



NORTH CAROLINA GENERAL ASSEMBLY GOVERNMENT PERFORMANCE AUDIT COMMITTEE

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Staff

John Turcotte
Project Administrator

Michele Nelson
Principal Fiscal Analyst

Doris Gilbert
Administrative Assistant

Government Performance Audit Committee Status Report

February 28, 2007

Government Performance Audit Committee Status Report as of February 28, 2007

GPAC Start Up November-December 2006

In November 2006, the Government Performance Audit Committee decided to issue a series of Requests for Proposals for contractual studies of statewide management issues and to consider topics related to specific programs in 2007. On December 1, 2006, the Legislative Services Commission engaged John Turcotte from Turcotte Public Administration Consulting and Training, LLC (TPACT) to serve as project manager for the Joint Select Government Performance Audit Committee. John Turcotte is assisted by three other TPACT professionals, Jim Pellegrini, former Deputy Auditor General for Montana; Larry Yates, a retired USAF Colonel and measurement expert; and Matt Dry, TPACT research associate.

The Legislative Services Commission provided GPAC two offices and a conference room on the second floor of the Legislative Office Building. In addition, the Commission employed Doris Gilbert as an administrative assistant for GPAC. The Fiscal Research Division assigned Michele Nelson, Principal Fiscal Analyst, to GPAC.

On December 12, John Turcotte briefed GPAC Co-Chairs on proposed topics and project scheduling. Responding to a recommendation made by the State Auditor's performance audit report *Internal Auditing in State Agencies and Institutions* that the General Assembly determine the strategic direction for internal auditing, the Co-Chairs requested a study to provide the requested legislative direction as a first priority. The second priority is issuance of an RFP on State Personnel Administration. Co-chairs requested that the consultant address "career banding" in a special report first and then complete the remaining components.

The Co-Chairs also requested GPAC staff to study the possibility of a creating a program evaluation staff unit for the General Assembly to provide a permanent structure for sophisticated legislative oversight and evaluation and to provide a mechanism for following through on recommendations made by GPAC, which was identified as a shortcoming of the first GPAC effort in 1992.

Internal Audit Study Underway

After consulting with the Co-Chairs, State Auditor, Fiscal Research Division, and Legislative Administration, GPAC released a Request for Proposal on December 22, 2006 for the internal audit study. Six firms submitted proposals by the January 19, 2007 deadline. A review team consisting of representatives from the Office of State Auditor, Office of State Controller, Fiscal Research Division, and Legislative Administrative Division evaluated the proposals. The review team recommended MGT of America, Inc. for the contract because its proposal represented the best overall value. The approved contract amount is \$199,645. GPAC staff is assembling background documents and making appointments for the MGT

team, which will begin field work in Raleigh the week of February 26. MGT's team will be led by Partner, Mary Winkley and Principal Consultant, Celina Knippling.

Internal Audit Project Timetable

Activity	Date
RFP Distributed	December 22, 2006
Proposals from Contractors Due	January 19, 2007, no later than 5:00PM Eastern Time.
Award Contract	February 2, 2007
Draft Report	April 27, 2007
Final Report	May 8, 2007

Internal Audit Project Description

The (September 2006) State Auditor's performance audit of internal auditing recommended "more direct guidance from the General Assembly." This study should provide recommendations for legislation including draft language that if enacted would give that guidance. *The study must include recommendations and draft implementing legislation to add to or change existing North Carolina statutes and must be accompanied by cost estimates.*

The contractor must prepare a report that will:

1. Contain recommendations for correcting the deficiencies identified in the State Auditor's performance audit. While the State Auditor's performance audit may serve as background for the consultant's study, the Committee expects the consultant to build upon the performance audit and form independent conclusions about what may be needed as well as priorities for action by the General Assembly.
2. Recommend how to assure that internal auditors conduct internal efficiency, economy and program results reviews and do not limit the scope of internal audits to accounting and internal control issues.
3. Define potential economic cost and other deleterious consequences of insufficient or inadequate internal audit coverage. The contractor should define outcome measures for effectiveness of an internal audit system within the state as a whole and for individual agencies and legislative oversight committees to gauge whether internal auditing is effective in minimizing these deleterious consequences.
4. Recommend how an agency internal audit unit should be placed organizationally within the existing organizational structure of state agencies and state-supported institutions.

5. Review existing qualifications of internal auditors and recommend appropriate qualifications including education, certification, knowledge, skills and abilities for internal auditors. Include a recommended career path to allow for internal audit professionals to advance in competence, responsibility, and compensation without assuming managerial responsibilities.
6. Recommend appropriate professional standards for internal audit organizations.
7. Define how to measure outputs of internal audit units. Develop quantitative measures for comparing the relative productivity of an agency internal audit unit with other state internal audit units or with comparable units in the private sector. The contractor will determine a reasonable productivity standard for use by the state in determining the number of internal auditors required for a given internal audit unit.
8. Define a process for measuring the cost of internal audit activities to allow comparison of unit costs of an agency internal audit unit with other state internal audit units or with comparable units in the private sector. The contractor will determine a reasonable unit cost standard to gauge the relative efficiency of internal audit units.
9. Recommend staffing increases if needed. If the consultant recommends increased staffing, the consultant must establish a methodology for rank ordering the internal audit positions recommended among and within state agencies to address highest risk agencies and highest risk activities within agencies first. The ranking methodology should enable the General Assembly in the future to target additional resources to high risk agencies and within agencies to highest risk areas internally. Using that methodology, the consultant will recommend where the General Assembly should allocate or reallocate internal audit positions and the number and costs of such positions. The consultant will draft any necessary legislation to implement and continue this risk based methodology.
10. Explore the feasibility, organizational location, and resources required of a system whereby smaller agencies could share the internal audit services of larger agencies that employ best practices or could receive shared services from a centralized highly-skilled and technology-oriented team. However, the Committee is not requesting a concept design for software or a computer network.
11. Recommend an appropriate independent legislative and executive oversight structure to assure that internal audit units conform to legislative intent and professional standards as well as other requirements recommended by the consultant. Include a determination of whether the State Auditor should perform the oversight role.

Personnel Management RFP Issued

After consulting with the Co-Chairs, Office of State Personnel, State Controller, Fiscal Research Division, and Legislative Administration, GPAC released a Request for Proposal on January 30, 2007 for a study of the statewide personnel system. The RFP is online: <http://www.ncleg.net/committeefrontpages/gpacii/index.html>.

John Turcotte conducted a voluntary pre-proposal conference on Thursday, February 15 attended by representatives of three firms. As of February 20, five firms have registered intent to submit proposals. Registration is voluntary so there may be other firms interested that may propose.

Personnel Management Project Description

1. The consultant will deliver two reports:
 - a. An Interim Report Addressing Career Banding and Reviewing Preliminary Findings on State Personnel Administration due April 13, 2007. Preliminary findings should include any overall conclusions or recommendations about the statewide system determined by the consultant by April 13, 2007.
 - b. A System-Wide Review of the State of North Carolina Personnel and Human Resources Administration due June 22, 2007
2. Career Banding must be researched first by the consultant with findings and recommendations, including any recommended legislation, reported by April 13, 2007. The review of Career Banding shall include but not be limited to:
 - a. A historical review of the Career Banding concept as implemented outside North Carolina including references and web links to professional literature related to the method in general and specifically its applicability to state government.
 - b. A historical review of the implementation of the Career Banding method in the State of North Carolina concluding with a description of the method as it currently exists.
 - c. A critical analysis of Office of State Personnel Career Banding policies and procedures including but not limited to identification of strengths and weaknesses.
 - d. How to assure that agencies do not abuse Career Banding to escalate state salary costs without legislative authorization and budgetary control
 - e. A summary conclusion by the consultant concerning whether Career Banding should or should not be continued.
 - f. Any changes to the current Career Banding system recommended by the consultant if the consultant concludes that Career Banding should be continued.
 - g. Any creative alternatives to Career Banding that may be recommended by the consultant along with potential strengths and weaknesses. Alternatives to Career Banding should be explored and reported even if the consultant recommends continuation of Career Banding.

- h. Suggested timetables for implementation steps for recommendations and what state offices should be responsible for any future actions related to Career Banding or alternatives recommended by the consultant.
- i. Draft implementing legislation to add to or change existing North Carolina statutes if necessary to implement any consultant recommendation. Draft legislation must be accompanied by cost estimates specifying sources of funding and a timetable for funding actions if any.

The system-wide review shall include but not be limited to:

- 3. A review of organizational reporting relationships, delegation agreements, and degree of independence or centralization within the HR system structure and the authority of the State Personnel Commission.
- 4. A review of existing HR statutes (G.S. 126) and recommendations for potential changes that enable an effective HR culture and high performance workforce.
- 5. Recommendations for improving employee cost forecasting for executive budgeting and appropriation of salary and benefits by the General Assembly.
- 6. Recommendations for state policies, including but not limited to those related to BEACON, for attaining accuracy, tracking and integration of other salary and compensation information for appropriations for salaries and benefits and other entities where compensation is exempt from G.S. 126 but set or predominantly financed by the state.
- 7. Recommendations to improve effectiveness of all HR functions including but not limited to:
 - a. How North Carolina state government can improve its overall personnel and HR system given contemporary science and standards determined by the consultant.
 - b. How to assure strategic workforce planning to assure sufficient policies and plans for enhancing attraction to state service, recruiting for immediate employee needs, and retaining a solid workforce to respond to immediate, intermediate, and long term HR needs of the State of North Carolina. GPAC received reports of concerns about loss of and failure to “re-grow” institutional knowledge stemming from increasing retirement of state employees in professional categories including financial, health care, technology, HR, and general program management in addition to senior front line employees who perform critical support functions.
 - c. Training and development of employees at all levels and the extent to which there should be more statewide training programs offered by a central training and executive development program to complement training offered by individual state agencies exclusively to their employees. The consultant should identify best practices within agencies or by educational institutions that could be used as models or scaled up to accommodate the state employee community.
 - d. Improving basic functions of position classification and reclassification, recruiting, selection, compensation, discipline, termination, separation, and appeals. However, the consultant should not conduct a detailed management or process oriented review of such functions, but instead determine if basic

functions should be continued as operated, improved, or discontinued if there is a cost-effective alternative.

8. Draft legislation to add to or change existing North Carolina statutes if necessary to implement any consultant recommendation. Draft legislation that may result in cost increases must be accompanied by cost estimates specifying new positions required, existing positions eliminated, sources of funding and a timetable for recommended actions.

Potential contractors may also propose an optional survey of state employees and managers with a separate cost breakdown.

Personnel Management Project Timetable

Activity	Date
RFP Distributed	January 30, 2007
Voluntary Pre-Proposal Conference	February 15, 2007 2:30 PM, Hearing Room 544, Legislative Office Building 300 N. Salisbury St. Raleigh, NC, 27603
Proposals from Contractors Due	March 1, 2007, no later than 5:00PM Eastern Time.
Contract Awarded	March 12, 2007
Interim Report and Power Point Presentation on Career Banding and Project Status due	April 13, 2007
Optional Employee and Manager Survey Due Draft Final Report and Power Point Presentation Due	June 6, 2007
Final Report and Power Point Presentation Due	June 22, 2007

National Conference of State Legislatures Program Evaluation Staff Project

GPAC Co-Chairs requested a limited study of creation of a permanent program evaluation staff unit as a way of providing a structure and resources for major legislative oversight studies. A technical assistance team from the National Conference of State Legislatures conducted a site visit and is assembling a team of legislative program evaluation experts to offer suggestions to GPAC on potential startup. The NCSL report is expected in April 2007.

First Meeting of the 2007 Government Performance Audit Committee

The Select Committee held its first meeting on February 27, 2007 in Room 544 of the Legislative Office Building, Co-Chairman, Senator Daniel Clodfelter, presiding. Chairman Clodfelter reviewed the committee's authorization and explained that the committee differed

from other committees in that GPAC would meet as needed at the call of the Co-Chairs and had jurisdiction over all North Carolina governmental programs, funding, and operations.

The Committee heard a presentation from Tony Goldman, Director of Legislative Administration, about the 1992-1993 Government Performance Audit Committee project (GPAC I). The history of GPAC I is available on the GPAC web site at:

www.ncleg.net/GPAC/index.html.

Michele Nelson, Principal Fiscal Analyst from the Legislative Fiscal Division and assigned to GPAC, reviewed:

- The GPAC staff office location at 206 and 205 of the Legislative Office Building
- The high level of support to GPAC received from the Fiscal, Research, Administration, and Information Technology divisions of the legislative staff and from the staff of the presiding officers
- The launch of GPAC's website and its content: www.ncleg.net/GPAC/index.html

John Turcotte, GPAC Project Administrator, reviewed:

- The process of issuing RFP's by GPAC
- The current contract with MGT of America, Inc. to review the state's system of internal auditing. Turcotte introduced the MGT team:
 - Mary Winkley, Partner-In-Charge
 - Celina Knippling, CPA, Project Manager
 - Suzanne Bradford, CPA, Team Member
- The RFP for a study of career banding and the statewide personnel system described earlier in this progress report

Chairman Clodfelter asked GPAC members to submit ideas for projects to the Co-Chairs. Members suggested several potential projects during the meeting including:

- Division of Motor Vehicles
- Mental Health System
- Medicaid
- Department of Transportation
- Information Technology
- State Legislature