



PERFORMANCE AUDIT REPORT

Department of Commerce: A K-GOAL
Audit Reviewing the Department's
Management Staffing Levels

Executive Summary
with Conclusions and Recommendations

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 2008

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$13 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

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LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@lpa.state.ks.us
Website:
<http://kslegislature.org/postaudit>

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LEGISLATURE OF KANSAS

LEGISLATIVE DIVISION OF POST AUDIT

800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (785) 296-3792
FAX (785) 296-4482
E-MAIL: lpa@lpa.state.ks.us

December 19, 2008

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency response, from our completed performance audit, *Department of Commerce: A K-GOAL Audit Reviewing the Department's Management Staffing Levels*.

The report also contains several appendices, including additional comparisons of the Department's management levels to other Kansas agencies, and salary amounts for the Department's management positions.

This report includes several recommendations for the Department of Commerce and for the Department of Administration. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Overview of the Department of Commerce

The Department has nearly quadrupled in staff size since 2004, when it took over all workforce development programs from the Department of Labor. *In January 2004, the Governor issued Executive Reorganization Order 31, which resulted in the transfer of 300 employees from the Department of Labor to the Department of Commerce. Most of the transferred employees were placed within the Department's Business and Workforce Development Divisions, but a few were placed in other areas such as legal, fiscal, and human resources.*

Is the Department of Commerce Top Heavy with Management Compared to Similar-Sized Agencies in Kansas or Similar Types of Agencies in Other States, and Could Reducing Management Staff Result in Significant Salary Savings?

We compared management levels in the Department of Commerce to five other Kansas agencies. *Although no two agencies are identical, we tried to select State agencies that had programs that were at least moderately complex and those with a similar number of employees to the Department of Commerce. Also, we intended to compare the Department to similar agencies in other states, but found that significant structural differences made those comparisons impractical. Finally, for all agencies included in our comparisons, we defined management staff as employees in a policy-making role and those with Public Service Executives job titles—management-level positions according to the Division of Personnel Services.*

The Department has a higher proportion of management-type positions than any of our five comparison agencies. *About 15% of the Department's staff is management, compared to only 4% to 9% in other agencies. The Department had more than triple the percentage of staff in management positions than both the Department of Wildlife and Parks and the Department of Agriculture. We conducted several other analyses that defined management staff a little bit differently than we had at first, all of which generally supported our initial findings in this area.*

On average, managers in the Department have fewer people reporting to them, and are lower in the organizational structure than in the comparison agencies. *In general, a low number of people reporting directly to a manager can indicate that an agency is management heavy. The Department's average of 3.7 subordinates reporting directly to each manager was the lowest of our comparison agencies, but it wasn't*

significantly different than three of the five, which had about 4 direct reports per manager. Also, we would typically expect to see management positions placed at the top of an agency's organizational structure. The Department had a higher percentage of its management in the lower levels of the organization than four of our five comparison agencies.

One area within the Department that looked management heavy was the Division of Workforce Development. Two areas within that Division—the employment services section and the workforce development regions—appear to significantly contribute to the Department's overall high proportion of management positions. The Department's employment services section has a ratio of 1 manager for every 1.2 non-management staff member, which was much higher than the Department's overall average of 1 manager for about every 6 non-management positions.

The five workforce development regions have a double layer of management. The director of each region is responsible for business outreach, while the assistant director manages day-to-day operations. These regions typically have a total of 11 to 23 non-management staff. Department officials told us that having the director perform business outreach improves credibility with business leaders. However, officials in Oklahoma and Utah—states with comparable funding and program outcomes as Kansas—reported that they perform a similar outreach function through staff-level positions.

Bringing the Department's proportion of managers more in line with our five comparison agencies could save about \$61,000 to \$99,000 annually. Reducing the percentage of management positions at the Department of Commerce to the high end of the range for comparison agencies would require eliminating or restructuring 20 management positions. We identified at least 17 management positions that feasibly could be reallocated to regular staff positions. Restructuring the five directors of the workforce development regions as staff positions could save between \$37,000 and \$75,000 a year. In addition, reducing 12 lower-level Public Service Executives to regular staff positions could save about another \$24,000 annually. Only about \$1,500 of these cost savings are State money; the rest are funded with fees or federal dollars.

This audit identified two information weaknesses that hamper good analyses of agency staffing levels. First, authorized position counts shown in the Governor's Budget don't always accurately reflect an agency's true staffing levels. In fiscal year 2008, for example, the number of authorized positions shown in the Governor's Budget overstates actual staffing levels for the Department of Commerce by 90 positions, or about 27%. Second, agencies aren't required to submit organizational charts to the Division of Budget, and those that do don't always provide a sufficient level of detail.

Conclusion. *With double the proportion of staff in management positions compared to other agencies, the Department of Commerce clearly is management heavy. To come into line with the other agencies, the Department would need to reduce its management ranks by at least 20 positions. The most likely area to make reductions is in the Division of Workforce Development, where many positions have been upgraded to management levels in the last five years, and where at least one section has almost one management position for every non-management employee. Downgrading positions from management to non-management position classes won't necessarily produce large savings because many of the managers are in pay grades that aren't significantly higher than the pay grades associated with the positions they held previously. Larger savings could be achieved if the Department could find ways to eliminate some management positions entirely, or if the work currently performed by employees with management titles could be done by other employees in much lower pay grades. Savings to the State General Fund from any management positions being downgraded or eliminated would be fairly small because many of the management salaries are funded with federal funds or fee funds.*

Recommendations for Executive Action. *We recommended that the Department of Commerce develop a plan to reduce the proportion of its staff in management positions by March 2009, and conduct a thorough review of its positions that aren't exempt from the Fair Labor Standards Act to ensure they warrant a management classification.*

We also recommended the Department of Administration require all agencies to submit a detailed organization chart, and provide information about the number of actual positions that they have filled or plan to fill at the end of each fiscal year. Further, we recommended the Department periodically review the filled and authorized positions within each agency and direct agencies to eliminate any excess authorized positions that they don't plan to fill and that aren't needed for prudent management.

These appendices can be found in the full report:

- APPENDIX A:** *Scope Statement*
- APPENDIX B:** *Supplemental Analyses of Management Positions*
- APPENDIX C:** *Department of Commerce Management Salaries*
- APPENDIX D:** *Agency Response*

The Department of Commerce generally concurred with the report's findings, conclusions, and recommendations.

This audit was conducted by Justin Stowe. Leo Hafner was the audit manager. If you need any additional information about the audit's findings, please contact Justin Stowe at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.