



## **Follow-up of Audit of the Human Resources Division**

**Audit #01-03**

Prepared By  
**Office of Inspector General**

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## SOUTH FLORIDA WATER MANAGEMENT DISTRICT

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MGT 08-06F

June 1, 2001

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RE: Follow-up to the  
Audit of the Human  
Resources Division –  
Audit #01-03

This follow-up audit was performed pursuant to the Inspector General's authority set forth in Chapter 20.055, F.S. The audit focused on determining whether District HR operations are comparable in cost and services to other organizations, and the implementation status of the recommendations made in the *Audit of the Human Resources Division* issued on October 21, 1996. Our audit compared the HR organization as it currently exists with the organization as it existed in FY95. Field work was conducted between April 2 and May 4. This report was prepared by Chris Flierl.

Sincerely,

Allen Vann  
Inspector General

AV/cf  
Enclosure

c: Frank Finch

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## Background

On October 21, 1996, the Office of Inspector General issued the *Audit of the Human Resources Division*. The audit contained 15 recommendations for improving various aspects of the District's human resources operations. We were asked by the Executive Director and Governing Board to perform a follow-up of this audit to determine the current status of Human Resources at the District.

## Objectives, Scope, and Methodology

The objectives of this report were to determine:

- whether District HR operations are comparable in cost and services to other organizations, and
- the implementation status of the recommendations made in our HR audit.

In order to achieve our objectives, we determined the implementation status of the recommendations found in the audit. District HR performance measures were computed and compared to those reported in the audit and with current industry measures reported in the Society for Human Resources Management and the Bureau of National Affairs, Inc. HR Survey for 1999-2000 (the "Survey")<sup>1</sup>. We reviewed the current HR organization charts and compared them with the organization as it existed at the time the Audit was issued. Activities that the District HR Department currently performs and tasks that are outsourced were compared to those reported in the Survey. We researched HR outsourcing in the professional literature and also reviewed what the State of Florida Department of Management Services is doing with regards to HR outsourcing.

Our audit was conducted in accordance with generally accepted government auditing standards.

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<sup>1</sup> Participants include 456 geographically dispersed organizations of various types (manufacturing, non-manufacturing, and non-business), and sizes (less than 250 employees to over 2,500).

## Findings and Recommendation

### SUMMARY

District HR staffing levels and expenditures are excessive compared to similar organizations. Two performance measures, HR Staff per 100 Employees and HR Expenditures per Employee, have increased since the Audit and currently do not compare favorably with other organizations. The increase can best be explained as the result of a reorganization<sup>2</sup> that made District HR comparable to other organizations but increased HR staff by 40%. The reason that these measures of HR efficiency are well above current median industry ratios can be attributed to the high number of services that the District HR Department provides combined with the high costs of delivering those services. The District should explore outsourcing alternatives, similar to the State of Florida Department of Management Services, to determine to what extent the high cost of delivering HR services is a result of inefficiency. Outsourcing the high-volume transactional HR processes could potentially free up resources to engage in more strategic HR activities such as long-range human resources planning. In his response, the Executive Director indicated that HR will issue an RFI in FY02 as recommended. Further, management will engage in an evaluation of HR support areas to determine what services can be reduced or eliminated.

Ten of the 15 recommendations made in the *Audit of the Human Resources Division* have been fully implemented. Of the remaining five, one is in process, one has been partially implemented, one is no longer applicable, and two have not been implemented. Of the two that have not been implemented, the recommendation for HR to perform long-range planning is one of the more significant recommendations from the audit. HR reaffirmed its commitment to implement this recommendation in concert with the development of a District strategic plan.

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<sup>2</sup> The reorganization occurred in FY98 and was the result of the Johnson & Johnson Associates, Inc. Enterprise Reengineering Project Report.

**DISTRICT HR COST AND STAFFING LEVELS ARE EXCESSIVE COMPARED TO SIMILAR ORGANIZATIONS**

Our analysis of the District’s HR Department revealed that since our audit HR expenditures and HR staff levels have grown considerably higher than other organizations of similar size and type. We found that this is due, in part, to the wide range of activities that the District’s HR Department engages in combined with higher than average costs. The District should reassess the activities that HR is performing and strive to compare more favorably with similar organizations. To this end, consideration should be given to outsourcing certain HR functions, similar to what the State of Florida’s Department of Management Services is currently doing.

We computed two HR performance measures, *HR Staff per 100 Employees* and *HR Expenditures per Employee*, and compared them with current industry data, with the ratios reported in the previous audit, and with two other water management districts. These ratios are measures of the efficiency of HR, and provide an indication as to how well HR is using its resources. Both measures have increased since our last audit and both measures are currently well above industry medians. However, when compared to other water management districts (WMD’s), the District’s ratios compare favorably. The reason for the increase since 1995 is a District reorganization that made HR more comparable to other organizations. The reasons for the current high ratios are a result of the relatively wide range of HR activities performed at the District, the number of people assigned to HR functions, and budgeted cost of the HR Department.

Following is an analysis of the HR performance measures.

HR Staff per 100 Employees*	District HR Averages	Selected Industry Statistics <sup>3</sup>		
		Low	Median	High
District - 1995	1.20	.22	.8	2.70
District - Current	1.42	.09	.6	2.30

\* Does not include Health & Wellness, Payroll, or indirect costs.

<sup>3</sup> Industry statistics are for organizations comparable in size. As such we did not include the 2 FTE’s for the Occupational Health Section in computing the District ratios.

There are currently 1.42 HR staff per 100 employees at the District. This is 2.37 times the median reported in the survey conducted by the Society of Human Resource Management. Note that this ratio has increased 18% at the District since 1995 while it decreased 25% at other organizations comparable in size to the District<sup>4</sup>. We did, however, find that the District compares favorably with other water management districts.

The other performance measure that we benchmarked was *HR Expenditures per Employee*.

HR Expenditures per Employee*	District HR Averages	Selected Industry Statistics		
		Low	Median	High
District - 1995	\$1,113	\$156	\$700	\$3,257
District - Current	\$1,431	\$170	\$609	\$3,181

\* Does not include Health & Wellness, Payroll , or indirect costs.

The median for this measure has decreased by 13% among organizations similar in size to the District while it increased dramatically, by 29%, at the District. The District's current ratio is 2.3 times the median. As with the *HR Staff per 100 Employees Ratio*, the District compares favorably with other water management districts.

Notwithstanding, one of the primary reasons for the increases in these two measures is that the HR structure is different from what it was in 1995. A reorganization occurred that moved Benefits under HR, thus increasing the HR staff level and HR budget. This move made the District more comparable with other organizations. Additionally, other HR staffing increases occurred. (An analysis of the change in the HR organization structure can be found at page 6.)

While comparatively high, the \$1,431 of HR expenditures per employee does not represent the total cost per employee for HR related activities. When the cost of all HR functions and District overhead are factored in, HR expenditures per employee approaches \$2,100 per employee. A breakout

<sup>4</sup> One of the factors that impacts this ratio is the extent to which HR is decentralized. The Audit of the Human Resources Division noted that in organizations where a single HR department serves the entire workforce, like the District, the median staff ratio is higher. In the 1995 Survey the median ratio was 1.10. Accordingly, the Audit concluded that the District's ratio of 1.2 compared favorably to industry statistics. The current Survey, however, does not present this data so this comparison can not be made.

of the staffing levels and costs associated with the various HR functions follows.

Functional Area	Number of Employees	Wages, Salaries and Benefits	Other Than Personal Service Costs	Total Budget	HR Staff Per 100 Employees	HR Expenditures per Employee
Staffing	9	\$ 518,268	\$ 360,879	\$ 879,147	0.49	\$ 480
Develop.	5	370,587	240,254	610,841	0.27	334
Comp.	3	209,111	30,008	239,119	0.17	131
Relations	1.5	126,863	175,010	301,873	0.08	165
EEO	1.5	76,999	9,350	86,349	0.08	47
Benefits	3	197,506	33,649	231,155	0.16	126
Support	3	233,954	36,650	270,604	0.17	148
<b>Subtotal</b>	<b>26</b>	<b>\$1,733,288</b>	<b>\$ 885,800</b>	<b>\$2,619,088</b>	<b>1.42</b>	<b>\$1,431</b>
Health & Wellness	2	46,303	55,195	101,498	0.11	55
Payroll	2	91,000	15,700	106,700	0.11	58
<b>Subtotal</b>	<b>30</b>	<b>\$1,870,591</b>	<b>\$956,695</b>	<b>\$2,827,286</b>	<b>1.64</b>	<b>\$1,544</b>
Indirect Cost				\$1,010,755		
<b>Total Cost</b>				<b>\$3,838,041</b>		<b>\$2,097</b>

Source: FY 2000-2001 Budget, Programmatic Detail Report and District organization charts.

The District's ratios used to compare the District to industry data (pages 3 and 4) are found at the first "subtotal" and are exclusive of payroll, health wellness, and indirect overhead. In order to get a complete depiction of the cost of HR operations, we further added Health & Wellness, Payroll (typically an HR function), and an indirect cost rate based on total costs of 35.75%.



The reorganization of HR was a factor in the increase in both HR staffing and expenditure ratios. The following table compares HR as it existed at the time of our past audit with the current organizational structure.

Unit	Staff Size	
	New	Old
HR Director	1	1
Employment	9	8
EEO	1.5	1
Employee Relations	1.5	1
Employee Development <sup>5</sup>	5	4
Benefits	3	N/A
Occupational Health	2	N/A
Compensation	3	4
Support	2	1
<b>Totals</b>	<b>28</b>	<b>20</b>

Source: Old - Audit of Human Resources Division;  
New – District organization charts.

As can be seen, the HR department increased by eight positions. The Employment and Employee Development Unit each increased by one position while Employee Relations and EEO increased by one half. Support staff increased by one, offset by a one position decrease in the Compensation Unit. The single largest increase in HR, 5 positions, is attributable to moving Benefits and the Occupational Health Nurse to HR from Risk Management. The moving of these two functions to HR is appropriate. The BNA Survey indicates that most Benefits and Health & Safety activities are assigned to HR. As such, the current organizational structure provides a more realistic and appropriate comparison when benchmarking HR with other organizations. This, however, does not explain or justify why the District’s HR staffing and expenditure ratios are so high compared to current industry data.

There are two primary factors that effect staffing and expenditure ratios, 1) the range of HR services provided, and 2) cost. HR departments with fewer responsibilities should have lower HR staff and expenditures per employee ratios. Conversely, if an HR department manages a number of functions and programs that are typically outside HR’s specialty areas the staffing levels and expenditures of the department may be higher than the median numbers reported. Based on industry data, the District’s HR

<sup>5</sup> Employee Development and Compensation Units are currently combined under one manager.

Department performs a level of service that is above the median for similar organizations but not outside of the HR field.

The BNA Survey identified 55 different HR tasks and activities performed by HR of which the District performs 51. This is substantially above the median number of HR activities performed by non-business<sup>6</sup> organizations of 44<sup>7</sup>. Activities performed by the District that were least often performed (less than 70%) by Survey participants include:

- Productivity/quality enhancement programs (64%)
- Flexible spending account administration (64%)
- Suggestion systems (64%)
- Cafeteria benefits plan administration (62%)
- Attitude surveys (62%)
- Relocation services (61%)
- Pre-retirement counseling/retirement planning (59%)
- Outplacement services (53%), and
- Union/labor relations (37%)

Further, District HR reported that in addition to the 55 activities identified in the Survey, they perform other tasks including:

- Applicant travel
- Minority and other outreach
- Organization Charts
- Span of control review and reporting
- Family leave
- ADA administration
- Sexual harassment training
- Diversity training, and
- Accident reporting

As can be seen, the HR Department at the District provides a variety of services beyond those of a typical HR organization. While this may provide some explanation of why the District's ratios are significantly above the medians reported in the survey, the possibility that inefficiencies are also a factor should not be ignored. One way to determine whether costs that the District is currently spending on HR functions are reasonable would be to seek information from private sector companies that provide HR services. A discussion of outsourcing HR functions follows.

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<sup>6</sup> Non-business organizations include hospitals, educational organizations, and government agencies.

<sup>7</sup> The other WMD's reported that they perform 44 activities each.

## **OUTSOURCING HUMAN RESOURCE FUNCTIONS SHOULD BE CONSIDERED**

The level of HR outsourcing at the District is comparable with that of similar organizations, further calling into question the high costs and staffing levels associated with the District's HR Department. The Survey asked respondents to identify those functions that are partially or completely outsourced. Of the 55 activities identified in the Survey only 13 were reported as being outsourced. They are as follows:

<b>HR Activity</b>	<b>Outsource %</b>
Employee Assistance/counseling	43%
Pension/retirement plan	27%
Outplacement services	22%
Benefits (Other than pension/retirement)	21%
Training	20%
Payroll	20%
Relocation Services	15%
Pre-employment testing	14%
Recruitment (excluding temps)	11%
Compensation planning/design	6%
Wellness program	5%
HR Information System	5%
Health and safety	3%

Of the activities most often reported as being outsourced, the District already outsources the top three, along with some benefits (cafeteria plan and insurance benefits), executive compensation, and the health/wellness program. Additionally, aside from the commonly outsourced activities, the District outsources a portion of pre-retirement counseling/retirement planning, attitude surveys, and union/labor relations. Based on this, the District outsourcing of HR tasks appears to be consistent with what other organizations are outsourcing. However, the level and type of outsourcing done by the District while comparable with other organizations has not reduced either staff levels or costs.

A more substantive outsourcing effort is currently underway at the State of Florida's Department of Management Services. The state agency is currently in the process of seeking vendors to perform the related

transactional processes involved in payroll preparation and personnel operations. This is consistent with the professional literature that suggests that the best scenario for HR outsourcing success occurs when high volume transactional processes are outsourced. This includes advertisement of vacancies, timesheet processing, processing of new employee appointments, classification orientation, leave and use accrual, payroll, benefit enrollment, and maintenance of employee records. The State is not considering outsourcing the selection of qualified candidates, labor relations, discipline, grievances, or collective bargaining responsibilities. The State stresses that outsourcing is to be used as an alternative only if the business case analysis results in it providing an advantage over performing the services in-house.

During our fieldwork we visited a private company in West Palm Beach that performs most and sometimes all of the HR functions previously discussed on behalf of their client companies. The cost of using such a firm to perform many of the process and transactional functions of the District HR Department could result in substantial savings.

By delegating support responsibilities, HR can focus on its core competencies while at the same time reducing operating expenses. It is our hope that freeing resources from performing routine HR tasks would allow HR to perform more mission critical tasks such as long-range HR planning, a recommendation made in the audit that has not been implemented. The following section discusses the implementation status of all of the recommendations made in the HR Audit.

**Recommendation:**

**We recommend that the District issue a Request For Information to evaluate options for outsourcing existing human resource and personnel services and, if found to be in the best interest of the District, to enter into a contract to replace existing functions.**

**Management Response:**

We concur with the recommendation. HR will issue an RFI using FY02 funding to explore what options make the best business case for outsourcing of the HR functions currently being self-performed. Prior to doing this, we will engage in an evaluation of all support areas currently provided by HR to see which, if any, of these activities can be terminated. It should be noted that HR has already made significant strides in the areas of benefits administration, records management,

and recruiting, all of which have in common the outsourcing or elimination of redundant “transactions” in the areas to which they pertain. Nevertheless, we welcome the opportunity to make positive changes where warranted and believe the approach above gets us there.

**Due Date: February 2002**

**Responsible Department: Human Resources**

## **AUDIT FOLLOW-UP OBSERVATIONS**

Of the 15 recommendations in the Audit, ten have been fully implemented, one is in process, one is partially implemented, two have not been implemented and one is no longer applicable. The status of each recommendation and a discussion of the action that the District has taken follows.

### **Recommendation #1**

*Consider the merits of reinstating the Sick Leave Incentive Program.*

#### **Status - Implemented**

Agency Action - The Sick Leave Policy has been re-instituted in its original form and has been in effect since the calendar year ended December 31, 1998.

### **Recommendation #2**

*The District should consider the costs and benefits of negotiating the Employee Assistance Program contract as a fixed annual fee rather than the present per visit basis.*

#### **Status – Implemented.**

Agency Action – The EAP Program has been negotiated on a fixed fee basis since the audit was issued. According to the District contract manager, this has resulted in savings of approximately \$38,000 over a two year period.

### **Recommendation #3**

*The District in concert with Human Resources should prepare and annually update a long-range Human Resources Plan that incorporates the activities outlined.*

#### **Status - Not Implemented.**

Agency Action – Management concurred with the recommendation and committed to its implementation by October 1997. To date, no such plan has been prepared.

Auditors' Comments - With the advent of new major programs accompanied by the expansion of certain business groups, the need for a disciplined and methodical approach to staffing is all the more vital.

Management's Comments - HR concurs that a long-range plan should be implemented. This will be done in concert with the District's strategic plan which is in development by the Office of Performance Management, Executive Office.

### **Recommendation #4**

*The Compensation Unit should set a goal of performing job group salary surveys biennially.*

#### **Status - Partially Implemented**

Agency Action - A plan was developed for achieving the goal of surveying all District job categories every two years. However, HR has not been able to achieve this goal. Instead, a strategy has been adopted of performing salary surveys when such surveys can be justified, i.e. when the turn-over rates for a particular job class are unacceptably high. While this does not represent a full implementation of the recommendation, it is an efficient way of allocating the limited resources that HR has to perform these surveys. In addition, HR has included funds in the FY02 budget to engage a consultant to assist staff in this effort. Final levels of budget commitment will come from the budget process now underway.

### **Recommendation #5**

*The District should finalize and approve the harassment policy.*

#### **Status – Implemented**

Agency Action - Harassment is incorporated into the EEO rule that was adopted by the Governing Board on July 9, 1998.

### **Recommendation #6**

*The District should require mandatory sexual harassment training for District employees and supervisors.*

#### **Status – Implemented**

Agency Action - The EEO Rule, that addresses sexual harassment, requires that managers and supervisors arrange EEO training for their staff.

### **Recommendation #7**

*The draft Termination and Separation of Employment and Terminating an Employee procedures should be completed and issued.*

#### **Status – Not Implemented**

Agency Action – Management concurred with the recommendation and committed to implementing it by June 1997. To date, no progress has been made towards finalizing these procedures. A staff member will be assigned to complete this task during FY02 (January 02). The first draft has been completed but due to other priorities, the procedures have not been completed.



### **Recommendation #8**

*The Employment Unit should review submissions of Organization Charts to ensure that they flow logically and are uniform in appearance.*

#### **Status – Implemented**

Agency Action - We noted substantial improvement in the uniformity and flow of the District's organization charts immediately after release of the audit.

### **Recommendation #9**

*The Organization Chart and the Table of Organization should be consolidated.*

#### **Status – Implemented**

Agency Action - The recommendation was implemented prior to report issuance.

### **Recommendation #10**

*The District should formalize procedures for candidate evaluation and require the use of behavioral interviewing techniques. This will require formal training in behavioral interviewing for all hiring managers.*

#### **Status – Implemented**

Agency Action – The District's Recruitment Policy has been amended to require a standard candidate evaluation and the use of behavioral interviewing techniques.

### **Recommendation #11**

*We recommend that the Recruitment policy be updated and circulated to all employees. When it becomes necessary to change recruitment practices the Recruitment policy should likewise be updated accordingly.*

#### **Status – Implemented**

Agency Action - The latest revision of the Recruitment Policy is dated February 12, 2001. A email was send to all District employees on February 16, informing them that the policy has been revised.

### **Recommendation #12**

*All job application forms should explain the District's Nepotism policy and inquire whether the applicant has any relatives employed at the District.*

#### **Status – Implemented**

Agency Action - Job application forms, both electronic and hard copy, explain the District's nepotism policy and require disclosure of any relationships that may exist.

### **Recommendation #13**

*The Selection Authorization and Personnel Action form should include an acknowledgment that the Nepotism policy has been addressed by the District hiring manager.*

#### **Status – Implemented**

Agency Action - The Nepotism Policy is addressed in the approval section of the Personnel Action form.

### **Recommendation #14**

*The Nepotism policy should be amended to include how the Departments should administer this policy and identify who should review the application information in order to ensure that new hires meet the requirements of the policy.*

#### **Status – In Process**

Agency Action - A revised draft of this policy is currently being circulated.

### **Recommendation #15**

*Goals and performance measures for the Intern Program should be established.*

#### **Status – No Longer Applicable**

Agency Action – Management concurred with the recommendation and committed to implementing it by June 1997. Since that time, this HR managed program was eliminated (in FY01) during the budget process; however, interns are still being hired at the department level.