and failed streetlights we observed were replaced within two days. <p><u>Economy</u></p> <ul style="list-style-type: none">• Are a satisfactory percentage of city street lights turned off during daylight hours thus minimizing the use of electricity? The city is effective in keeping streetlights turned off during daylight hours. In our test, Just under 2 percent of streetlights were lit in daylight hours. The sensors – for streetlights we observed being lit in daylight hours – were replace within two days. <p><u>Cost</u></p> <ul style="list-style-type: none">• What has it cost the city in total dollars to illuminate and maintain the entire streetlight system each year for the past ten years and have the costs been reasonable? Last year the city spent about \$19 million on its street light program, including \$4.5 million for electricity. Its electricity use and streetlight costs are comparable to those of three nearby cities.

Auditing Human Resources



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Jumping into Deep Water

Until five years ago, our audit shop focused on student activity fund audits. However, when the chief auditor came on board, the first request made by the Audit Committee was for an audit of the Human Resources Department. We jumped off the diving board into the deep end of the pool and began our adventure in departmental performance auditing.

Twelve months, 48 recommendations, and cost savings of \$1.2 million later, we finished our first adventure and climbed out of the pool.

Background

Our District, the Washoe County School District, consists of 93 schools, 63,000 students, and approximately 6,500 full time equivalent employees. Salary and benefits at the time of the audit were approximately \$389 million.

The Human Resources Department (Department) has five key functional areas. We limited (we use that term very loosely) our scope to the employee services function, which included:

- Recruitment and hiring process
- Certified licensures (teachers)
- New employee processing
- Maintaining and safeguarding Human Resources computerized data, documents, and employee files

Once we started dog paddling through all the documents and processes, we realized we needed (and wanted) to climb out of the water and get to dry land. But we did not. We kept our heads above water, and kept paddling.

Our “unique” audit objectives were:

- Are the Department’s internal controls appropriately designed

and operating effectively to adequately safeguard District assets?

- Are hiring practices efficient and effective?

We do not want to take you through all the recommendations (check out our report at <http://washoeschools.net/Page/395>) so here are a few of the more significant ones:

Vacation Balances

The Human Resource software can monitor vacation balances and stop accruals when employees reach the maximum number of days/hours allowed. This feature was not utilized and vacation balances were not monitored. Not monitoring and reducing employees’ hours/days to the maximum allowed subjects the District to an unnecessary financial liability and the possibility of fraud. We recommended management review vacation balances and reduce days/hours to maximum accrual allowed. The liability to the District during the audit period was approximately \$690,000.

Early Separation Incentives

One of the perks offered to employees is the incentive to retire early through monetary compensation (ESIP). Once approved by the Board of Trustees, the Department submits the ESIP list to the Payroll Department. During testing, we reconciled the approved list to the checks issued and found two former employees had received duplicate payments amounting to \$36,509. We recommended Human Resources and the Payroll Department review and reconcile the payment list to the approved ESIP list prior to cutting checks.

We also found:

- Three employees were rehired under critical need shortage. These employees were paid ESIP,

rehired in a Public Employees' Retirement System (PERS) position, and continued to receive their PERS monthly benefits.

- An additional 23 ESIP employees were rehired in non-PERS positions.
- At least five employees were hired as independent contractors.

Although these practices are acceptable, we recommended Human Resources monitor hiring and contracting practices with retired and ESIP employees, including requiring repayment of ESIP if former employees were rehired as employees or independent contractors. Additional recommendations included:

- Analyzing the cost/benefit of offering ESIP
- Requiring all but critical positions be kept empty for at least two years to salvage savings from ESIP
- Negotiating with bargaining units to reduce or eliminate the requirement to offer ESIP yearly to employees, but instead offer ESIP on an "as-needed" basis using District criteria

Overpayment Policy

We reviewed correspondence related to the District's overpayment policy. The established criteria at the time was that if it was reasonable to expect that the employee knew of or noticed the overpayment, they were required to repay the amount. If it was not reasonable, then they did not have to repay the overpaid amount. The recommendation for this finding was to make reasonable collection efforts for all overpayments. This led to a subsequent Employee Collection audit where we recommended that \$93,000 in employee overpayments be turned over to the State of Nevada for collection.

Current Workflow Processes

The current hiring process permits hiring employees without ensuring there is funding approval. Although the District requires departments to use purchase orders to ensure available funding when making purchases, it does not consistently follow the same practice when hiring personnel. Personnel requisitions, the purchase order for hiring, must be completed timely and in the correct sequence, to ensure funds are available prior to offering employment.

Human Resources, Position Control, and the Payroll Department often found themselves being reactive, instead of proactive, to the demands of the District. The culture at the time was to fill and pay positions immediately. This created a domino effect and non-conducive work environment by placing Human Resources, Position Control, and Payroll in a "stop everything and get this processed" mode. We recommended:

- Creating a workflow process for hiring
- Moving towards an electronic work flow

Professional Growth

Teachers and school administrators are rewarded for pursuing additional education credits toward a masters or Ph.D. in the form of pay increases even when there is a freeze in step increases during challenging economic times. At a speech at an American Enterprise Institute forum, Arne Duncan, Secretary of Education, stated that there is little evidence to show that a teacher holding a master's degree significantly impacts the achievement of his or her students over that of a teacher with just a bachelor's degree. We recommended the District consider negotiations with respective bargaining units to sunset the professional growth raises to teachers and administrators as the District could save approximately \$500,000 each year.

Confidential Information

The Department has taken measures to limit access to sensitive areas. They have visitors sign in and escort them to appointments and they use a log to check out personnel files. However, we found the Department should invest in low-tech security measures to protect sensitive information. Our recommendations included:

- Keeping all confidential information in locked cabinets or storage after hours
- Re-keying Human Resources offices to maintain adequate key control and prevent unauthorized access after-hours (allowing custodial staff access only during regular work hours)
- Developing formal processes for securing confidential data based on office hours, personnel, and the accessibility of confidential data

Employees' Social Security Numbers

E-Verify is an internet-based system that allows businesses to determine the eligibility of their employees to work in the United States. The Washoe County School District does not use E-Verify when hiring new employees.

The Social Security Number Verification Service (SSNVS) is an online service that provides immediate feedback for new and existing employees, comparing the name, SSN, date of birth, gender, and death information to records at the Social Security Administration. We uploaded active District employees to the SSNVS which revealed that no employees were using deceased persons' social security numbers. While this is excellent, there were 208 (202 female and 6 male) failures where social security numbers did not match employees' names. We tested 21 female and all 6 male failures and were

unable to determine the cause for 19% of the failures tested. We could not locate Employee I-9s for 41% of failures tested. Former or hyphenated names were used for 37% of employees reviewed and it would be reasonable to assume that this was the cause. The remaining one employee failed verification due to a data entry error (3%).

The Human Resources Department does not verify employee social security numbers for accuracy and validity. Using available resources on a scheduled basis would allow the Department to monitor employee information and ensure its accuracy and validity, including the deterrence of fraud (using deceased persons' social security numbers). Our recommendations included:

- Using E-Verify to assure new-hires are eligible to work in the United States
- Verifying social security numbers using Social Security Number Verification Service (SSNVS)
- Investigating all failures, correct any data entry errors, and document efforts to obtain correct information
 - Prioritize investigation of male gender failures (because males rarely change their surnames)

Stronger Controls

SearchSoft is the District's recruitment, selection, hiring, and retention software. Applications and social security numbers can be blocked in instances where employees are ineligible for rehire. Testing of ten terminated employees who should have been blocked revealed only three had been blocked. Our recommendations were to:

- Block any missing employees who were ineligible for rehire by reviewing Labor Relations' discipline logs and employee files
- Develop and document procedures to describe the process, including administrator roles in contacting Human Resources should there be a concern
 - Include School Police Department's and Internal Audit Department's role in reporting any investigations to Labor Relations, if applicable

Diving Back In

We were so happy to get out of the pool; however, because human resources and payroll are so dependent on one another, we dove right back in the pool and opened a payroll audit. ■



BRYAN MANSKEY
Deputy City Auditor,
City of Winnipeg (MB)

Corporate Leadership Training and Development

Corporate leadership training and development is a key function for all organizations and should be viewed as different from management training. Managers plan, organize, coordinate, and monitor. Leaders inspire and create focus to a longer term vision. Both roles are critical to organizational success and many individuals perform both roles within their organization. However, the type of training that an individual requires to develop leadership skills is distinct from the type of training to support a manager in that aspect of his daily role.

Why is Corporate Leadership Training Important?

There is a litany of good reasons why government should invest in leadership training including:

- Effective leaders are better able to engage their employees resulting in higher morale and a more engaged and productive team.
- Cities depend on the skills of their workforces to efficiently and effectively deliver services.
- Learning from successful peers – or leaders can help one avoid common pitfalls and customize his brand of leadership to suit his own personality and style.
- Young managers of today will become the leaders of tomorrow if they see an organization that creates and supports an environment for high-potential employees and senior leaders.

Given the potential shortage of experienced senior leaders (due to anticipated retirements and the value created through a “grow-your-own” program) Winnipeg’s Audit Department, with the support of the Director responsible for the area,

initiated an audit of Corporate Leadership Training.

Leaders have a responsibility to ensure the organization is well positioned to continue in their absence. This means that future senior leaders are identified and adequately equipped to successfully lead the organization. Corporate leadership programs help create and support a culture that encourages the identification and development of high potential employees for future leadership positions.

What Were the Main Challenges?

Information, information, information.

The quality or availability of information to understand how much the department spent on training and development and who requires what type of training (skills or competency gap) were the major challenges to performing this audit.

The absence of comprehensive information on leadership development created a hurdle in understanding the environment; however, this lack of information also served to highlight that the area required greater attention and became the focus of the audit. Experienced senior leaders should inspire and direct the necessary organizational changes to ensure the right level of service is provided at the right price. Obviously, senior leaders play a significant role with the potential for huge ramifications if not properly executed.

What Did We Observe?

The City of Winnipeg provides a vast array of training opportunities for front-line staff, supervisors, and mid-managers. The training is provided internally via a network of qualified professionals or externally through innovative partnerships with service providers. Beyond the supervisor and mid-manager level there was limited

focus on continuing to develop the senior leaders who are tasked with leading and shaping our services to respond to the needs of the citizens.

The focus on training front-line staff up to mid-managers is understandable as their numbers far exceed the number of senior leaders in the organization. Further, training dollars are limited and development at the senior leader level can be more challenging to source truly qualified facilitators. Personally, I have attended more than one development session with high (but reasonable) expectations and left feeling less than inspired. Combine this with designing a course or program to implement in an organization as diverse as a municipal government and one can see that is no easy undertaking.

The leadership program at the City of Winnipeg was not as mature as programs in place at other levels of government, particularly the federal government. The government of Canada has an extensive program for developing senior leaders and offers diverse courses specific to senior leaders utilizing a variety of training and development methodologies. It has an extensive list of leadership level courses, paid leaves to pursue higher education, secondments (temporary assignments), and mentorship programs for high-potential employees.

What Did We Recommend?

Our final report contained six recommendations, all of which were accepted by management. Broadly, we focused on developing a city-wide plan for the identification, training, and development of senior leaders. Specifically, the plan required the development of expansion of support processes including:

- Determine leadership positions at risk due to retirement or single person risk
- Identify high potential employees
- Assess training needs of the organization, which will include senior leaders
- Prioritize training needs
- Identify training objectives
- Identify training methodologies to be used to achieve objectives including traditional training, partnerships with universities, mentoring, secondments, etc.

What Has Happened Since Our Audit?

The City is making progress at compiling the necessary information and is exploring a number of methodologies to support senior leader development. The highest profile initiative was the launch and successful completion of a pilot program where the city offered, in partnership with a university, a program targeted to higher level municipal leaders. The 3-module, 15-day program brought together 25 City staff based on the criteria established for high potential employees. The criteria included those employees who:

- Currently occupy, or are ready to assume, a management level position in the organization
- Demonstrate excellent past performance and a high level of learning agility
- Have the ability to assume greater responsibilities within three years
- Demonstrate core leadership competencies (using the city's adopted competency framework)
- Have executive leadership potential (again evaluated using the city's competency framework)
- Express their willingness to commit to a minimum of five additional years with the City of Winnipeg

The program goal was to equip the municipal managers of today with the ability to effectively lead the City into the future. The various sessions allowed participants to learn from experienced facilitators, to expand their tool-kits, to test approaches with fellow participants, and to initiate or implement elements virtually immediately within their own work areas. The networking opportunities provided by the program created an even greater value. The feedback from participants was overwhelmingly positive.

The City's Human Resource Strategic Plan identifies leadership development as a strategic priority acknowledging its importance to the continued growth and success of the city. The audit report increased awareness of the importance of leadership development with corporate HR implementing several new processes to address the report recommendations. Combined with the launching of a second session of the partnership program, the city is definitely making progress toward ensuring the young leaders of today see a reason to stay for tomorrow. ■



CHELSEA LEI
Management Auditor,
King County Auditor's
Office (WA)

Why Become a Performance Auditor: Recruitment from the Perspective of a First-Year Auditor

About a month before finishing graduate school, I discovered a profession dedicated to improving government, called "performance auditing". It sounded too good to be true. At the time, I was keen to work in local government, but few entry positions appeared to match my generalist academic background. Through job searches and networking I had seen mostly positions in specialized government departments. I could not tell which specialization was right for me or whether a job in a department would enable me to do what I ultimately want to do – to improve government.

So as I sat at a round table along with a small group of Stanford students, listening to Sharon Erickson and Minh Dan Vuong, two performance auditors from the City of San Jose, describe their work, I was on the edge of my seat and eager to hear more. "We are in government to ask 'stupid' questions because they matter," said Ms. Erickson with a smile. She explained that performance auditors apply professional standards to arrive at independent and objective information about the efficacy of government. "The audit office is one of a few places in government to look at policy implementation and outcome and do so across functions and departments," she added.

She provided an example of a performance audit of San Jose's pension sustainability issue. Using accounting data and economic analysis, the audit showed that the city's pension liabilities posed serious budgetary and financial risks and threatened citywide service delivery.

The results informed a ballot measure to reform the city's pension system.

Ms. Erickson's introduction to performance auditing opened my eyes to an entirely new career possibility. I liked that the profession offers a broad vantage point from which to see how government works (or does not work). The idea that performance auditing can enhance governance through independent, reliable, and actionable information aligned with my values and interest.

I wondered though why it felt like a big secret. I was among a sizable group of students at Stanford interested in using analytics to improve government. But it was not until a small group of us initiated a [local government finance internship program for Stanford students](#) that we became aware that this line of work existed.

Following graduation, I moved to Seattle to be with my family. Serendipitously, an entry-level performance auditor position opened up at the King County Auditor's Office. I enthusiastically applied and got the job.

Over the past 11 months that I have been on the job, I thought often about what would make performance auditing more attractive to university students and recent graduates. I entered government service at a time when most of my peers chose the private and non-profit sectors. My generation (the millennials) views government as inefficient and wasteful, as shown in numerous demographic and generational studies. A variety of post-graduation career statistics also suggest that young people do not wish to work for the government because it is not considered a vehicle for effective social change.

I think the performance auditing profession has a responsibility to inspire and attract more young talent

to public service. For one thing, the profession counters the very ills of government that deter many young people from considering public service for their careers. If performance auditing is to live up to the fullest potential of what it can be as an enhancer of governance and builder of public trust, it needs to attract and retain the best talent there are.

Recruiting and retaining talent is an issue that many local audit shops are concerned about as well. At this year's ALGA conference, the issue even came up in a general session. My own experience tells me that our profession would appeal broadly to many students with a generalist education and some specific analytical skills. That is because the hard skills such students develop in college and/or graduate school – critical thinking, writing, adaptive learning, and systematic problem-solving – are fundamental to what performance auditors do on a daily basis. The key is to explain the profession in ways that speak to their interests and aspirations and convince them that they can make a difference by joining our team.

Reflecting on my first-year audit experience, I thought of a few perspectives that I would share with university students and recent grads about performance auditing.

First, the “three Es” (economy, efficiency, and effectiveness) that designate the general concerns of performance auditing will allow you to look at pretty much anything the government does or wants to do. By focusing on the general outcomes of government policy and programs, performance auditors think broadly and deeply across government functions, processes and issue areas. Like a systems engineer, we look at the whole picture to identify where the critical vulnerabilities are and help decision-makers and managers tackle the root causes.

Second, each performance audit is a deep dive into an area of government that will present you with valuable on-the-job learning opportunities. In order to evaluate a program or policy, performance auditors need to develop a firm grasp of how things are and compare it to how things should be. Both of these tasks involve deep learning about the specific functional area and the leading practices in that area.

My first performance audit was about how King County manages large-scale building maintenance. I went from knowing nothing about the topic to being one of a few individuals at the county who really understood how the program worked. And unlike day-to-day managers of the program, I also gained a broader understanding of the program's performance in relation to best practices. The learning curve felt incredibly empowering as it enabled a beginner like me to make contributions that mattered.

Third, the rigorous quality assurance process behind published audit reports is what will set you apart from other participants in the governing process. Everything in the audit report needs to be checked for factual accuracy and logical soundness. This may feel burdensome, but the ability to speak on issues, especially controversial ones, with solid facts and sound logic is a strength. We are able to make a difference in government because we make ourselves credible.

Fourth, being a performance auditor can foster tremendous personal growth. Auditors are human beings who want to be well-liked by others too, but our foremost professional responsibility is to be independent so as to be able to “speak truth to power.” But uncovering the “truth” is usually not the full battle. A great deal of wisdom goes into being able to communicate the truth in a way that actually helps solve problems and get things done. From talking with a number of seasoned auditors this year, I learned that this takes no trivial amount of empathy, humility, and patience. So, if you are looking for a job that will challenge you to be a better person, you may actually find it in doing performance auditing.

Finally, performance auditing is a growing practice as the world of public governance grapples with new frontiers. This makes excellent timing to join the profession. Around the world governments face increasing demands to deliver quality services in a fiscally responsible manner. Many critical issues of our time require our governments to be creative and effective in working with diverse and non-traditional partners. Performance auditors are increasingly called upon to assist decision-makers with understanding the nature of these complex problems and finding the most cost-effective solutions. The need for talent is high as the range of opportunities for performance auditors to make a difference continues to expand.

At the same time, many opportunities in the profession are up for grabs for young people entering the field today. Even though it has been practiced for over 40 years, performance auditing is still a relatively young and fluid profession. The community of auditors is quite open to learn new concepts, methods, and ways of doing things. As an evaluative discipline, the field also remains under-evaluated and its impact is not yet well understood. More work can be done to show the value of performance auditing such that citizens everywhere understand and demand more of it.

As a first-year auditor, I believe that our profession holds considerable transformative potential to improve government and we need you to help us unlock this potential. ■



ASHLEY GAERLAN
Audit Staff (GU)

Government of Guam Personnel Analysis OPA Report No. 13-05

The Office of Public Accountability (OPA) conducted an analysis of the Government of Guam's (GovGuam) personnel costs and employee counts from fiscal years 2008 to 2012 (all years mentioned throughout this article are fiscal years). The objectives of this report were to determine (1) whether GovGuam's personnel costs and employee counts increased and/or decreased; (2) the average salary of each government employee; and (3) the employees within each agency who received over \$100 thousand (K).

Among the 53 GovGuam agencies in our analysis, we found that growth in personnel costs and employee counts generally occurred over the five year period. Although growth did not occur in all agencies, the largest growth were in the priority areas of public education, public safety, and public health, which is in line with past and current administrations' policies.

This is the first time the OPA conducted this type of government-wide personnel costs analysis. Although no recommendations were made in this report, the Governor's

Chief Financial Advisor (CFA) provided a response in which she stated that the report provides a tool to gauge the effectiveness of the Governor's fiscal stabilization policies, as well as underscores our government's commitment to the top three priority programs of education, health, and safety. The CFA applauded the office's "efforts in undertaking this monumental task" and congratulated the Public Auditor and her staff "for providing the information that can serve as a reference point in tracking the causes for some of the issues currently facing department/agencies, and the government as a whole."

Personnel Costs Increased by 15 Percent

As of 2012, the agencies' employee counts totaled 12,282. Personnel costs (inclusive of salaries and benefits) increased by 15 percent or \$86 million (M), from \$589.6M in 2008 to \$675.6M in 2012. Table 1 lists the 10 agencies with the largest increase in personnel costs.

Among the 10 agencies noted above, Education agencies [Department of Education (Education), University of Guam (the University), and Guam Community College (GCC)] made up 30 percent of or \$26M of the increase, the Guam Memorial Hospital Authority (the Hospital) made up 13 percent of



RODALYN GERARDO
Audit Supervisor (GU)

Exhibit 1: Top 10 Agencies by Largest Dollar Increase

Agency	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total	2008 - 2012 \$ Increase	% Change	Common Size Ratio of \$ Change
1 DOE	\$ 192,267,526	\$ 193,124,643	\$ 192,878,168	\$ 204,817,895	\$ 206,983,006	\$ 990,071,238	\$ 14,715,480	8%	17%
2 GMHA	60,360,198	64,698,459	67,868,412	71,613,197	71,144,276	335,684,542	10,784,078	18%	13%
3 UOG	38,954,726	40,593,315	41,999,395	45,474,875	46,119,277	213,141,588	7,164,551	18%	8%
4 GPA	28,850,927	30,148,645	31,376,430	33,503,379	35,182,509	159,061,890	6,331,582	22%	7%
5 PAG	14,948,419	15,104,670	17,630,692	20,013,381	20,598,607	88,295,769	5,650,188	38%	7%
6 GFD	23,426,912	25,766,868	28,118,252	28,729,099	28,719,494	134,760,625	5,292,582	23%	6%
7 Judiciary	18,049,114	21,917,344	20,550,975	22,685,194	22,767,501	105,970,128	4,718,387	26%	5%
8 GPD	20,468,346	21,583,945	23,913,130	25,171,321	24,860,592	115,997,334	4,392,246	21%	5%
9 GCC	14,541,691	16,700,853	16,411,229	18,065,422	18,616,374	84,335,569	4,074,683	28%	5%
10 GWA	15,286,063	15,870,652	18,085,703	18,499,114	18,891,270	86,632,802	3,605,207	24%	4%
Other 43 Agencies	\$ 162,484,933	\$ 171,245,193	\$ 188,294,900	\$ 186,913,794	\$ 181,763,132	\$ 890,701,952	\$ 19,278,200	12%	22%
Grand Total	\$ 589,638,855	\$ 616,754,587	\$ 647,127,286	\$ 675,486,671	\$ 675,646,038	\$ 3,204,653,437	\$ 86,007,183	15%	100%

10.8M, utilities agencies [Guam Power Authority and Guam Waterworks Authority] made up 12 percent of \$9.9M, and public safety agencies [Guam Fire Department (Fire) and Guam Police Department (Police)] made up 11 percent of \$9.7M.

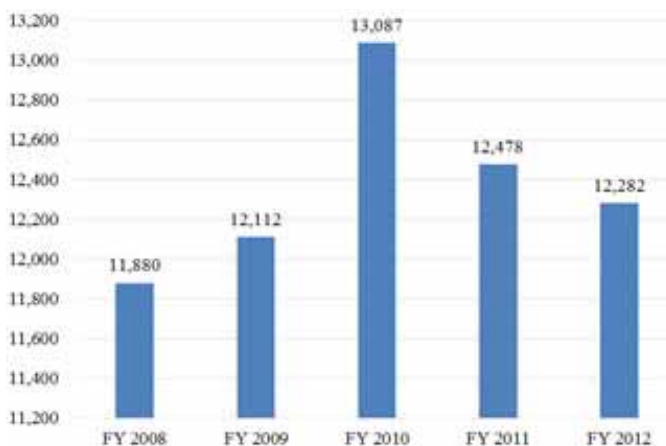
Three agencies' (the Hospital, Fire, and Police) personnel costs increased, despite decreased employee counts. We also found that the Department of Public Works had the greatest decrease in personnel costs (\$2.4M or 13 percent), going from \$18.3M in 2008 to \$14.3M in 2012; followed by the Department of Integrated Services for Individuals with Disabilities, which decreased by \$619K or 33 percent from \$1.9M to \$1.3M.

Five of the 53 agencies employed 54 percent of GovGuam's workforce: Education (3,803 employees), the Hospital (967 employees), the University (824 employees), the Power Authority (543 employees), and Human Resources (479 employees). Although Human Resources ranked as the 5th largest agency based on employee count, this was primarily due to temporary part-time employees under its various employment programs, such as the Summer Youth Employment Program. The next largest agency in employee count is the Department of Public Health and Social Services with 437 employees.

Growth in Number of Employees

The number of employees within GovGuam increased by 3 percent or 402 employees from 11,880 in 2008 to 12,282 in 2012 in comparison to personnel costs, which increased by \$86M or 15 percent. There was a spike in the 2010 employee count of 975 employees, mainly due to the 768 temporary employees recruited to staff the Guam 2010 Census Bureau.

Exhibit 2



Average GovGuam Employee Salary Increased by 8 percent

A GovGuam employee's average annual salary (excluding benefits) increased between 2008 and 2012 by \$2.5K, or 7 percent, though there was variation year over year (see Exhibit 2). The table below illustrates the top 10 agencies whose average salaries have grown by dollar amount.

Of the agencies with the largest dollar change in average salary, three agencies experienced an increase in their employee count rather than a decrease:

- Guam Commission on Education Certification: Average salaries grew by 232 percent (\$28.5K) from \$12.3K in 2008 to \$40.7K in 2012, while the number employees increased, going from 1 employee in 2008 to 3 employees in 2012.
- Guam Economic Development Authority: The average salary grew by 27 percent (\$9.7K) from \$36.2K in 2008 to \$45.8K in 2012, while the number of employees increased from 25 to 30 in the same time period.
- Port Authority of Guam: Average salary grew by 25 percent (\$8.5K) from \$33.2K in 2008 to \$41.7K in 2012, while the number of employees increased from 345 to 361.

The analysis also covered government employees who received over \$100K in 2012 and from which agencies. As expected, some agencies had some positions whose salaries would be set within the \$100K range. Among the government employees employed in 2012, 252 of the 12,282 employees received a salary over \$100K with total salaries of \$34.3M (5 percent) of the cumulative personnel costs of \$675.6M. These employees came from 21 agencies with the largest number of employees coming from the Hospital (64 employees), the University (47), and Education (46).

We noted that not all employees who were compensated over \$100K in 2012 had a base salary of at least \$100K, as a number of employees received other pay (i.e. overtime, night differential pay, holiday pay, certification pay, etc.) For example, while there were 64 the Hospital employees with compensation over \$100K, 22 of them have a base salary less than \$100K, but other pay and the 24-hour nature of the Hospital allowed certain employees to earn in excess of \$100K.

There were wide ranges among the salaries of employees in agencies with similar service areas during 2012; specifically, among the education, public safety, health, and utility agencies. These priority areas

Table 3: Average Salaries by Largest Dollar Change

	Agency	2008	2009	2010	2011	2012	\$ Change FY08-12	% Change
1	GRTA	\$ -	\$ -	\$ 37,645	\$ 50,560	\$ 43,869	\$ 43,869	100%
2	GCEC	\$ 12,272	\$ 33,989	\$ 26,067	\$ 19,007	\$ 40,722	\$ 28,450	232%
3	GFD	\$ 58,497	\$ 66,325	\$ 73,587	\$ 75,360	\$ 76,477	\$ 17,980	31%
4	GIAA	\$ 43,645	\$ 47,676	\$ 48,642	\$ 51,738	\$ 53,942	\$ 10,297	24%
5	GEDA	\$ 36,184	\$ 40,523	\$ 47,505	\$ 50,173	\$ 45,842	\$ 9,658	27%
6	GPD	\$ 41,668	\$ 44,559	\$ 47,788	\$ 50,815	\$ 50,977	\$ 9,309	22%
7	PAG	\$ 33,234	\$ 34,089	\$ 38,320	\$ 40,379	\$ 41,688	\$ 8,454	25%
8	DYA	\$ 23,842	\$ 26,983	\$ 32,953	\$ 33,304	\$ 32,132	\$ 8,289	35%
9	GMHA	\$ 48,453	\$ 54,946	\$ 50,722	\$ 56,125	\$ 56,704	\$ 8,251	17%
10	DOAG	\$ 26,763	\$ 27,855	\$ 32,496	\$ 32,688	\$ 34,525	\$ 7,762	29%

accounted for 65 percent (\$442.4M) of the \$675.6M in total personnel costs in 2012.

Within the education agencies, 47 the University employees and 46 Education employees received over \$100K compared to two GCC employees. Employees that received over \$100K from these institutions held positions like President, Vice President, Professor, Dean, Comptroller, Deputy Superintendent, and others.

In the health agencies 64 the Hospital employees received over \$100K, compared to nine at Health and Social Services and four at the Department of Mental Health and Substance Abuse. Employees that received over \$100K from these agencies held positions like Physician, Hospital Pharmacist, Staff Nurse, Physician Specialist, Chief Pharmacist, and Psychiatric Nurse Administrator.

In the public safety agencies 25 Fire personnel received over \$100K in 2012, compared to two DOC employees and only one Police employee. Employees that received over \$100K held positions such as Fire Captain, Fire Service Specialist, Fire Battalion Chief, Correction Facility Superintendent, Firefighter I, and Police Sergeant I.

Similarly, within the utility agencies, 19 GPA employees received over \$100K in 2012, compared to three Waterworks Authority employees. Employees that received over \$100K held positions such as General Manager, Chief Financial Officer, and Engineers.

Conclusion

The analysis confirmed that within a five-year period, GovGuam personnel costs increased by \$86M (15 percent) to \$675.6M and employee counts increased by 402 (3 percent) to 12,282 employees. However, only some agencies experienced significant increases in personnel costs while others remained stagnant or even decreased in costs. The largest increases in personnel costs were in the priority areas of public education, public health, and public safety which were in line with past and current administrations' policies. The average annual salary of a GovGuam employee increased by 7 percent, from \$38.1K in 2008 to \$40.6K in 2012. Lastly, 252 employees of the 12,282 employees (2 percent) were compensated over \$100K, as of 2012.

Table 4: Agencies with Employee Salaries Over \$100,000

	Agency	No. of Employees	Total Salary Paid	Average Salary
1	GMHA	64	\$ 12,286,814	\$ 191,981
2	UOG	47	\$ 5,634,450	\$ 119,882
3	DOE ¹	46	\$ 5,248,085	\$ 114,089
4	GFD	25	\$ 2,671,535	\$ 106,861
6	GPA	19	\$ 2,231,179	\$ 117,430
5	Judiciary	12	\$ 1,495,124	\$ 124,594
7	DPHSS	9	\$ 1,135,631	\$ 126,181
8	OAG	6	\$ 650,571	\$ 108,428
9	DMHSA	4	\$ 610,133	\$ 152,533
10	PDSC	4	\$ 437,775	\$ 109,444
11	GWA ⁴	3	\$ 312,732	\$ 104,244
12	DOC	2	\$ 261,797	\$ 130,898
13	GCC	2	\$ 237,245	\$ 118,622
14	GIAA	2	\$ 210,259	\$ 105,130
15	CME	1	\$ 197,995	\$ 197,995
16	DOA	1	\$ 126,437	\$ 126,437
17	PAG	1	\$ 111,405	\$ 111,405
18	GGRF	1	\$ 103,318	\$ 103,318
19	AGR	1	\$ 101,806	\$ 101,806
20	GPD	1	\$ 100,144	\$ 100,144
21	OPA	1	\$ 100,006	\$ 100,006
	TOTAL	252	\$ 34,264,440	\$ 135,970



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Sounding the Alarm: Using Non-Audit Services to Disseminate Timely Human Resources Audit Findings

In 2011, the Denver Auditor's Office alerted city leadership of our recurring findings that the governance structure of the city's human resources function was flawed and of our belief that it needed timely reassessment. The collective findings of four performance audits conducted in the year leading up to our sounding the alarm exposed serious flaws with the city's human resources model. The range of audit findings included concerns about the agency's lack of transparency and accountability to policymakers, taxpayers, and employees.

These findings surfaced during a time of transition for the city, when a new mayor had just taken office and the city was facing the challenges associated with an ongoing budget deficit. Accordingly, rather than wait for the two yet-to-be-released audits to be formally presented to the city's independent audit committee, we revealed our concerns through one of our non-audit services, which we call an Audit Alert. The purpose of an Audit Alert is to quickly communicate significant audit issues or concerns about fraud, waste, or abuse that have come to the attention of the Denver Auditor's Office through an audit or other work, which require immediate action or review by management.

Through the Alert, we revealed two areas of concern about the city's human resources function, which at the time was known as the Career Service Authority (CSA). First, we identified significant accountability and transparency issues with activities

surrounding the CSA administration. Second, our numerous audit findings raised serious questions about the ability of the CSA oversight body—the CSA Board—to effectively govern the agency. Although an Audit Alert does not require the formal written response of a performance audit, we nonetheless concluded with recommended action and next steps for the Mayor and City Council to address the issues identified in the Alert.

Denver's Human Resources Function Lacked Accountability and Transparency

The governance structure of the CSA posed a number of serious concerns with regard to the CSA Board. None of the Board members were elected and they did not report to the Mayor, the City Council, or any other entity. Further, there was no provision for removing a CSA Board member prior to the expiration of his or her five-year term. In effect, there was no entity or mechanism by which to hold the CSA Board accountable. This was concerning for an entity with so much power. The Board is responsible for upholding and maintaining the city's merit-based personnel system, overseeing the broader CSA agency, creating and amending personnel rules, making recommendations to City Council regarding compensation and benefits, and appointing the director of the agency as well as the officers who carry out administrative hearings regarding personnel issues, including disputed terminations.

Compounding this accountability issue was the fact that CSA Board members were not required to possess any specific credentials or expertise that would have been relevant for making rulings on matters of law when deciding the outcome of appealed CSA personnel cases. They did not have to possess any relevant experience in personnel management or employment law.

We were further troubled to discover that the CSA Board was not legally obligated to cooperate with our audits. This runs contrary to one of the key principles of our broad independence and authority as granted by the City Charter. The Mayor, members of City Council, and the Clerk and Recorder as officers of the City are required to comply with audits; however, the City Attorney's Office determined that CSA Board members as officials of the city could not be compelled to participate in the audit process. Despite cooperating with audit work in 2009, the Board reversed its position and refused to cooperate in subsequent audits.

Numerous Audit Findings Raised Serious Questions about the CSA Board's Ability to Effectively Govern

In addition to having concerns about the governance structure of the CSA Board, our four audits collectively identified a range of serious performance issues related to CSA oversight and operations. Many of these shortcomings could have had a direct impact on city employees. For example, the CSA did not have a specific definition for the city's merit system, nor did key personnel share a consistent view of what the components of the merit system should include. Further, the CSA Board lacked a clearly documented compensation philosophy, despite approving a merit increase tool in the absence of such a guiding philosophy. We also found that the CSA Board failed to effectively monitor, assess, and improve the Career Service hearing process, by which city employees are to be provided a fair, neutral, and efficient process for appealing employment decisions.

Internally, CSA lacked measures that would have held leadership accountable for the agency's performance. We found that the agency had little ability to monitor and report on its performance. Monitoring and collection of performance information was inconsistent, and the performance indicators that were being monitored yielded little information about efficiency and effectiveness. Additionally, 37 percent of CSA agency employees were not receiving timely annual performance evaluations, and the Board's monitoring of the performance of the CSA Director was informal and minimally documented.

Deciding to Issue an Audit Alert

The cost of employee-related expenses and personnel salaries for CSA employees was more than \$570 million dollars annually at the time of our findings. With an ongoing budget deficit of approximately \$100 million, city policymakers needed to find ways to permanently reduce the budget without unduly impacting the quality of services. Considering the city's economic duress, we saw it as an optimal time for city leaders to consider whether the entity that is

responsible for a significant City cost to taxpayers was operating in the most cost-effective manner; with appropriate transparency and accountability; and with the nimbleness, flexibility, and innovation to oversee the best possible human resource system in austere times. Further, the CSA agency and its governing Board were created in 1954, during a very different era of public employee management philosophy and employee relations. The age of the program alone warranted another look at the appropriateness of the agency for present circumstances.

Denver was also transitioning under the leadership of new Mayor Guillermo Vidal, who had been appointed when his predecessor resigned to serve as the Governor of Colorado. Vidal held the position for six months before his successor Mayor Michael Hancock was sworn in. A few months before we issued our Audit Alert in May 2011, Mayor Vidal appointed a Structural Finance Task Force to assess the City's ongoing misalignment between revenues and expenditures, and to recommend methods of altering the structure and operations of the City to perform its roles with less revenue. We issued the alert in the spirit of providing the outgoing Vidal and incoming Hancock mayoral administrations and City Council members, as well as members of the Structural Finance Task Force, with timely and critical information regarding one of the City's largest and most important cost centers.

To address the structural flaws of the Career Service model and ongoing failure of the CSA Board to effectively govern, we recommended that the incoming Mayor and City Council should convene a taskforce of leaders from the community and human resources professionals to assess the efficacy of the Career Service model including the CSA Board, the CSA agency, and the Career Service Hearing Office.

The CSA Today

Our Audit Alert on the state of the CSA generated ample discussion. Many city officials agreed with our assessment of the situation and conceded that we had communicated what had needed to be said for many years. The media attention highlighted the heated nature of the topic, especially in the responses of CSA leadership who interpreted the alert as an attack on the agency's credibility. However, the Mayor's office publicly supported our recommendation to convene a task force to assess the efficacy of the CSA model.

Since then, the agency has changed its name to the Office of Human Resources (OHR) and has hired a new director. Some positive changes have been made, but many of the recommendations that we issued formally through our four audits have yet to be implemented. This lack of real change underscores the

difficulty associated with making sweeping change within governmental entities.

Assessment of the CSA—now OHR—remains a priority for our office. In 2015, we plan to audit the agency’s administration of the Family and Medical Leave Act. In 2016 and 2017, we intend to examine

city employee engagement as well as the agency’s recruiting system, the shared-services approach to human resources support, and procurement and oversight processes for select social service contracts. We hope that under new leadership, our audits will gain more traction and that we can work with the OHR as a partner rather than a foe. ■



JUSTIN ANDERSON
Senior Management
Auditor, King County (WA)

Challenges and Rewards in Topical Human Resources Audits

Auditing human resources can be a challenging endeavor. Criteria can overlap multiple federal, state, and local laws and requirements. Processes can blend elements of individual work and information technologies systems. Yet challenges like these arise in many, if not most, audits. Human resources audits can present an additional directional challenge – just who and what, exactly, are being audited? The Human Resources Department, right? Maybe not. Answering this question is not as easy as it may seem – and critical to developing a feasible scope and ultimately an impactful audit report.

Background

King County has a highly decentralized human resources system. In 1992, King County voters decided to merge the county with a local regional government service provider called Metro. Then, as now, the county provided services typical of large urban counties: the sheriffs, corrections, courts, elections, and municipal services in unincorporated parts of the county. The merger with Metro added transit and regional waste and sewerage services into the county's existing lines of business.

The county and Metro had their own human resources systems, with different benefits structures. Today, the county has collective bargaining agreements with over 70 labor unions, representing over 11,000 of the county's roughly 13,000 employees.

The Challenge of Decentralization

Like most municipalities, King County has a set of personnel-related ordinances (in Title 3 of the King County Code). They include the personnel system: the standard

structure of employment, classifications, working conditions, and benefits available to King County employees. But these requirements are not uniform. Each of the labor contracts can have its own take on the human resources relationship with the county, including different working conditions, leave benefits, or procedures that modify the standard structure of employment in County Code. And if a contract conflicts with that code, the contract controls.

The collective history of the county's Metro merger, and years of individually negotiated employment provisions, is that the county does not have a central Human Resources Department in the traditional sense. Instead, human resources decisions are made and managed at the departmental level, with human resources providing support in more of a consulting, advisory role.

Auditing Human Resources – Not the Department

A quick Bing search comes up with lots of seemingly straightforward guidance on human resources audits, including checklists and references with helpful suggestions on where to get started. For instance, you might start with the hiring process, or employee compensation. But when these requirements differ across county departments and agencies, the picture becomes muddier. How do you audit processes that may be non-standard 70 times over without taking months or years – or narrowing the audit scope so much that you lose the audit's potential impact?

The simple solution is the most obvious: choose a large department (or two or three), and audit their human resources administration as if it were its own department. But that approach, while logical, can blunt the breadth of impact of the audit work. In developing our work program, we

instead chose topical audits that addressed components of the human resources environment. This past May, the King County Auditor's Office completed an audit of Part-Time Employment at the county, and have a pending audit on Family and Medical Leave Administration for presentation in February.

Challenges in Conducting Topical Human Resources Audits

In conducting our Part-Time Employment Audit, we challenged the conventional wisdom of some county leaders: that the county had a large number of part-time employees who were unnecessarily part-time. Using the county's PeopleSoft business resource system, we were able to identify those employees in part-time positions at the county, their department, division, and unit, and ultimately their job and bargaining unit. We then interviewed knowledgeable management and human resources professionals in the five departments with the largest numbers of part-time employees, and compared our county-wide policy guidance and numbers of part-time employees with peer counties.

We found that a couple key factors drove the relative use, or lack thereof, of part-time positions in county agencies. First, the policy guidance on part-time employment across the county was lacking. A few units were able to articulate specific business needs that drove the use of part-time positions; these units included provisions within their collective bargaining agreements that addressed part-time positions.

Second, we found that the county's method for allocating benefits was complex and could effectively discourage part-time work. As set up in the County Code, the personnel system determines eligibility for benefits based on membership in the career service: full benefits for career service employees and no benefits for non-career service employees. The County Charter categorically defines most employees who work more than a half-day as career service, and those who do not as not career service (with specific exceptions for quasi-independent functions like prosecutors, court employees... and auditors.). The result is that the County has, essentially, an all-or-nothing threshold for benefits with the parallel result that employees, in most cases, cannot contribute pro-rata to their benefits in exchange for options to work part-time (e.g., contributing 20 percent of the cost of benefits to work 80 percent time) unless specifically bargained for within their union contract. Our recommendations focused on better defining the business case for part-time positions, including developing opportunities for employees who may be interested in part-time work, as a potential tool for employee recruitment and retention.

We adopted a similar topically based approach for our Family and Medical Leave Audit. We reviewed the family and medical leave data available within PeopleSoft, and identified agencies with large raw and proportional numbers of family and medical leave users. We engaged human resources experts at ten county divisions to determine their procedures for administering family and medical leave, comparing them with peer counties and best practices from experts such as the Society for Human Resources Management.

Auditing Family and Medical Leave administration turned out to be a much more challenging topic. First, the interrelationship of federal, state, and local leave laws and regulations is complicated and depends on the particular circumstances of the employee. We quickly learned that differing standards between the family and medical leave benefit in county code – which originally dated to before the federal Family and Medical Leave Act (FMLA) – presented a significant challenge to leave administrators. For example, federal law specifies that FMLA leave is not a mandatory paid leave benefit. FMLA time can be paid or unpaid so long as the employee is job-protected and allowed to return to work. But the county's additional family and medical leave, referred to as KCFML, is generally required to be unpaid, unless terms differ in the employee's specific collective bargaining agreement. Thus, some county employees' KCFML leave runs concurrent with FMLA and paid sick leave, while for others KCFML is additional family and medical leave that starts only when the employee has exhausted their accrued paid sick leave.

Departments processed family and medical leave administration differently because of the county's decentralized human resources structure. Some departments started the process after three days of observed leave, others after five. Time management systems for unpaid leave differed among departments. Departments also delegated different levels of responsibility to timekeepers, supervisors, and employees regarding leave time entry. As a result, during the Family and Medical Leave Audit, we were confronted by significant data reliability problems not present during the Part-Time Employment Audit.

We also faced the challenge of conveying who was ultimately responsible for the inefficiencies and gaps we observed: the departments themselves, or the lack of centralized authority? Ultimately, we found that decentralization of human resources was either the cause or a contributing factor in many of the weaknesses we observed in family and medical leave administration. Our recommendations were more technically focused on addressing these problems

through sufficient central support mechanisms for leave timekeeping and consistency in administration.

Simplifying Complicated Findings in Topical Human Resources Audit Reports

Both of these audits could be characterized as “mythbuster” audits in that there appeared to be an assumption among county managers regarding each topic; the subtext of our audit work was to address those assumptions. As a result, we found that a question-and-answer reporting approach allowed us to best communicate the audit work, findings, and recommendations. An example paragraph from our Part-Time Employment Audit is shown in Exhibit A.

The question-and-answer approach allowed us to challenge conventional wisdom and communicate the audit work and resulting findings in a conversational tone. It also helped us present the results of potentially confusing technical analysis in an unassuming manner, making the report easier to consume for stakeholders who are not experts in the County Code or labor agreements.

Conclusions

Using a topical approach to human resources audits allows for pertinent, direct impact on human resources practices that may be spread across diverse organizations. In the case of King County, hundreds of supervisors are responsible for managing part-time employees, requests for part-time, or employees on family and medical leave. By choosing a topical approach, auditors can identify weaknesses and

problems in human resources-related practices at the source, rather than auditing administrators who may not be directly responsible for the processes or policy.

In developing a topical human resources audit, determining the approach to the audit and narrowing the audit scope and objectives early in the project is absolutely crucial. During the Family and Medical Leave Audit, as the depth of the fieldwork and analysis became apparent, we were confronted by the risk of too broad a scope and objectives and had to reevaluate our strategy for completing the work. We were able to overcome these challenges, but not without a few anguished moments. Narrow the topic to something easily defined and understood by laypersons and administrators, allowing the work plan to obtain the breadth of material needed to address the practice across the organization.

Finally, in selecting topics for human resources audits, try to audit particular aspects of the human resources system that seem most relevant to pending systemic and societal change. For example, King County has a major initiative to address the archaic structure of job classifications and lack of standardization across county departments called the “Employer of the Future.” Our topical audits relate to that initiative by independently examining, in greater depth, assumptions underlying its components. As auditors, we add value not only in auditing human resources practices themselves, but also in auditing those practices that are barriers to larger systemic change and improvement. ■

Exhibit A: Snapshot of question-and-answer report structure

How does part-time employment at King County compare to peers?	King County covers more of the benefits costs of part-time employees than peers. We interviewed both local government and transit peers and found the other jurisdictions’ utilization of part-time employment and provision of health benefits varied widely. ¹⁰ The majority of jurisdictions we spoke to use part-time employment to supplement their regular work force; however, the range of benefits coverage varies.
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Submitting Abstracts

FOR ABSTRACTS

1. Log on to algaonline.org. You must log on to view and access the form.
2. Navigate to the online submission form: Resources > Abstracts > Submit an Abstract.
3. Enter (type or copy/paste) and submit your abstract details as prompted in the form.

Abstract Summaries and Descriptions will not be published in the Quarterly, but will be displayed and searchable online. For the Summary, please provide a single paragraph describing what you did and what you found. The description may include scope, background, objectives, significant findings, unique methodologies, recommendations, or other information you wish to share with ALGA members.

Suggested Abstract Categories include the following:

- Finance
- Housing & Social Services
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- Miscellaneous



The screenshot shows the ALGA website interface. At the top, the ALGA logo and name 'Association of Local Government Auditors' are visible, along with navigation links for 'About', 'Resources', 'Training', 'Publications/Media', and 'Audit Excellence'. A search bar is located in the top right corner. The main content area is titled 'Form Center' and includes a 'My Saved Forms' button. Below this is a 'Search Forms' section with a text input field and a 'Select a Category' dropdown menu. The 'Abstract Submittal Form' section is titled 'Submit Your Abstract' and contains several required fields: 'Audit Name*', 'Release Date*' (with a 'Date' label), 'Audit Shop Name*', 'Audit Category*' (a dropdown menu with '-- Select One --'), and 'Audit Summary*'. A left sidebar contains various navigation options under 'Member Tools', including 'Notify Me', 'Member Directory', 'Abstracts', 'Auditor Forum', 'Register for Training', and 'Quarterly Archives'. There are also buttons for 'Build an Audit Function', 'Support for Members', and 'Join Today!'.

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Articles may be submitted for any topic, but those relating to advertised themes will receive first priority in any given Quarterly. Upcoming themes and submission titles are as follows:

- Spring 2015: Auditing Transportation (due February 15)
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1. Log on to algaonline.org.
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Format guidelines:

- One page is roughly equivalent to 450-500 words.
- Target length is a maximum of 1,500 words, which translates roughly to four pages with the inclusion of visual elements such as photos or charts.
- For each article, please include a suggested headline, author's name, title and organization represented.
- Article text should be submitted in an unformatted Word file.
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