Governor's GMAP – Economic Vitality Accountability Forum
Auditor Recruitment & Retention Assignment
Interagency Work Group – Final Report

Introduction

During Governor Gregoire's "Economic Vitality" GMAP accountability forum on September 6, 2006, high turnover and difficulty in filling position vacancies among auditors at three state agencies were identified as significant problems affecting agency productivity, especially the collection of revenue. Subsequently, the departments of Revenue (DOR), Labor & Industries (L&I), and Employment Security (ESD) formed an interagency work group with the Department of Personnel (DOP) to determine the causes and effects of recruitment and retention problems in the auditor job classification, and to identify possible solutions, particularly for retaining experienced, productive employees.

This is the interagency work group's final report with recommendations.

Background – The Problem

The data originally presented to the Governor in the September 2006 GMAP session clearly illustrated the high level of turnover that had occurred in the Department of Revenue over the past five years as reflected in the high percentage of auditors with less than five years of experience. This same high rate of turnover also occurred in the Department of Labor and Industries and the Employment Security Department. The sustained auditor turnover has a significant impact on the revenue-generation and enforcement performance of the respective agencies. Besides having to achieve agency performance goals with fewer auditors, the experienced auditors who remain in the agencies must divert valuable audit time to training new auditors. Furthermore, the productivity of the newer auditors is inherently lower during their training and development period, which may last up to twelve months or more, depending on their knowledge and experience.

Upon further examination of the turnover data since the September 2006 GMAP session, another disturbing data trend emerged. Not only were the agencies losing experienced auditors, they were also losing newer auditors at an alarming rate, creating additional operational and workforce management challenges. Agencies have been spending considerable resources recruiting, hiring, training and developing auditors only to lose them within the first five years of employment. Essentially, in many instances, the agencies were hiring the auditors out of college, "training them up," providing them with developmental work experience and, with this foundation, the new auditors re-entered the competitive job market. In short, we were hemorrhaging at both ends of the employment cycle, losing our current leaders and our future leaders.

To respond to these data indicators, the interagency work group investigated a variety of possible non-compensation causes of recruitment and retention problems and identified interagency opportunities and solutions to address the problems while minimizing the financial impact on the state. The analysis included researching and analyzing turnover rates, auditor experience levels, retirement projections, employment exit interview data, effective recruitment practices, and various retention and succession planning strategies.

However, during the course of investigating and researching the sources of recruitment and retention problems, the work group found that compensation is a driving force behind auditors leaving their state agency positions, especially in the higher cost-of-living areas of the Puget Sound region. Besides the cost-of-living factor, the passage of the Sarbanes-Oxley Act of 2002 has strongly influenced a significant increase in the number of auditing positions in the private sector and has become an important factor in escalating auditor salaries in the job market. Even the State Auditor's Office, which pays higher salaries for auditors than the three cabinet agencies in the work group, is experiencing a significantly higher rate of turnover.

In all occupations, high turnover and difficulty filling vacancies can harm both productivity and employee morale. In the case of the auditor series, these problems can directly impact the state's ability to identify and collect unpaid taxes, unemployment and workers' compensation premiums, and to pursue fraud investigations. There is a risk that in the long run, problems like this can affect the public's perception of the fairness and quality of the state tax and insurance systems.

To gather additional data, evaluate it and develop solutions and recommendations, the work group divided up into focus teams. Focus teams were formed for the following activities: compensation, including conducting a limited salary survey and studying assignment pay; evaluate turnover data, recruitment best practices and auditor succession planning strategies; conduct exit interviews and evaluate the data; develop mentoring and coaching program guidelines, auditor education opportunities; and apprenticeship, internships and in-training opportunities.

What Does the Data Show?

Turnover Rates

Although overall turnover rates have fluctuated for all three agencies, recurring spikes of exceeding 10% over the past five years have led to substantially replacing up to 50% of the agencies' auditor workforce. In some cases, such as in FY05 and FY06 for L&I and ESD and in FY07 for all three agencies, the turnover rate has exceeded 10% of the auditor workforce, which on a sustained basis over a period of five years, has resulted in the current state of the majority of auditors having less than five years of experience. DOR had implemented a "Step K" hiring strategy in early 2005 to stem the turnover tide. This strategy was expected to provide only short-term relief and, in fact, only lasted two years, as turnover in FY07 increased sharply to 12.6%, primarily among the newest auditors who were hired under the Step K strategy.

Statewide Turnover

Agency	FY05	FY06	FY07
Revenue	8.5%	7.3%	12.6%
Labor and Industries	15.4%	15.8%	17.1%
Employment Security	10.3%	20.2%	19.4%

Note 1: ESD turnover includes non-permanent employees due to hiring freezes.

Note 2: Average turnover rate for Washington State government is 9-10% (Department of Personnel)
Annual U.S. voluntary turnover for state and local government is 8% (Bureau of Labor Statistics)

The turnover data in certain geographic areas, especially King County, is particularly troubling. As shown in the table below, the turnover rates for King County have been consistently exceeding sustainable levels, with up to 60% of the staff turning over in a three year period. For example, of the 85 auditors stationed in the Department of Revenue's King County field office, 19 left in 2007.

Field Office Turnover

Agency	FY05	FY06	FY07
Revenue - King County	15.6%	19.8%	22.4%
L&I – Snohomish County	17.0%	11.1%	66.9%
L&I – Pierce County	23.0%	20.0%	20.0%
ESD – Pierce County	10.4%	6.7%	12.5%

Note: Revenue turnover includes transfers within the auditor classification to lower cost of living areas. ESD turnover includes Tax Specialist series; also non-permanent employees due to hiring freezes.

Estimated Business Cost of Vacancies (Potential Loss of Revenue)

What is the negative business impact of turnover? The work group developed a formula for estimating the potential dollar impacts of vacancies based on net revenue recoveries. The formula is comprised of the net recovery divided by the total number of auditors yielding the average dollar recovered per auditor. The average dollar recovered per auditor multiplied by the number of vacant positions for the year (total number of days auditor vacancies remained open) yields the estimated "cost of vacancies" (COV). With this formula, we calculated the potential estimated dollar impacts of vacancies for each agency. This formula does not account for the many other business costs of turnover, such as the cost of HR and divisional recruitment staff, marketing and advertising expenditures, hiring and orientation, lead auditor work time dedicated to training new and inexperienced auditors, and overtime. For example, ESD utilized 827 hours of overtime in 2005 and 5,156 hours of overtime in 2006 to meet federal & state audit goals.

- **For example:** $1 million net recovery / 10 Full Time Employees (FTEs) = $100,000 average per FTE x 2 vacant FTEs = $200,000 Cost of Vacancies for the year.

Agency	FY06 COV	FY07 COV
Revenue	$3,717,563	$3,917,861
Labor and Industries	$2,347,085	$1,755,798
Employment Security	$3,643,951	N/A

Note: Due to federal reporting requirements, ESD's COV is calculated for the calendar year of 2006. Calculations for the calendar year of 2007 will not be available until February, 2008.

Exit Interviews

Interviews were conducted with former audit employees to determine why they left state service. Contact was attempted with 55 auditors for exit interviews that had left a state agency. 23 individuals provided answers to the exit interview. Of the 23, that responded, 8 left with less than 3 years of experience. However, the years of experience ranged from 2 months to 26 years.

Overall, the majority of those interviewed responded favorably regarding their agencies. For instance, when asked if they received enough training to do their job effectively, 87% responded affirmatively. Likewise, when asked if they had an understanding of the performance expectations of the agencies, 83% responded positively.

Of the 23 auditors, six left due to temporary appointments, geographic relocation or retirement. However, a considerable majority, 59%, responded that "pay" was the major reason why they left. 70% responded that higher pay was the reason they would have stayed or what their new employer offered that their former agency did not.

Impacts on Productivity & Operations

- ESD is only meeting Federal audit goals (percent completion, timeliness, etc.) through the aggressive use of overtime, particularly in the South Sound (Pierce County). This is not a sustainable model and is causing an increase in employee burnout and turnover.

- ESD's SUTA Dumping Team started July 1, 2006, with three auditors. One auditor left within three months and it took over three months to hire their replacement.

- ESD has been unable to find qualified audit candidates who have the required 12 semester or 18 quarter hours of accounting for the Wage Unit, supervision has been forced to created Tax Specialist 1 In-Training to Tax Specialist 2 positions. These positions only requires 6 semester or 9 quarter hours of accounting, which the agency hopes will attract enough candidates to fill the entry level positions. To advance to a Tax Specialist 2, the candidate selected must complete the remainder of the necessary accounting hours during the one year in-training probation. This demonstrates the shortage of qualified candidates available possessing the 12 semester or 18 quarter hours of accounting because they are being placed in higher salaried positions in the private sector or in other government agencies offering higher salaries.

- In addition to a 67% total turnover rate in Snohomish County, L&I experienced a 100% turnover rate for journey-level auditors in FY07. The only staff remaining are the supervisor, one lead/trainer, and the fraud lead. At this point, while L&I has filled the other positions, it will still have 67% of staff with less than 6 months of auditing experience, all of whom are in-training, because the agency was unable to find any candidates that qualified as a full journey-level auditor.

- During FY 06, in a period when L&I's King County office had 3 vacancies (25% of line staff), a total of three recruitments were performed to find one candidate who was considered qualified and able to perform auditing, even when considering an in-training level. Further recruitment was required to fill the remaining two positions.

- L&I's program target was to complete 4,913 audits in FY 07, but it ended with 4,741, 3.5% short of the goal. This target was part of a multi-year commitment to the legislature, governor and the L&I Director on moving from 2% of businesses audited each year to 4%. This was the second year in a row in which the program was unable to meet its targets for audits completed, despite increased production on a filled FTE basis. This year is the final year of increased staffing, system changes and production expectations to meet the 4% goal. With 3 new vacancies in the first month of the fiscal year, L&I is already starting out behind targets.

- Despite the fact that L&I produced 4,741 audits in FY 07 versus 3,818 in FY 06, or a 24% increase, dollars identified went down by $849,000, or 4%. While a couple of large out-of-state firms were audited in FY 06, L&I has also seen a decrease in dollars identified per audit from staff that are in-training.

- Turnover has had a significant impact on DOR, where some of its field office are experiencing a "revolving door" situation. DOR gets new auditors trained and then they are hired by another employer. This constant turnover and hiring cycle creates a situation where DOR's most experienced auditors are pulled away from productive audit assignments to train the new hires and fewer experienced auditors are available to handle the larger, complex accounts. In fact, DOR currently has a situation where it has more new hires on a staff than lead auditors.

Impacts on Efforts to Address Underground Economy

- Conducting an underground economy audit requires a highly experienced auditor, in terms of skills, knowing the "tricks of the trade," and the ability to be very assertive. This is due to the increased complexity of these types of audits, and the customary lack of records and/or forthrightness of those being audited. According to a recent Unregistered Business study completed by the DOR, the approximate taxes and insurance premiums "lost" to the underground economy are $101 million per year, consisting of: unemployment insurance premiums of $15 million, workers compensation premiums of $34 million, and B&O and sales taxes of $52 million. The difficulties in recruiting and retaining experienced auditors decreases the ability to effectively pursue those in the underground economy and thus level the playing field for compliant businesses.

- ESD's Underground Economy Unit started July 1, 2006 with four auditors, two with prior employment experience and two with little or no experience. Within four months ESD lost both of its experienced auditors. ESD has been successful in filling auditor positions in this unit only by classifying the positions at a higher level than the journeyman tax specialist. Still, the time required to fill the positions was lengthy.

Compensation as a Factor in Auditor Recruitment & Retention

What have we done?
- DOR, L&I and ESD developed and conducted a limited scope salary survey, including a more diverse list of sources that are in direct job market competition for state auditors, such as public utility districts.
- Developed and conducted employee turnover exit survey.
- Examined salary differentials existing within auditor classifications in all state agencies.
- Evaluated the salary survey and exit interview data.

Journey-Level Auditor Salary Comparisons Among Public & Private Sector Employers - 2007
(Ranked by the top of the salary range in descending order)

Agency/Company	Range	Salary Range
Federal Department of Justice	GS-0511	$55,706 - $103,220
Lewis County Public Utility District	N/A	$72,000 - $90,000
Private Company C	N/A	$55,000 - $80,000
Private Company D	N/A	$45,000 - $80,000
Pierce County	N/A	$60,528 - $77,542
Private Company B	N/A	$61,000 - $75,000
Department of Defense	GS-12	$56,301 - $73,194
Federal Small Business Administration	GS-9	$46,041 - $72,421
City of Seattle	N/A	$59,028 - $68,633
State of Utah	N/A	$40,310 - $67,496
State of Colorado	N/A	$44,388 - $64,236
Internal Revenue Service	GS-11	$46,974 - $61,068
State of Nevada	N/A	$41,154 - $61,011
Private Company A	N/A	$50,000 - $60,000
California State Franchise Board	N/A	$34,486 - $57,470
Revenue	51	$40,692 - $53,436
Employment Security	47	$36,888 - $48,396
Labor & Industries	46	$36,036 – $47,220

NOTE: "Private Companies A, B, C, and D" have asked to have their salary information kept confidential.

What did we do with this information?
- Developed a list of companies to be added to the list of those surveyed during DOP's 2007 salary survey process.
- Responded to DOP's request for input for its review of the benchmark and indexing relationships for benchmark #18, Auditor, providing DOP with the benchmark modification, guidelines and additional survey source companies.
- Developed auditor classification and compensation packages for submittal to DOP on August 31, 2007, for consideration as a priority for collective bargaining.
- Developed a corresponding proposal for geographic assignment pay for the DOR auditors in the King County area for submittal to DOP for approval under the applicable collective bargaining agreement(s).

Non-Compensation Best Practices as Factors in Auditor Recruitment & Retention

What have we done?

- Converted job applications to on-line assessments.
- Created job postings that are more concise and compelling, using "plain talk," combined with a broader distribution network.
- Increased participation and outreach activities in college career fairs, diversity fairs, venues and job boards.
- Coordinated and hosted a "Career Open House."
- Developed and implemented a standardized exit survey.
- Expanded recruitment and tailored it to the auditor position, placing the agency in the colleges, as well as using job boards and participation in audit and tax-related groups for outreach.
- Streamlined hiring processes, reducing time from candidates' names supplied to the hiring supervisor to actual hire.
- Developed and implemented a stringent in-training plan used on a statewide basis in order to support increased recruitment and hiring of auditors that have entry-level skills and abilities, as opposed to journey-level.
- Increased the number of recruitments.
- Utilized the Program Coordinator 3 position for ESD's large account auditors to be able to compensate at a higher rate for the additional skills required.
- Created a new tax investigations unit in ESD utilizing the Auditor 4 and 5 positions to recruit auditors at a higher level.
- Sought to broaden the application of apprenticeship programs as an alternative means to recruit, hire and develop inexperienced auditors.
- Developed an auditor talent development strategy plan, including job shadowing, cross-training, mentorship and rotation.
- Created a succession management process and strategy.
- Expanded recruitment network to statewide colleges and universities specializing in accounting degrees.

Work Group Recommendations

Short-Term Recommendations

- Submit classification-compensation proposals
- Submit assignment pay proposal
- Standardize formal exit interview process
- Pilot apprenticeship program
- Implement interagency career auditor development program

Long-Term Recommendations

- Actively seek support for proposed classification-compensation proposals.
- Actively seek support for assignment pay proposals.
- Develop career plans for targeted positions and work with DOP for workforce planning of anticipated talent shortages identified through the work group's gap analysis.
- Deploy, administer and evaluate the succession management process developed by the work group.
- Evaluate the use of the apprenticeship program for transitioning employees into the auditing field.

On-Going Recommendations

- Continue interagency collaboration on recruitment and retention activities and initiatives
- Continue collaboration with DOP in utilizing recruitment services and support resources
- Incorporate recruitment and retention best practices into operations
- Evaluate feasibility of apprenticeship and conditional scholarship program
- Apply resources for employee talent development

Respectfully submitted by the Interagency Work Group
September 12, 2007