

Human Resources Audit

Define services and continue improvements

October 2004

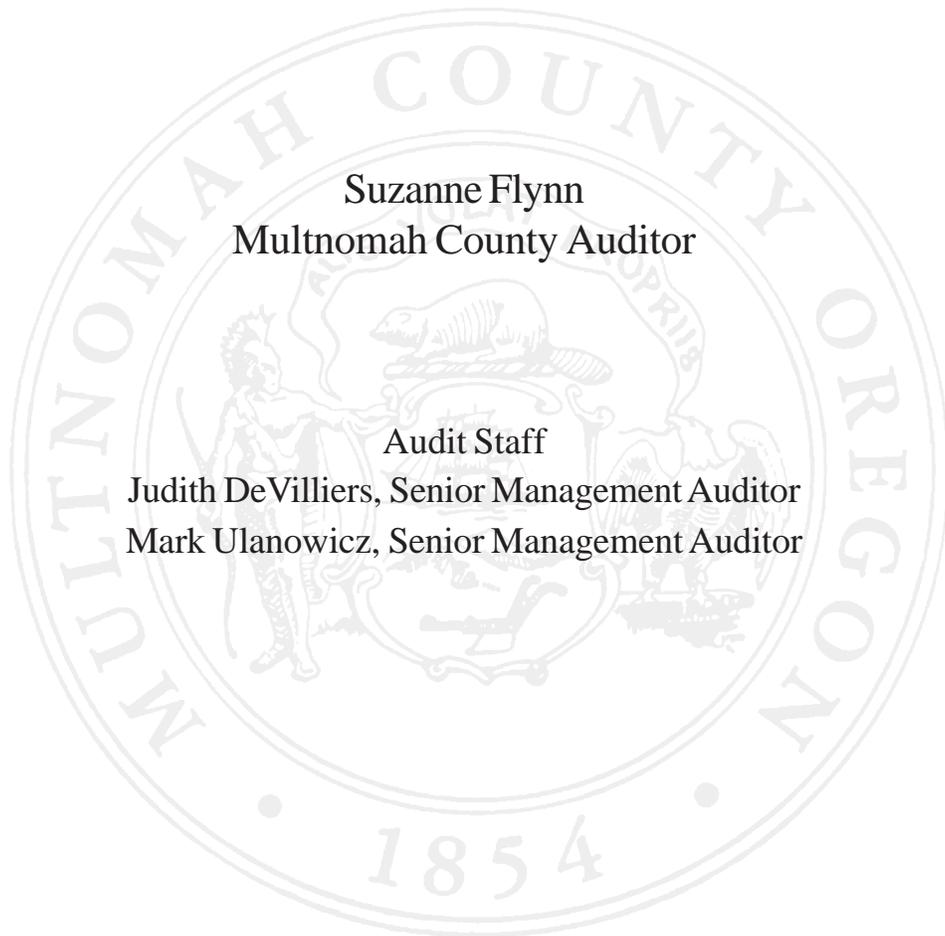
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MEMORANDUM

Date: October 28, 2004

To: Diane Linn, Multnomah County Chair
Maria Rojo de Steffey, Commissioner, District 1
Serena Cruz, Commissioner, District 2
Lisa Naito, Commissioner, District 3
Lonnie Roberts, Commissioner, District 4

From: Suzanne Flynn, Multnomah County Auditor

A handwritten signature in black ink, appearing to read 'Suzanne Flynn', is written over the printed name.

Subject: Human Resources Audit

The attached report covers our audit of the County's human resources function. This audit was included in our FY03-04 Audit Schedule.

This audit examined three areas, the reorganization of human resources (HR), the application of findings in our previous internal services audit to the reorganized HR Unit, and the reorganization of County internal services into a different business model. In each of the areas we found some promising improvements, but also found additional work was needed.

Attempting the reorganization of HR functions in a time of revenue shortfalls and employee layoffs was a challenging undertaking. It is not surprising the County was not able to consistently apply best practices or that it diverged from its initial plan. However, recruiting and retaining skilled County employees is central to the effectiveness of the organization. We hope that our recommendations will assist the HR Unit and County Business Services in improving its efforts.

We have discussed our findings and recommendations with management in the Department of Business Services and the HR Unit. A formal follow-up to this audit will be scheduled within 1-2 years.

We would like to acknowledge and thank the management and staff in County Business Services for the cooperation and assistance extended to us.

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Summary

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Multnomah County employees provide a range of services to the citizens of the County and represent about 49% of the FY03 County operating budget. The Human Resources Unit (HR) is responsible for hiring and retaining County employees to provide these services. These functions have recently been reorganized from a partially decentralized system with human resources staff as part of each department to a centralized system.

We found that Multnomah County was constrained in its ability to implement HR improvements. While some constraints, such as declining revenues, cannot be changed, others could be addressed by County leaders and management. Not addressing some of these problems may cause inefficiencies and could eventually put the County's ability to deliver services at risk.

To be most effective, the HR Unit needs to fit its efforts into a broader County-wide strategic plan. Such a plan does not currently exist. Without clearly articulated goals, there is a risk that HR will not be able to build and maintain the right workforce for the future. Further, the management of employee performance has lost its connection to any County-wide goals that still exist.

Some elements of the human resource system also need improvement. County departments have not been sufficiently involved in the development of performance measures. Without performance measures, the HR Unit or departments cannot evaluate success and make improvements in services. A newly created centralized recruiting function is not always meeting departmental needs and budget reductions have limited the HR Unit's ability to train and maintain a quality workforce. The system would also benefit from a review of the classification system, especially the relationship across classifications.

We also examined HR in light of a previously completed audit on County internal services. Since that audit, HR has been changed to an internal service and as such should meet the criteria established in the earlier audit. Not unlike other County internal services, HR has not yet adequately defined its services so that they can be compared to industry equivalents or allow a business-like approach. We believe the County's move to shared services

as a business model for its internal service functions is a good move and could accomplish this change.

Because of this, we examined the implementation of the shared services model and found that it could be improved. The County has diverged from recommended best practices and its original business plan.

To improve the County's HR functions we recommend that the County's leadership develop and articulate a strategic plan for the organization that can guide the HR Unit's efforts in developing workforce plans and evaluate HR systems. We also make recommendations that will improve the implementation of HR functions into a business model of a shared services organization.

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Background

Multnomah County employees provide a range of services to the citizens of the County, including medical care and other professional services for vulnerable citizens; library operation; maintenance of bridges and roads; and public safety. Hiring and retaining qualified employees is the major purpose of the human resource functions in the County.

Human resource functions generally include the following areas of responsibility: (1) staffing, (2) training and development, (3) compensation and benefits, (4) employee and labor relations and (5) health, safety & security. Human resource units develop systems designed to make the most effective and efficient use of any government's primary asset – its employees. In FY03, Multnomah County had 4,470 employees. Salaries and benefits for these employees was nearly 49% of the County's FY03 operating budget. As with most governments, the ability to deliver quality services to its citizens depends on the quality of the workforce.

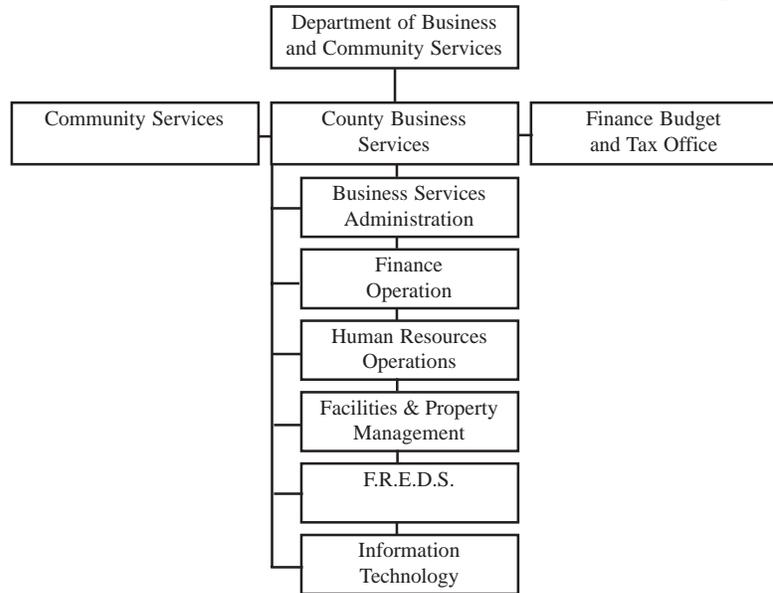
Human resource functions in the County have recently been reorganized from a partially decentralized system with human resources staff as part of department administration to a centralized Human Resource Unit (HR) located within the Department of Business and Community Services (DBCS) to be shared by all County departments. The FY05 budget for consolidated functions of human resources including the costs of payroll; recruitment; diversity, equity and affirmative action; labor relations, classification/compensation; HR consulting and HR maintaining; record keeping, wellness; and benefits administration was \$6,787,005. The cost of health and welfare benefits provided to all County employees and retirees in FY05 was budgeted at \$50,297,982

Most human resource functions including recruitment, administration and record keeping, labor relations, and consulting, were transferred to DBCS. However, some training and development functions and positions within departments remained a department responsibility. The new HR Unit became responsible for payroll processing, which was formerly a part of financial operations.

Some human resources responsibilities did not change. These formerly were centralized and continued as part of the HR Unit in DBCS. They include labor relations, compensation and benefits, diversity and affirmative action, personnel rules, merit system management, and safety and health programs.

Human Resources Organizational Chart

Exhibit 1



These organizational changes have been made in an unstable environment for the County which has recently experienced significant funding cuts. The number of County employees has decreased over the last five years from 4,803 in FY00 to 4,582 in FY04, and additional budgeted cuts of 115 FTE are planned for FY05. The additional workload for HR staff related to the downsizing of county personnel combined with extensive organizational changes have put a strain on both staff and dollars devoted to HR functions in the last year.

County employees FY00 to FY04

Exhibit 2

	FY00	FY01	FY02	FY03	FY04
Management & exempt	735	794	735	668	663
Represented	4,068	4,033	4,053	3,802	3,919
Total County employees	4,803	4,827	4,788	4,470	4,582

Source: County Comprehensive Annual Financial Report

Scope and Methodology

The purpose of this audit was to determine whether the County would be able to evaluate the success of moving HR operations into the shared services organization. The scope was adjusted to include identifying the type of measures necessary to evaluate performance of the HR unit and identifying barriers to developing measures.

We looked at all programs normally considered part of the HR function, with the exception of workers' compensation and safety programs which were recently included in the Workplace Safety audit. We interviewed all managers in the "central" HR office; all department HR managers, and a number of department managers (as HR customers). We also talked with the County Attorney and Director of Business Services.

We looked at union contracts, administrative rules, County policy, and ordinances related to human resources. We identified current HR data and reporting systems. We reviewed audits from other jurisdictions and the 2001 Hayhurst report on the County's human services. We reviewed best practices and performance measures for human resources. We reviewed HR position descriptions, HR work plans, and other documents. We met with consultants from Accenture, who were in process of looking at the County's Shared Services model and implementation.

The audit of the Multnomah County Human Resources function was on the FY03-04 Audit Schedule and was conducted in accordance with generally accepted governmental auditing standards.

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Audit Results

Human resource management is a critical component of any government and refers to the policies, systems, and practices that influence employees' behaviors, attitudes, and performance, and subsequently the performance of the organization. Good government human resource systems:

- Are active in strategic and workforce planning and performance measurement
- Find ways to recruit and hire high quality employees
- Maintain a high quality workforce through training and development
- Motivate the workforce by effectively managing employee performance and rewards and being consistent and fair with discipline
- Oversee a sound workforce structuring by managing the classification and compensation systems as well as personnel policies

Because HR units are also frequently responsible for monitoring compliance with state and federal laws, variations in the structure and constraints of different governments affect the way HR units do their jobs and affect the extent to which they can or do follow best practices.

We found that Multnomah County was constrained in its ability to implement HR improvements. While some constraints, such as declining revenues, cannot be changed, others could be addressed by County leaders and management. Not addressing some of these problems may cause inefficiencies and could eventually put the County's ability to deliver services at risk.

County not prepared for long-term challenges

Long-term planning for an organization's workforce is important because it determines how the organization will attract, retain, and motivate its employees to achieve the organization's goals in the years to come. Top performing government HR units are assuming a larger role in organization-wide strategic planning. These units also develop long-term plans and implement performance measurement programs to document progress toward meeting HR goals as well as those of the larger organization. Multnomah

County's HR unit has not filled this role largely because County leadership and management have not developed an organization-wide strategic plan to guide HR efforts.

Multnomah County does not have a clearly articulated strategic plan and instead addresses problems in an ad-hoc fashion as they arise. While this approach may be successful, it makes it difficult for individual County units to plan and increase effectiveness. In the past, the County used strategic objectives like the County Benchmarks that were tied to the planning and budget requests of departments and units.

Strategic plans guide organizations toward specific goals and objectives. These plans dictate the sort of activities the organization will engage in and how these activities fit together. Strong organizations begin by defining what they want to accomplish and what kind of organization they want to be. The vision, core values, goals, and strategies for the organization provide the standard for assessing the appropriateness and effectiveness of everything the agency does. These organizations align their human resource systems with their strategic and program planning and HR should be an integral part of the top management team. Without this strategic direction, the County's ability to adapt to the changing workforce environment is limited and could eventually put County services at risk. For example, without strategic direction:

- workforce planning cannot be explicitly linked to the organization's "shared vision;"
- succession planning – planning to cope with the retirement of key personnel — must be done without direction as to what services County leaders envision providing;
- labor negotiations must be conducted without long-term objectives regarding the composition or structure of the workforce.

The County also has not had a process by which department and internal service unit managers meet to decide on common goals and objectives for internal services like HR. In many cases, departments do not have a strategic vision for HR needs, which severely limits HR's ability to plan to meet those needs.

Finally, competing priorities have impacted the HR unit's efforts in planning. More than two years ago, HR geared up for a succession planning effort. HR management collected data on expected employee retirements and made presentations to department executives regarding plans for addressing the loss. This planning effort ended soon when HR shifted its focus to processing a series

Performance measurements are undeveloped

of budget shortfall related layoffs and then its own reorganization into shared services. While the problem posed by the prospect of large numbers of retirements in the near future has not gone away – if anything it has become more acute – the County has not actively restarted its succession planning efforts.

Best practices for internal services units generally, and for HR specifically, call for the use of performance measures that are related to customers concerns. To date, there has been little interaction between HR and its customers (departments) regarding performance measures. We contacted department management and asked for input on a sample of possible performance measures for HR. We drew the sample measures from other jurisdictions that addressed performance in the major areas of government human resource management identified above.

Department managers we interviewed were interested in a combination of broad satisfaction measures as well as measures that were based on data. They were most concerned with measuring:

- the extent to which HR assists with department strategic workforce planning;
- timeliness and quality in the recruiting and hiring process;
- the timeliness and quality of HR consulting, especially consulting about labor relations issues;
- the time allocation of HR staff

Some department managers stated that they were not prepared for working on strategic planning with HR, even though they recognized that it is important. Instead, departments tended to focus their workforce related planning efforts and interactions with HR in individual areas of their operations. For example, Health Department management stated they have put energy into planning for how to maintain their nursing staff in the current tight labor market for nurses because it is an area of immediate concern, but have not done similar planning for the rest of the department.

The timeliness and quality of the recruiting and hiring process was also very important to department managers. The new recruiting data system HR is implementing should address the need for data to measure recruiting and hiring timeliness. Measuring the quality of candidate pools is more difficult and will require some effort for departments and HR to come to agreement on measurement.

Measuring the timeliness and quality of human resource consulting services is also difficult. Department managers agreed that using a software tracking system similar to the one used by the information

technology help desk could help to track the time it takes to get a response to requests and could even measure satisfaction with the outcome to some degree. However, the nature of consulting is often more dynamic than a single question and answer and requires a sustained level of effort on the part of both the HR and department staffs.

Using a proxy measure for consulting quality, such as the number and disposition of grievances, may shed some light on the quality of advice given by the HR Unit. HR management stated that it tracks grievances and other similar personnel actions. In FY03, employees filed 33 grievances and, according to management, all were settled before going to arbitration. However, grievances may offer an incomplete picture of labor relations at the County and the HR Unit should continue to explore other measures.

Department managers were interested in having information on how the HR Unit allocates its staff's time. These managers were not necessarily consistent in their views as to where it was best for the HR Unit to put its staff resources. For example, some wanted more and some wanted fewer resources devoted to wellness programs, but they did want to know where the resources were going. As performance measures go, this "level of effort" type measure should be relatively easy to report.

Mixed results for centralized recruiting

In order to obtain the workforce it needs, a government must be able to conduct effective recruiting efforts and to hire appropriately skilled and qualified employees in a timely manner. In an attempt to make County recruiting more responsive to department needs, the County decentralized recruiting in 1998. Recently, County recruiting and hiring was re-centralized with the intent to improve the efficiency and effectiveness of the recruiting process. Best practices literature says the large volume of recruitments going through a centralized unit allows the organization to take advantage of economies of scale in routine processes, such as using the Internet to post announcements and process applications.

To date, department managers have reported mixed success with centralized recruiting. Those managers that have been satisfied with recruitments handled by the HR Unit credited a specific person within the Unit that understood the needs of that particular department because he or she had come from that department's HR Unit prior to the re-centralization. Other managers found the process to be difficult, either because the recruitment unit appeared to be overworked or because the unit did not understand the department's needs. Further, some department managers believe

HR Unit has limited ability to maintain quality workforce

there are positions, such as physicians or deputies, that only they can effectively recruit. HR management noted that 100% of recruitments for assigned departments have been processed since March 31, 2004.

Budget reductions and staff turnover within the HR Unit have impacted its ability to maintain an appropriately skilled workforce. HR units maintain the workforce by facilitating training to develop employee skills, retaining experienced employees, disciplining poor performers, and managing labor and employee relations.

Best practice literature stresses the importance of developing the current workforce through training both as a way of improving performance and retaining staff. Continuing budget shortfalls have prompted County leadership to significantly reduce the level of resources allocated to County-wide training and employee development. Individual departments still maintain training budgets to varying degrees, but these tend to be targeted at a specific skill, rather than more general training.

County-wide training is now funded out of the County's Risk Fund and is designed to reduce the organization's exposure to risk rather than to development of the workforce. For example, the training classes made available to employees in August and September 2004 included: new employee orientation, grievance handling, drug and alcohol policy, diversity, and defensive driving.

Dealing with problem employees in a consistent and appropriate manner is also a key component in maintaining a quality workforce. The consistent and fair application of discipline is important to all employees. It is important for the employee being disciplined to know that he/she is being treated fairly and it is important for other employees to see that management is addressing problems as they arise. The HR Unit monitors grievance and disciplinary actions using an internal database. According to the County Attorney's Office, keeping track of personnel actions in this way has improved the manner in which the County deals with discipline issues. The County should continue to look for ways to build consistency into its HR systems.

Theoretically, one of the strengths of a centralized human resource function is that labor relations problems will be addressed more consistently and appropriately, because the same people will be making the recommendations and they will be the most familiar with the contracts. Several department managers voiced concerns about the quality of the labor relations advice they received from the HR Unit. According to these managers, at times there has been

confusion as to where to address labor relations questions and several instances when they felt the advice received was neither consistent nor correct. As a result, management sometimes bypassed the HR Unit and went directly to the County Attorney's Office for labor relations advice. Department managers suggested that the relative lack of County experience of some senior managers within the HR Unit was at least partially responsible for these difficulties.

Performance management system outdated

Effective motivation encourages employees to perform effectively in support of the government's goals and typically results from the use of appropriate rewards and incentives, an effective performance appraisal system, and sound mechanisms that facilitate employee feedback. The lack of an organization-wide set of goals and objectives and the lack of a systematic feedback mechanism make it difficult for the HR Unit to follow best practices in motivating the County workforce.

A good performance management system encourages good performance from employees by providing feedback regarding the degree to which their performance helps the County make progress toward its common goals. Department managers told us that the performance management system at the County has lost its connection to County-wide goals and objectives. For example, the County evaluation form for non-represented employees ties performance to County-wide benchmarks. The County no longer tracks progress towards these benchmarks. Some departments have abandoned the standard evaluation forms, which reduces consistency in evaluation among County employees.

The HR Unit provides a class for managers, "Performance Expectations and Evaluation," which includes County policy and how to use the County's evaluation form. Like other County-wide training classes, this class is oriented toward reducing the risk of accidents and lawsuits, which means that neither the HR Unit nor the class instructors have much latitude in modifying the class to the changing environment at the County. Moreover, there has been little continuity in instruction. Because there is no budget for instructors, the class is taught by volunteers who must find time away from their existing job to develop and teach the course.

There is also an inconsistent system of processing employee suggestions and feedback at the County. Some departments have their own programs, but there is no County-wide suggestion and feedback program.

Classification system needs to be re-evaluated

Managing a workforce structure to support a government's goals is another role of human resources. Best practices suggest that a classification system should be coherent, appropriately sized, and reinforced by personnel policies that are flexible in terms of promotion and compensation. A classification and compensation system is important for attracting and retaining skilled employees.

Classification and compensation work together, to ensure that employees are paid a level that is commensurate with their skills and the market place by ensuring that employees of varying skill and responsibility levels are treated consistently. A good system also allows for employee development and advancement. Multnomah County is not out of the ordinary, compared to other cities and counties, in terms of the number of classifications and the type of compensation system. However, these systems would benefit from an evaluation to check to see that the relationships across classifications are appropriate, particularly between represented and non-represented classes.

A good classification system also helps to ensure that job titles that are similar in responsibility and skill requirements receive similar pay. Current trends in human resource management show that governments are trying to reduce the number of classifications and broaden the range within classifications in order to gain flexibility in pay and movement of employees. This trend is much stronger among state governments than among cities and counties. HR management stated that they have reduced the number of non-represented classifications from 169 in FY00 to 140 in FY05.

Department managers we surveyed were less concerned about the number of classifications at Multnomah County being a problem than they were with the relationship between classifications. Some managers told us that the classification system had ceased to be a system at all, with nearly all adjustments being made on an ad hoc basis for non-represented employees or as the result of collective bargaining. And, any adjustments made were limited to a few individual classifications. The difficulty with this, according to one department executive, was that there was no longer any consideration of how the various classification compare to each other. For example, a department manager stated that they have a difficult time promoting employees into supervisory positions because employees do not feel that the relatively small increase in pay is fair compensation for the amount of additional responsibility. As a result, the County must look outside the organization to fill these positions. Those hired are likely to have less experience and may be less qualified for the position than some of the employees they supervise.

Previous audit recommendations still apply

In December 2000 we completed the audit *Internal Services - Clearly defined business operations* (Internal Services Audit). At that time, we found the County did not have the ability to measure the effectiveness and efficiency of its internal services and as a result decision-making that might control costs was limited. We recommended that the County clearly define services using commercial equivalents, establish written service agreements, and measure the results for both quality and cost based on industry standards and service descriptions.

In an audit follow-up issued June 2002 we found that little progress had been made in what we considered the most critical element: identifying and measuring services using commercial equivalent or industry standards. We did note that the shared services initiative might address some of our concerns because it is based on a business-like model.

The County's HR function was not included in the Internal Services Audit because it was not operated as an internal service. Prior to the recent reorganization in FY04, the human resources function was funded by the general fund as were many other administrative functions. The general fund was partially reimbursed through the indirect cost allocation formula to other funding sources.

The County has now changed the HR function to an internal services organization located in the Department of Business and Community Service. As an internal service organization the costs for providing HR services will be directly charged through interdepartmental billings from the County's Business Services Division to other departments.

Identify services and compare to industry standards

Similar to findings in the Internal Services Audit, we found that the model the County is currently using for HR internal billings is focused on costing the services that are already provided (recovering costs) rather than clearly defining the services so that departments can understand service charges and make choices.

Cost control for internal services is achieved in two ways (1) by the necessity to be competitive with external sources and (2) by providing only services the internal customers want. According to Quinn et al¹, prices must be comparable to what can be purchased outside the organization. "Corporate and functional people have trouble understanding the difference between running a cost center and running a business. The shift in mindset is from a billing to a pricing mentality." These experts also noted that "Focusing on what clients want means that no work is undertaken unless there is an identified and paying client."

¹ Shared Services - Mining for Corporate Gold: Barbara Quinn, Robert Cooke, Andrew Kris, Prentice Hall: page 21

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Currently the County has not defined HR services to allow it to be compared to industry standards and commercial equivalents. Internal customers cannot control costs if they do not understand what they are buying, how much it costs, and have services to meet their business needs.

To manage interdepartmental charges the County has implemented a new activity based costing system. The goal of this system is to provide costing information on a business-like basis. However, because few resources have been allocated to implementation, the costing system is based on job descriptions. As a result, the County has determined the activity costs to provide HR functions as they now exist and then allocated those costs rather than defining services based on industry and commercial equivalents.

Costing and billings based on percentage of usage or other allocations does not hold the internal service provider accountable for managing costs because (1) they know by default all their costs will be recovered, (2) they may be providing services their internal customers do not want and (3) they are not truly aware of areas of inefficiency. Also, the County will be unable to make responsible choices because the true cost for services is not understood and it does not have options to increase or decrease levels of services similar to options if these services were purchased in the open market. Without choices the only way management can control human resource costs is to reduce the number of employees.

Philosophical change and effort needed

In our Internal Services Audit we noted that moving towards a business model required both effort and a philosophical change. The philosophical change is one of considering internal services as “services sold by the internal service unit, and purchased by the user department” versus looking at “allocating the internal service unit’s operating costs.” We believe the County’s move to shared services as a business model for its internal service functions is a good move and could accomplish this philosophical change. The ability to compare business service costs and performance to industry standards is one goal of the model. However, a variety of problems have hurt efforts to implement the shared services model and endangered the County’s cost control and service improvement goals for the HR Unit.

Implementation of shared services flawed

The County began implementing a shared services model for internal business services in 2003. It developed a business case to guide implementation. In the early stages there was a high level of involvement by County departments and resources were available to assist with the project. Over time, the shared services

implementation departed from its best practice-based goals and from the original business case. These departures have hindered the efficient and effective implementation of shared services because:

- The departments or business unit clients do not have control or accountability.
- Implementation planning was not well documented or communicated.
- Scope of what was to be included was too large.
- Cultural change was undertaken without the benefit of change management expertise.
- County did not allocate adequate resources.

Departments are only in an advisory role

The recommended shared services business model gives more control to clients (departments) than currently exists in the County's model. According to best practices, one of the cornerstones of shared services is the shift in control and accountability from the centralized functional group to the business unit client.

The County's model for shared services places the control and accountability in the central shared service department's administrative function with departments in an advisory role. Consultants who recently reviewed the County's shared services implementation also observed that the "executive committee (department representation) is not seen as, and isn't, a decision making body." Management stated that since the consultant's report was received some of these problems have been addressed.

In order to be successful, internal business services must provide the services that the departments need. In the County's model, internal service managers are determining the services that will be provided, not necessarily those that are needed. Departments need to be placed in a decision-making role.

Implementation planning was incomplete

The County did not follow-up the business case with a clearly communicated and comprehensive plan. According to best practice literature, shared service implementation begins by assessing the feasibility for successful implementation. In this stage, the scope of services to be included is determined and commitment from top management is obtained. The second step is analysis of the current state of the services related to costs, benchmarking, and customer satisfaction. These steps provide the information necessary to create an implementation plan.

The early planning and feasibility studies for developing shared services for the County included a high level of involvement by

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	<p>County departments, provided some funding for consultants, and was well documented. However, we do not believe there was adequate understanding or commitment from the department managers.</p>
<p>Change management expertise needed</p>	<p>The County embarked on a project involving tremendous organizational change without the benefit of change management expertise or the resources to obtain the expertise. The scope of implementation for shared services was large and involved transfer of employees from multiple departments as well as changes in processes for doing their work. Staff in departments who did HR work sometimes had additional duties, which had to be reassigned to other staff when the HR staff were transferred to DBCS. In addition some of the HR functions in departments, such as training, were not transferred to shared services and departments had to reassign this work to other department staff. These staffing transfers and reassignments created a climate of confusion and uncertainty not only for HR staff but for many other County employees. The County did not provide time or resources for handling the concerns of its employees or the workload issues involved in such a large undertaking.</p>
<p>Implementation scope too large</p>	<p>We also found that the scope for integrating HR services into shared services was all inclusive and did not fit suggested best practice models. Best practices suggest shared services be implemented on an incremental basis. Rather than start slowly and small, with one business service, the County started very large, with all internal services and with a very ambitious time line.</p> <p>The basic model to implement HR as a shared service should include consolidation of transactional and administrative work with a focus on economies of scale. However, the scope for the County's reorganization also included HR consulting, professional and advisory services, and the governance functions, such as setting policy and monitoring compliance with rules and regulations. These services are usually not included until the implementation has progressed and would only be undertaken after successful consolidation of transactional and administrative tasks has been completed.</p>
<p>Effort not supported with resources</p>	<p>Implementing shared services during stressful economic times has been an additional hindrance. According to best practices, cost savings resulting from shared services may not occur for 12-18 months; but until then, additional resources are usually required.</p>

Management noted that the County reduced the Business Services budget by \$7 million last year.

The County did not have the personnel, time, or funding for the major undertaking of implementing shared services. Such a change involves careful planning which requires resources with additional staff, and perhaps outside consulting services for evaluations, planning, implementation, and change management.

Additional costs during implementation will be incurred as County staff is involved in changing processes. Also, essential evaluations and analysis are preliminary basics which require additional resources for such a large undertaking.

Quality of communication declined

Both departmental involvement and overall communication regarding the implementation appear to have declined over time. As a result, departments were directed on how to implement shared services but not involved in the decision making.

When we talked to staff in November and December of 2003, both HR staff and department staff reported to us that they knew very little about the implementation of shared services; although they all seemed to strongly support the concepts and changes. The Consultants for the County also observed a lack of communication. Communication is essential not only in the planning and implementation changes, but also in the daily operations of the HR functions.

Success will be difficult to calculate

One of the compelling reasons for deciding to implement a shared service model is that services which fit into the model such as HR should already have performance measures and commercial equivalents. In our research we found many performance measures for HR functions including those used by other governments. We also found that all HR functions for an organization can be outsourced thereby providing commercial equivalents to use in identifying or describing HR services for costing and evaluation.

We found that the HR Unit collected data describing various workloads, however, there was little data related to performance or outcomes. Performance and cost measures for HR benchmarking are necessary to evaluate the success of the move from department controlled HR functions to a shared service model for providing those services.

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Recommendations

1. To more effectively deploy human resource activities, we recommend that:
 - a. County leadership develop and articulate a County strategic plan that can guide these activities.
 - b. HR and Department executives should work together to:
 - i. Improve communications
 - ii. Develop comprehensive workforce and succession plans and
 - iii. Evaluate the various HR systems – performance management, classification, compensation, and performance measurement
2. To successfully implement HR functions into the business model of shared services and to be able to measure the success of that implementation the County needs to:
 - a. Complete a comprehensive baseline study of HR services to include cost analysis and performance measurements
 - b. Identify services based on commercial equivalents, industry standards and customer needs
 - c. Reduce the scope of HR functions to be included in shared services
 - d. Reconsider whether consulting and governance functions should be included in this next stage of shared services implementation
 - e. Provide the resources needed for the studies and implementation of HR as a shared service

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Responses

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Diane M. Linn, Multnomah County Chair

October 25, 2004

Suzanne Flynn

Multnomah County Auditor

501 SE Hawthorne, Room 601

Portland OR 97214

Dear Suzanne,

I have received and reviewed your audit of the County's Human Resources unit and would like to thank you and your staff for your valuable work. Audits always provide us with the opportunity to do a better job serving the community.

Our workforce delivers the healthcare, mental healthcare, senior assistance, public safety, library and other services that are vital to our community. I am very pleased that more than 89 percent of our total workforce either directly provides these services or supervises those who do. The ability to attract, train, and maintain these service providers is central to our mission and I appreciate your efforts to help us improve wherever possible.

At Multnomah County, this is an especially appropriate time to examine our human resources operation as the Board of County Commissioners embarks to ensure County services stay aligned with citizen and Board priorities. It is critical that our workforce compliment these goals and help us operate as efficiently as we can.

I fully embrace your recommendation that the County articulate and follow a long-term strategic plan. The Board of County Commissioners already has moved decisively in this direction by adopting priority-based, rather than department and program-based budgeting. This will give our human resources unit a very clear picture of the County's direction and help them manage the County workforce accordingly.



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Suzanne Flynn

Multnomah County Auditor

October 25, 2004

Page Two

I also accept your conclusion that there is room for improvement as we continue to implement our shared services approach. As we have worked within reduced budgets over the past three years, it has been difficult to devote the resources to administrative functions at levels that would have allowed us to best make this transition.

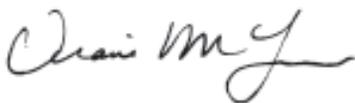
During the past three years, the County's General Fund has been reduced by \$61 million. The budget for Business Services – which is charged with implementing our move to shared services – has been cut by \$7 million during that time, as you noted in the audit.

During this time, all departments, including Human Resources, have been strongly advised to manage their needs through attrition, transfers and promotions to avoid adding personnel. As resources allow, I will direct Human Resources to resume work started last year on the countywide migration toward our shared services system, as well as the performance measures and service agreements with departments you call for in the audit.

I am pleased that you believe the County's move to shared services for its internal functions is a good one. I strongly believe we could no longer afford to replicate information technology, procurement and other functions, including human resources, in each or several departments and that combining these functions into a central unit is a more efficient and effective method for the administrative functions that serve this jurisdiction.

Once again, I appreciate your efforts to help us identify ways to improve the operations of Multnomah County.

Sincerely,



Diane Linn

Multnomah County Chair

c: Board of County Commissioners

Gail Parnell, Director of Human Resources / Labor Relations