

Management Audits: Passé, or a Useful Quality Improvement Tool?

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America is a land of wonders, in which everything is in constant motion and every change seems an improvement. . . . No natural boundary seems to be set to the efforts of man; and in his eyes, what is not yet done is only what he has not yet attempted. . . .

—ALEXIS DE TOCQUEVILLE

Announcing a management audit is one of the fastest ways to activate the rumor mill:
“Who’s in trouble?”
It’s time to update your resume! They’re searching for the guilty.”
What did they do? It must be really bad.”
I told you they were out to get us!”

A city manager tells the story of a department head who jokingly commented that if she ever saw a particular consultant in her doorway holding a clipboard, she would have her resume revised by the end of the day: “If he’s in the vicinity, I must be in trouble.”

This comment held more truth than humor. In some organizations, a management audit has become synonymous with a shaky tenure, and the sighting of a particular consultant is a symbol of tough times ahead for a department, division, or manager. How can these stereotypes be avoided? Is the management audit so tainted that it has become passé, or is it a useful tool in the manager’s repertoire?

Not only are management audits survivable for local government managers, department heads, and organizations, but also they can be an important part of an organization's quality improvement process. Audits can generate problems, but these difficulties are largely avoidable. Taking time to plan carefully how the audit will be organized, introduced, conducted, and presented is the initial step toward success; thinking through these issues in advance can reduce later conflicts. Alternatively, the pre-planning process may lead the manager to use a wholly different strategy from an audit, if the pitfalls of conducting an audit outweigh the potential gains.

If the manager waits until the last minute to think through the issue of how and when the audit will be released to the council, staff, press, and public, it may be too late. Events may overtake the situation, forcing solutions that compromise the integrity of the document. Who will have a chance to review the draft document, and what does "review" mean?

If this issue is not carefully thought through before the audit begins, the credibility of the report can be threatened at the last minute. The consultant may balk at modifying the work product. Staff may think they have license to soften or even remove criticism. Councilmembers may ask to see the document in draft form, and there may be an assumption that they are able to ask for additional information or modifications.

Has the consultant's contract been written to accommodate these assumptions? Will pre-council review of the draft cast doubt on the independence of the audit? Do state laws on public information even allow for a draft document to be reviewed by the mayor or councilmembers without the audit's becoming a public document? Establishing and communicating ground rules in advance is imperative to avoid last-minute misunderstandings that can derail or degrade the process.

In this article, these issues and others will be explored from two perspectives.

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The first will be the standpoint of a city manager who has recently completed an audit of her city organization. The second viewpoint will be that of a consultant and former city manager who has prepared numerous management audits for government clients and also has used this tool in organizations he has managed.

A Manager's Perspective

Men make history, and not the other way around. In periods where there is no leadership, society stands still. Progress occurs when courageous, skillful leaders seize the opportunity to change things for the better.

—HARRY S. TRUMAN

At their most fundamental level, management audits are instruments for organizational self-reflection and change. What precipitates the decision to do a management audit? Sometimes, it is simply an internally driven desire to fine-tune and reassess an already effective organization. In other cases, the review is triggered by a change in elected or management leadership. External forces such as technology shifts, economic change, and

marketplace forces all can supply the impetus for introspection and change.

A successful management audit hinges upon the commitment of the participants to engage freely in the process and upon the level of trust and communication that exists before, during, and after the audit. An organizational review is most effective in a culture in which open debate and risk taking are recognized and rewarded. Employees who have learned to treat failures as learning experiences are more likely to participate actively in a quality improvement initiative.

Before undertaking such a review, the manager must candidly assess whether the organization is suited for a quality improvement initiative. Ironically, it is those organizations that are most in need of change—where ideas are stifled and distrust runs high—that may be the least likely candidates for a successful audit process. The management audit is not a substitute for leadership development; nor should it be used to address serious personnel issues.

Even in organizations that are well primed for a management review, effective communications before, during, and following the review are an integral element of a successful effort. Involve your employees in the decision to undertake the review, and let them know the ground rules in advance. If you inform the employees that the review is intended to improve organizational effectiveness and working conditions, they are more likely to bring issues of concern to the table. Let them know that their candid participation is an essential element of a successful effort. By the same token, it should be made clear that the review is not a search for scapegoats.

Regardless of the amount of preparation, participants in an organizational review will have varying thresholds for change, and the process should be structured to take these differences into account. Assure the participants that their comments will be kept confidential. Independently validate complaints or concerns, however,

so that the organizational review does not become a platform for private agendas.

The use of an independent party to conduct the audit should be considered. While it is possible to conduct targeted reviews using in-house staff, a consultant who is selected through a rigorous process is preferable for a large-scale review or for one in which the outcome is expected to generate controversy. The consultant can offer greater independence, impartiality, and fresh perspective. Staff may be more candid with the consultant than with an in-house team.

Organizations, by their very nature, tend to view themselves through their own lens. Employees may lack the experience or the training to gauge their own effectiveness against external benchmarks. Thus, a consultant can offer insights that may not be readily apparent. Concurrently, the consultant has the independence to make findings that, for whatever reasons, the organization has been unable to articulate on its own.

Selection of the right party to conduct the review is a key decision. If using in-house staff members, managers should ask themselves: Do they have the technical knowledge, communication skills, and interpersonal abilities to conduct the review? These same qualities apply to a consultant-based effort: Who are the professionals who will conduct the review? How many quality improvement processes have they done?

Do they have a one-size-fits-all approach, or do they customize the approach to your agency's specific needs and issues? How many hours will they spend on-site, interviewing staff, decisionmakers, and community representatives? Most important, a manager ought to talk to their other clients, to ascertain the success and relevance of their prior efforts.

Once the party who will conduct the management audit has been selected, set the ground rules in advance. Make a commitment that you will give the staff member or consultant the independence to make findings and

recommendations that he or she deems professionally appropriate. Also, agree to standards for confidentiality and to the method that will be used to bring forward confidential concerns that might arise (for example, personnel matters) in a way that does not compromise either the consultant's independence or the rights of employees.

Also, discuss who will have the privilege of reviewing the draft report before it is released. The manager may wish to review the draft report in advance in order to verify the accuracy of its findings. Any effort to change or dilute the findings, however, can defeat the very purpose of the review or, worse yet, undermine its acceptance as an independent effort.

Managers should be prepared to learn unexpected things from an organizational review. The purpose of the audit, after all, is to gain a new perspective on organizational needs and concerns. At the outset, you and the other participants were told that there was no expected outcome. Thus, your (and their) ability to receive the auditor's recommendations openly is a test of your commitment to the effort.

Once the management audit has been completed, it should be broadly shared with the stakeholders. Comments, questions, and criticisms of the report should be invited through employee group meetings and, as needed, through both informal and formal reviews with decisionmakers.

It is not necessary to adopt all of the management audit's recommendations. It may be advisable to reject certain recommendations because they are not appropriate for the organization or are not timely. The reasons for rejecting these recommendations, however, must be clearly articulated. By the same token, wholesale rejection of the recommendations is likely a sign either that the review was ineffective or that the organization was not properly prepared for the audit.

Once the recommendations are acted upon, affirm your progress in moving forward to implement them.

Adoption of the management audit's findings should be the beginning, not the end, of the process. Regularly, track the progress being made, and report that progress to the participants, including the public, on an ongoing basis. Most important, celebrate the changes and successes of your organization, and affirm that quality improvement is not an end product but a continuing effort to evolve as an organization in a changing world.

A Consultant's Perspective

Great change dominates the world, and unless we move with change we will become its victims.

—ROBERT F. KENNEDY

When a request for proposals (RFP) crosses a consultant's desk, he or she often takes a pause: Do I really want to get involved in this project? Is the audit a disguised search for justifications to remove a department head or a city or county manager? Is our firm simply collecting "evidence," or is the client making an honest attempt to improve the organization?

The bad reputation of management audits in some jurisdictions may be justified if the process is consistently used as an organizational form of the Inquisition. How can this be changed? What are the ways to use the tool effectively?

There should have been many things that the manager considered before deciding to do a management audit or organizational review. The accompanying audit checklist may be useful in helping to organize the manager's thoughts and in providing guidance on some of the questions to consider before beginning this process.

Why is the audit being considered? This threshold question may seem overly simplistic, but many projects start with a vague notion of the need for an audit, and before issues are thought out, the project is started, money is spent, but results are limited or not useful. Actually writing down a

problem statement or envisioning the outcome is a good first step. What is desired to happen? How will the organization be changed or improved? Without this step, solutions may be sought for the wrong problems.

Although some may dismiss this next suggestion as a trite semantic quibble, the manager may want to consider changing the term "management audit" to "organizational review" or "quality improvement study" to more clearly define the intentions. The term "management audit" has a limiting connotation that seems to suggest that the only thing being considered is how the work unit is being managed. "Organizational" or "departmental review" suggests a broader approach that should send the signal that the project will consider all aspects of an organization.

One refreshing trend is the number of managers who are regularly conducting organizational reviews. Several localities have either conducted government-wide reviews or regularly audit one department each year, depending on budgetary considerations. No one is exempt. No work unit is being singled out. All departments will eventually be reviewed.

In one instance, a manager opted to set an example by reviewing his department first. This approach suggests a commitment to quality improvement, rather than a signal that scapegoats are being sought. Anxiety decreases when the organization realizes that the audit process is an ongoing improvement tool, rather than an occasional approach used in times of crisis.

Another alternative is to review processes that cross departmental lines. A local government might audit the development process, for example, including aspects of planning, building, engineering, fire prevention, and public utilities.

Some managers resist organizational reviews because they fear that employees will use the opportunity to complain, vent frustrations, and stir up trouble. For the same reasons, man-

Management Audit Checklist

1. Define the problem. Why is a management audit being considered? What do you want to accomplish? Describe your vision of the outcome.
2. What will the process be called: a management audit, an organizational review, a quality improvement study, or what?
3. What is the available budget for the project?
4. Will the audit be conducted in-house or by an outside consultant?
5. Will a formal request for proposals (RFP) be prepared? How much specificity will be contained in the RFP?
6. Who will be informed of the audit (council, department head, staff, organization, press, community), and how? Will one-on-one interviews, focus groups, and/or surveys be used?
7. Who will be asked to participate in the interviews, focus groups, and/or surveys?
8. What confidentiality protocols need to be established with the consultant, employees, and other participants?
9. If focus groups are used, is the press likely to attend? Can they be excluded? Will participants be candid with the press in attendance? Should the focus group be continued if the press arrives uninvited? Are there other strategies to use if this is a potential problem?
10. What is the likelihood of council, staff, board, or commission members wanting to attend focus groups? Will participants be candid with officials in the room? Are there other strategies if this is a problem?
11. Will there be a review of preliminary or final drafts of the report by the manager, department head, staff, council, etc., before the release of the document?
12. What are the ground rules for the review? Can changes or additions be suggested, and under what circumstances?
13. How will the final report be distributed? Will it be primarily an internal document for administrative use, or will the council review and approve recommendations?
14. How will the report be used? Will a work program be developed? How will decisions be made on implementation?
15. What are other potential issues, roadblocks, or problems that might surface during the process?
16. After considering the answers to questions 1 through 15, is an audit the best strategy? If an audit is not appropriate, are there other techniques to be considered?
17. If an audit is the desired approach, what ground rules should be established for the project?
18. When, how, and to whom will the ground rules be communicated?

agers and employees often are reluctant to ask clients and customers for input. Is it better to know what employees and customers are thinking and feeling or to remain ignorant of organizational legends and rumors? Perceptions often become reality. Having information on employee and citizen concerns gives the manager an opportunity to confront misconceptions, to correct misinformation, or to make needed changes. Ignorance is not bliss.

Gauging employee and customer satisfaction is essential if the audit is to be valid. The only question is, how to collect the information? Should one-on-one interviews, focus groups, and/or surveys be used? Each approach has its pros and cons. Deciding which method to use will largely depend on organizational characteristics and on the budget for the project. One-on-one interviews guarantee the most confidentiality but are time-consuming.

Focus groups can generate additional ideas when the dynamics of the group process are working appropriately; however, some candor may be lost in a group setting.

Surveys can be useful, but response rates may be low. Surveys that are "proctored" by consultants during working hours are one alternative that increases response rates. A combination of these approaches often is the best solution. Managers should ask the consultant to publicize a phone number or e-mail address so that participants can make contact in a more private setting. Participants also may think of new information after the interview or focus group has concluded.

RFPs come in all shapes and sizes. Some seem to expect the consultant to prepare a report before being awarded the contract. Local government administrators ought to be realistic with their expectations within their RFPs. Some consultants will not respond if the time needed to prepare a proposal is out of balance with the size of the contract. Other RFPs propose solutions or describe how the project is to be conducted in the "scope of work" section, even before problems have been identified.

Managers can give the consultant freedom to be creative in the proposal, rather than dictating narrow boundaries. If the checklist has been used, the problem or vision statement can form the basis of the RFP. Describe in qualitative terms what outcomes you expect, rather than telling the consultant how to plan, organize, and conduct the study. If firms go to the trouble of responding to your proposal, send them each a letter on the outcome. Although this point seems basic, it is surprising how many jurisdictions never follow through with this courtesy.

The press often ignores organizational reviews unless its members smell controversy or an item will fit their formula. To be ignored by the media during the preparation of the review is ideal, but this cannot be assumed. Planning how to handle or react to press involvement will avoid

Look to ICMA

Here are publications that can be useful to managers as they consider conducting performance audits of their local government operations: ICMA's MIS Report entitled *Performance Auditing to Local Government* (1989, 21 pp., Item no. 40243, \$14.95) discusses the development of performance standards and staffing requirements.

A volume in the ICMA Municipal Management Series called *Management Policies in Local Government Finance* (1996, 450 pp., Item no. 42066, \$42.95) provides information to help improve the accuracy of local forecasting and budgeting and to identify worthwhile long-term projects and ways to finance them. It also covers such topics as efforts to foster accountability for performance in government, privatization and service contracting, and the consequences of a slowed economy.

ICMA's Clearinghouse Report *Executive Management and Compensation Program* (2001, 36 pp., Item no. 42655, \$16.00) describes the compensation policy of a pay-for-performance system and outlines guidelines for a performance management process.

Visit the Web site bookstore. icma.org, or call 1-800/745-8780 for more information or to order these ICMA publications.

later frustration. Open-meeting laws in your state may dictate how this can be handled. During one project, a local reporter insisted that he would attend a citizen focus group.

Fearing that the presence of the press would either stifle participation or cause grandstanding, one of the managers and the consultant team described their concerns to the press and also indicated that the focus group would be ended if a media representative arrived uninvited. One-on-one interviews would be the only

alternative considered. The press opted not to attend.

Similar concerns should be reviewed and decisions made in advance about attendance of the council, manager, staff, or board and commission members at general focus groups. Will citizens hesitate or be less candid if there are officials in the room? As with all of the issues outlined, thinking through the contingencies in advance and having pre-agreements on protocols will save time and frustration.

Taking Stock Is Vital

Excellent firms don't believe in excellence—only in constant improvement and constant change.

—TOM PETERS

Whether it is called a management audit, a quality improvement study, or an organizational review, the periodic analysis of departments, functions, or local government processes is a crucial part of continuous improvement. Taking stock of progress, comparing operations with best practices in other jurisdictions, analyzing organizational structures, gauging customer satisfaction, and exploring employee issues are all vital.

If the study finds that improvements are warranted, local government administrators should develop work programs with short-, mid-, and long-term implementation goals. If the review validates that departments or specific operations are functioning at peak levels, celebrate the success, and use the results to motivate the organization to continue fine-tuning its performance. Embrace change as not only inevitable but a welcome opportunity to improve. **PM**

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