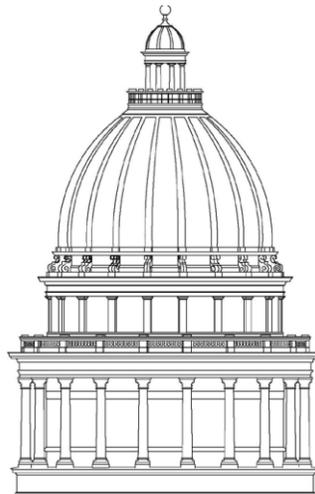


REPORT TO THE
UTAH LEGISLATURE

Number 2016-09



**A Performance Audit of the
Department of Human Resource Management's Field Service
Operations**

November 2016

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah



STATE OF UTAH

Office of the Legislative Auditor General

315 HOUSE BUILDING • PO BOX 145315 • SALT LAKE CITY, UT 84114-5315
(801) 538-1033 • FAX (801) 538-1063

Audit Subcommittee of the Legislative Management Committee

President Wayne L. Niederhauser, Co-Chair • Speaker Gregory H. Hughes, Co-Chair
Senator Gene Davis • Senator Ralph Okerlund • Representative Brian S. King • Representative James A. Dunnigan

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

November 15, 2016

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of the Department of Human Resource Management's Field Service Operations** (Report #2016-09). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

John M. Schaff, CIA
Auditor General

JMS/lm

A Digest of A Performance Audit of the Department of Human Resource Management's Field Service Operations

Chapter I Introduction

The Department of Human Resource Management (DHRM) is the central human resource office for the executive branch of the state. Department staff are responsible for the administration of the recruitment system, performance management, statewide liability training, classification, workforce planning, employee relations, and compensation functions as well as the state's human resource information systems. DHRM has about 135 employees and operates with a budget of about \$15 million, providing services for about 20,000 state employees.

Chapter II HR Services Need to Be Better Documented and Measured

Field Offices' Workload Needs to Be Reviewed. DHRM's field office staff including: directors, HR analysts, and HR specialists provide day-to-day direct user agency HR support. However, we found that DHRM management does not have sufficient information to understand the workload of each field office. Workload clearly varies among some offices. DHRM should review the field offices' workload and make adjustments to staffing to ensure that the field offices can provide consistent and adequate HR services to state agencies.

Service Level Agreements Need to Clearly Document HR Services and Responsibilities. Our review of DHRM's field offices found inconsistencies in the level of human resource (HR) services provided to their assigned state agencies. We believe that the HR responsibilities of both DHRM and state agencies can be better clarified using improved service-level-agreement documents. Currently, some provided HR services and specific agency needs are not recognized or documented in the service agreements. As examples, both the Department of Technology and the Department of Administrative Services have more complete service level agreements that include performance metrics agency requested tasks.

Chapter III

Although Consistent, Discipline Processing Needs to Be Enhanced

Misconduct Actions Are Generally Consistent. Field offices refer to their discipline logs to ensure that the discipline imposed is consistent. Our review of sampled discipline logs found that the discipline imposed was generally consistent. This consistency is demonstrated by the lack of overturned cases by the Career Service Review Office (CSRO). Each DHRM field office has discipline logs that track and summarize state employee discipline incidents with a primary purpose of helping to ensure that the discipline advice given by HR specialists to their agencies is consistent. Administrative rules require the consistent application of rules and standards when determining discipline.

Some Discipline Actions Were Not Consistent. There are some inconsistencies between the logs and personnel files that need to be addressed. These inconsistencies existed both within and across the field offices we reviewed. At times, insufficient documentation in the logs gave a misleading appearance of inconsistency. We reviewed the discipline logs of the six field offices and selected 41 incidents that appeared to have imposed discipline or corrective action inconsistent with actions taken in similar incidents. After reviewing employee files for more complete information, only 10 of the 41 cases displayed inconsistent disciplinary actions.

Discipline Log Review Shows Standardization Is Needed to Ensure Consistency. DHRM maintains employee discipline files; however, the primary working document is the discipline log. The log is used by HR specialists to give consistent discipline advice to agencies. A review of six field offices' discipline logs showed that DHRM needs a standardized process to document employee misconduct.

Chapter IV

Service Fee Concerns Are Being Addressed

DHRM Is Mostly Funded Through Service Fees. DHRM's funding has been comprised of two distinct line items. First, the administration and IT functions of DHRM has historically been funded directly through general fund appropriations. Second, general operations have been funded by DHRM's ISFs. The majority of the funding for DHRM has come through its HR Services ISF. For fiscal year 2017, a greater percentage of DHRM's funding has been shifted to its ISFs. As a result, DHRM's general appropriation has been reduced by \$2.6 million.

Two Service Fees Are Problematic. Both DHRM's payroll services and legal services have retained earnings that exceed federal guidelines. The federal government's Cost Allocation Services does not allow internal service funds (ISFs) to exceed 60 days of operating capital (fund balance held as retained earnings). DHRM has been working to reduce the ISFs retained earnings. Since 2011 total retained earnings have decreased \$1.3 million from a high of \$3.1 million to \$1.8 million in fiscal year 2016. The retained earnings for the two funds, in question, still remains about \$366,000 greater than allowed.

REPORT TO THE UTAH LEGISLATURE

Report No. 2016-09

A Performance Audit of the Department of Human Resource Management's Field Service Operations

November 2016

Audit Performed By:

Audit Manager	Tim Osterstock
Audit Supervisor	Wayne Kidd
Audit Staff	Tyson Cabulagan

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Chapter I

Introduction

The Department of Human Resource Management (DHRM) is the central human resource office for the executive branch of the state. Department staff are responsible for the administration of recruitment, performance management, statewide liability training, classification, workforce planning, employee relations, and compensation functions as well as the state's human resource information systems. DHRM has about 135 employees and operates with a budget of about \$15 million, providing services for about 20,000 state employees.

Utah Code 67-19-6(1)(a) states the mission of DHRM as follows: “develop, implement, and administer a statewide program of human resource management that will: aid in the efficient execution of public policy, fosters careers in public service for qualified employees, and render assistance to state agencies in performing their missions.”

DHRM has about 135 employees and operates with about a \$15 million budget.

DHRM Supports Agencies HR Needs Through Shared Services

Consolidation of human resource (HR) services has resulted in more standardized HR processes and reduced costs, as well as providing state agencies with HR expertise and assistance. We were told of only two other states (Alaska, Michigan) that have organized human resource management as a shared service. Shared service is where DHRM as a consolidated agency provide standardized HR services and consultation for state agencies, but state agencies make the final HR decisions (hiring and discipline). Most human resource management is decentralized in other states. However, a few states, such as Wisconsin, Idaho, and Wyoming, have contacted DHRM and are interested in human resource management as a shared service.

Purpose of Consolidation Is to Promote Standardized HR Processes

DHRM implemented House Bill (HB) 269 in 2007 and consolidated HR staff into one department. Prior to consolidation, each state agency had its own human resource staff. With consolidation, the department has worked to standardize HR

processes and has promoted consistent application of HR rules and laws across state agencies. In addition, the consolidation created a viewpoint independent of state agencies' management on matters related to personnel.

In September 2011, DHRM created a new centralized service center, the Employee Resource Information Center (ERIC), to centralize the handling of all routine HR questions and certain HR transactions that are common among state agencies. ERIC assists with setting up new employees, entering salary actions, handling payroll services, providing retirement estimates, and processing terminations. This consolidation has helped to efficiently and consistently process routine transactions for state agency employees.

DHRM Has Realized Cost Savings Since Consolidation.

DHRM reports the department has reduced 57 full-time equivalent (FTE) positions and reduced personnel costs by \$31 million. This \$31 million estimated cost savings is for the period from fiscal year 2007 to fiscal year 2015 and includes the removal of 23 vacant positions from the state's roles and a reduction of 34 active positions.

DHRM Charges State Agencies for Shared Services. The Department of Human Resource Management has been comprised of two distinct line items. First, the administration and IT functions of DHRM have been funded directly through general fund appropriations. The second line item is an internal service fund (ISF), established by HB 269 (2006 Legislative General Session), that allowed DHRM to charge a set rate per FTE to state agencies for payroll and HR services. The majority of DHRM's funding comes through its ISF. DHRM finances are discussed in more detail in Chapter IV.

Field Offices Are Structured to Support Agencies

DHRM has 12 field offices that oversee the HR function for 33 state agencies. Each field office has a HR director and at least one HR specialist and HR analyst. In addition, two field offices utilize an additional position, HR manager, due to the larger size of their user agencies. DHRM's 12 field offices consist of directors, analysts and specialists. The staff are housed in state agencies for better agency interaction. While not all agencies house DHRM staff, they still have access to services. Field office HR staff functions include: assisting state agencies in the recruitment process, performing job classification,

DHRM has reduced 57 FTE and reduced costs by \$31 million since consolidation.

DHRM has 12 field offices that provides HR support for 33 state agencies.

advising and consulting agencies regarding employee discipline, and handling strategic HR planning.

The number of staff at each field office and number of agencies supported by each field office also depends on the number of agency staff served. For example, most field offices have four to seven HR staff. However, the largest agency is supported by one field office with 18 staff members. Smaller agencies are pooled together and supported by a single field. The following sections describe each field office position.

Field Office Directors and Managers Oversee the Workload.

Directors are the liaison between DHRM and the agency. They manage the workload and workflow for their field office and staff. More specifically, directors work directly with agency leadership to advise and guide them regarding HR issues and strategies. HR directors are expected to participate in meetings with agency leadership and help agencies develop HR policies. The HR manager reports to an HR field office director. HR managers supervise the HR operation and HR staff at an agency or institution. During this audit we found that often this position requires the HR manager to also function as an HR specialist if there is not an HR specialist available on site. However, changes have since been made so HR managers will no longer have to function as HR specialists.

HR Analysts Manage the Hiring Process and Job

Classification Process. Analysts manage and support the hiring process by: comparing job duties with the announcement, developing the application questionnaire, setting up the evaluation process to rate each applicant based on job requirements, consulting with hiring officials, and screening applicants. The analyst also has the responsibility to manage the job classification process and ensure employee's job duties match the requested classification.

HR Specialists Oversee Employee Relations, Liability, and Discipline Processes. Specialists oversee the discipline process by compiling and analyzing documentation related to misconduct, advising agency supervisors regarding disciplinary options, applicable law, regulations, and policies, and drafting letters. Specialists are also charged with the responsibility to work with agencies regarding liability management (including FMLA & ADA), investigations, fair

DHRM field office positions include: HR director, HR manager, HR specialist, and HR analysts.

State agencies still have HR responsibilities for hiring and discipline decisions.

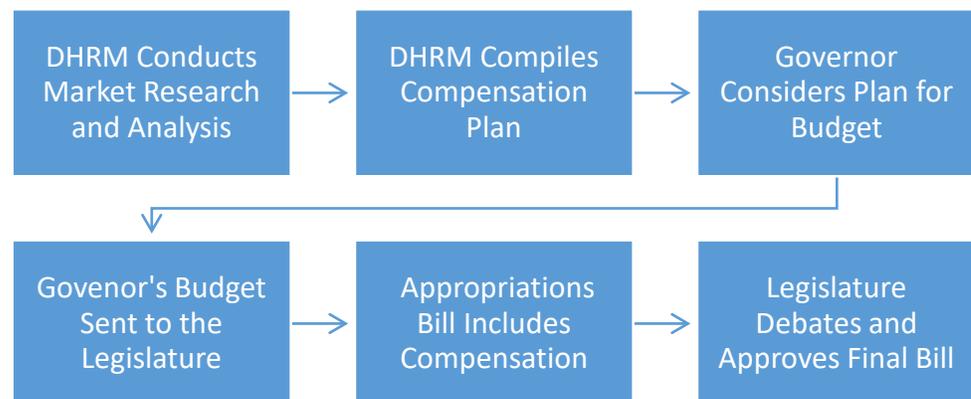
employment practices, employee and management development, and grievance resolutions.

State Agency Staff Have a Role in HR Functions. While DHRM is a shared service agency to assist with HR matters, individual agencies still have HR responsibilities. Each agency has the responsibility to make hiring decisions, including interviewing candidates and selecting who to hire. Some agencies choose to also check references rather than delegate this task to DHRM. For recruiting, each individual agency is responsible for its advertising and recruitment strategy and budget other than posting the position on the state’s website. HR analysts are responsible to do all advertising and recruiting for the agencies but it appears that agencies are not aware of other recruitment options. An additional agency responsibility is to impose discipline for misconduct after consulting with DHRM.

DHRM Assists State Agencies Regarding Compensation

Utah Code 67-19-12(5)(a) assigns the responsibility for compensation design and administration to DHRM. An important goal for DHRM is to offer a compensation package that will enable agencies to attract quality new hires and retain employees to ensure long-term sustainability. Figure 1.3 below shows DHRM’s role in annually assessing compensation for executive branch employees.

Figure 1.3 2016 DHRM’s Role in Administering Compensation. DHRM does the upfront work in assessing compensation for executive branch employees.



Each year, DHRM’s compensation team gathers market salary data and total compensation information from multiple sources within local and regional job markets. The survey results are analyzed and compared with benchmark positions in the executive branch. By October 31st of each year, DHRM compiles the *Total Compensation Plan*, which makes recommendations to the Governor for targeted-funding adjustments, merit increases, cost-of-living adjustments (COLA), and general and discretionary increases. It can also include recommendations for health and dental insurance and retirement funding.

The plan targets compensation increases for specific positions for which it is hard to attract and retain employees. HB 239, passed in the 2015 General Session, allows DHRM to use a variety of indicators (such as turnover data) rather than just salary range midpoint data to develop targeted compensation recommendations. HB 239 also allows DHRM to make adjustments to salary ranges of classified jobs based on market data. However, the structured adjustment process needs to be initiated by state agencies. The salary range adjustment cannot have a budgetary impact on an agency unless approval is received from the Governor’s Office. Ultimately, the Legislature approves all statewide compensation adjustments.

Many States Have Career Service Workforces

The way Utah designates executive branch employees is similar to that of other states. A majority of surveyed states have a similar ratio of career service designated employees, although a few states have made changes to designate their staff as at-will employees.

Survey Shows Utah Is Consistent with States’ Responses

We sent a survey through the National Association of State Personnel Executives (NASPE) to determine how other states designate executive branch employees. Of the 20 responses to our survey, 14 states indicated that 60 to 80 percent of their employees are designated as career service employees. The results indicate that most states are similar to Utah. Utah’s executive branch employs about 15,000 or 67 percent career service employees. The remaining employees are at-will. All Legislative and Judicial branch employees are at-will.

**DHRM conducts
annual compensation
surveys for all its
users.**

**Most states that
responded to our
survey have a similar
percentage of career
services employees to
Utah.**

Although states have considered changes to their human resource practices, it appears that moving to all at-will workforces is not a priority. No state that responded to our survey considered changing to an at-will workforce in the past 10 years. Two responding states, Florida and Texas, did change to an at-will workforce, but it was more than 10 years ago. In addition to the survey, we found that Arizona and Georgia have also made changes to their personnel systems to designate employees as at-will.

A Few States Have Changed to At-Will

Florida, Georgia, and Texas switched to primarily at-will personnel systems over 10 years ago. The Arizona Legislature passed a bill in 2012 to designate their workforce as at-will. The motivation for Arizona to designate employees as at-will was to improve a cumbersome personnel management system. In our survey, most states did indicate there is a difference in the time it takes to terminate employees designated as career services versus at-will.

Arizona, which did not respond to the survey, recently rescheduled its executive branch employees to at-will. The reform occurred to mirror HR practices already in place in the private sector. This move did not shorten the hiring process but did improve the process of dismissals.

States that designate their employees as career service and/or at-will must ensure compliance with federal law. Agencies receiving federal funding must ensure that they follow six merit principles in their HR practices.

- Open and fair recruiting practices
- Equitable and adequate compensation
- Job training
- Retention of quality employees, appropriate discipline for inadequate performance, and dismissal when necessary
- Fair treatment in accordance with federal equal employment and opportunity and nondiscrimination laws
- Protection from partisan coercion

Only Florida, Georgia, Texas, and Arizona have made changes to designate their workforce as at-will.

State must follow six merit principles when receiving federal funding.

In Utah, DHRM has the responsibility to ensure that agencies are following these principles.

Audit Scope and Objectives

The Legislative Audit Subcommittee requested that our office conduct a risk assessment of the Department of Human Resource Management (DHRM). For this audit, we reviewed the department's ability to achieve its statutory mission as a shared service agency.

A key component of DHRM's mission is the operation of its field services that directly supports the agencies. DHRM's administrative office sets the guidelines for field services, evaluates their performance, and governs their workload.

For this audit, we reviewed 6 of the 12 field offices. We interviewed the field directors, HR specialists, and HR analysts. We also interviewed agency staff to gain their perspective on human resource management. We reviewed the field offices' workload measures, discipline logs, case files, and agency service level agreements. We also reviewed statute, policies, and job descriptions to determine if DHRM was consistently providing human resource services. Additionally, we compared how DHRM functions compared to other states. This work is detailed in the following chapters:

- Chapter II of this report discusses the field offices workload, the shared human resource services between DHRM and state agencies, and service-level agreements.
- Chapter III summarizes the discipline log review for 6 of the 12 field offices.
- Chapter IV reviews DHRM's finances, its internal service fund, and retained earnings.

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Chapter II

HR Services Need to Be Better Documented and Measured

The Department of Human Resource Management (DHRM) needs to review field offices' workload to ensure adequate support for user agency human resource (HR) needs. Our review showed differences in DHRM field offices' workload and little data and analysis to support the differences. HR service levels vary among field offices due to state agencies requests. Additionally, DHRM's service level agreements should clearly state all HR services and the responsibilities of DHRM and state agencies. In addition, DHRM's metrics should be tied to the the services stated in the agreements to measure performance.

Field Offices' Workload Needs to Be Reviewed

DHRM's field office staff including: directors, HR analysts, and HR specialists provide day-to-day direct user agency HR support. However, we found that DHRM management does not have sufficient information to understand the workload of each field office. Workload clearly varies among some offices. DHRM should review the field offices' workload and make adjustments to staffing to ensure that the field offices can provide consistent and adequate HR services to state agencies.

Lack of Metrics Hinders Workload Equity Among Field Offices

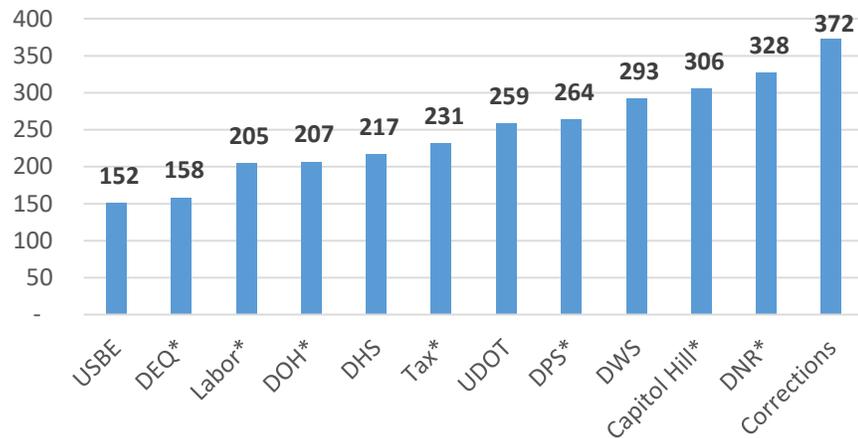
DHRM does not currently have sufficient workload metrics to ensure efficiency and equity among field offices. In some cases, data and information are available but should be better utilized. In other cases, field office metrics need to be developed to better balance workload and ensure adequate support. When we looked at efficiency measures we became concerned about equity among the field offices. Our review shows there are differing workload levels across field offices for both HR analysts and HR specialists. These differences are concerning because agencies pay the same rate per full time equivalent (FTE) for HR services but may not be receiving the same level of

DHRM does not have sufficient workload metrics.

service. DHRM should establish workload benchmarks to ensure fair and adequate support to state agencies.

HR Staffing Ratio Shows Disparity Among Field Offices. We analyzed the number of HR staff compared to the total agency FTE per field office. Because state agencies are billed per FTE we would expect the ratios would be similar for all field offices. We found there was some disparity in the staffing ratios among the agencies. Figure 2.1 shows the HR staffing ratio for the 12 field offices.

Figure 2.1 Agency FTEs per Assigned Field Office Staff in 2015. There is a large spread from the field office with the lowest number of staff per agency FTE to the highest.



Source: DHRM

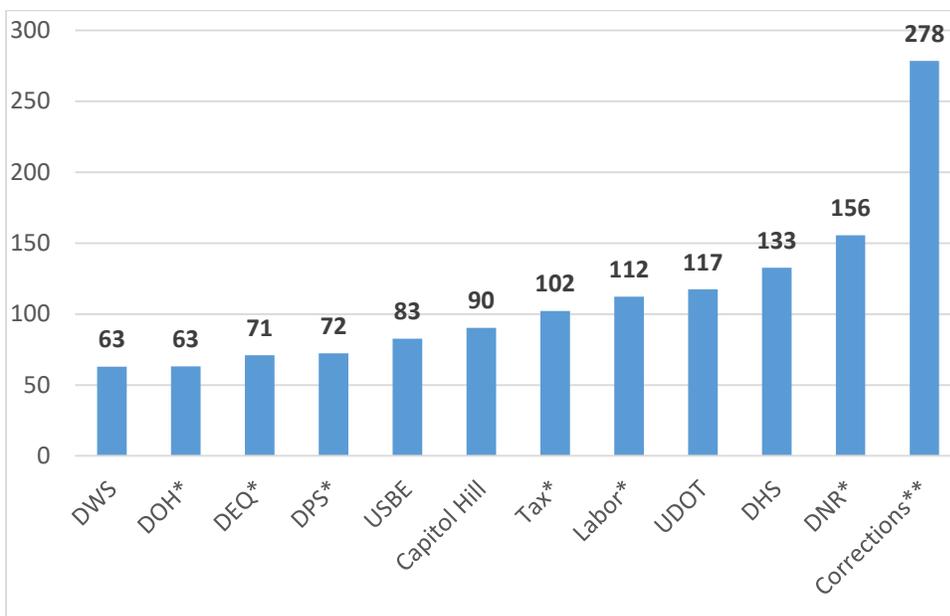
Note: * Indicates that the field office serves more than one agency. See Appendix A for a list of all agencies served by each field office.

As shown in figure 2.1, the Utah State Board of Education (USBE) and Department of Environmental Quality (DEQ) field offices have a much lower ratio of HR staff to agency FTE, implying HR is over staffed for these agencies. In contrast, The Department of Natural Resources (DNR) and the Department of Corrections (UDC) field offices have ratios more than twice as high as those of USBE and DEQ. These agencies appear to be under staffed. In 2015 the median ratio was 245 FTE per HR staff. The staffing ratios should be brought closer to this median to ensure fair and adequate HR support. DHRM should develop a benchmark to determine appropriate staffing levels to balance efficiency with an acceptable level of service for all participating user agencies.

Total Hires Ratio Also Shows Variation Among Field Offices. We analyzed the average total number of hires (new hires and rehires), adjusted for seasonal hires, from 2013 to 2015 divided by the total number of HR analysts. Total user agency hires are an HR analyst’s workload indicator that demonstrates a major portion of their worktime. Analyzing total hires after adjusting for seasonal hires shows the wide discrepancy of HR analyst workload at the 12 field offices. Figure 2.2 shows this disparity.

Workload measure of total annual hires per analyst also show disparity in HR support.

Figure 2.2 Three Year Average of Total Hires per HR Analyst by Field Office. There is a very large spread from the field office with the lowest number of hires per analyst to the highest.



*Note – Data is adjusted to account for agencies seasonal hires.
 * Indicates the field office serves more than one agency. See Appendix A for a list of all agencies served by each field office.
 **Corrections does bulk hiring of staff for training purposes, not all trainees transition to fulltime employees.
 Source: DHRM*

In 2015, the Department of Workforce Services (DWS) had a ratio of 63 hires per analyst and appears to be overstaffed while UDC had the highest ratio at 278 hires per analyst and appears to be understaffed. The median ratio is 96 hires per analyst. Although, hires are not the only task HR analysts perform, this analysis raises concern about current HR staffing levels and equity of services provided to individual agencies.

To compare Figure 2.1 and 2.2 we took the average rank of the ratio of agency FTE per HR staff and the ratio of average annual hires per HR analyst. This comparison showed that there were five agencies

with either consistently low or consistently high ratios. Since these five agencies are consistently outliers, we believe DHRM should review the staffing for these agencies in particular. Figure 2.3 shows each agency's rank for each staffing ratio.

Figure 2.3 Field Office Ratio Rankings. DEQ, USBE, and DOH have some of the lowest ratios while DNR and UDC consistently have the highest.

Field Office	FTE/HR Staff Ratio Rank	Hires/HR Analyst Ratio Rank
DEQ	2	3
USBE	1	5
DOH	4	2
DWS	9	1
Labor	3	8
DPS	8	4
Tax	6	7
DHS	5	10
Capitol Hill	10	6
UDOT	7	9
DNR	11	11
UDC	12	12

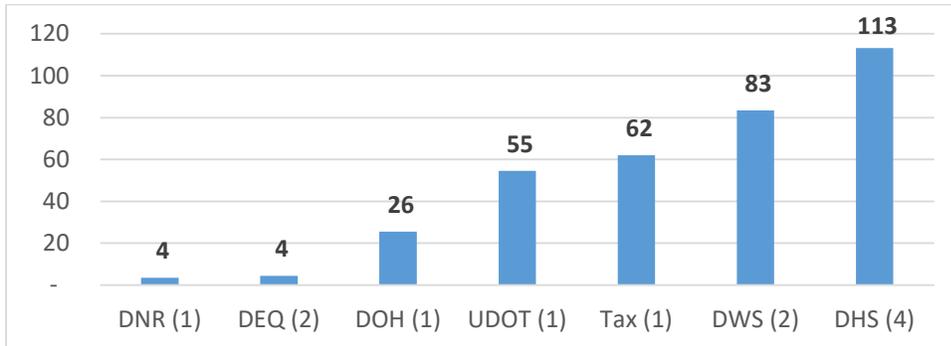
Note – Those highlighted in red are outliers. See Figure 2.1 and 2.2 for actual ratio for each field office.

The rankings show that field offices for the Department of Health (DOH), DEQ, Labor, USBE, and DWS fell at the low end of at least one of the ratios indicating possible overstaffing both overall and for HR analysts. DNR and UDC had the highest rankings, indicating possible understaffing. DHRM does have access to the information to create these metrics, but we found no evidence DHRM has analyzed field office workloads. DHRM has started to identify measurable tasks to begin tracking the time each task takes.

HR Specialist to Employee Ratio Has the Largest Variance Among Field Offices. Currently, DHRM has no workload metric for its specialists. However, after review of the individual discipline logs, we noticed a large variance in the number of incidents among agencies. HR specialists provide advice on disciplinary actions, so we compared the average annual incidents with the number of HR specialists to gain some insight into specialist activities. Figure 2.4 shows differences in the ratio for the agencies we reviewed.

DHRM has not fully utilized workload metrics to aid in field office staffing to ensure equitable and adequate support.

Figure 2.4 Three-Year Averages of Discipline Incidents per HR Specialist. There is a large spread of disciplinary actions per HR specialist in the log we reviewed.



Source: HR Field Office logs

Note: In parentheses is the number of HR specialist at the field office. Total disciplines are for years 2012-2015. With large numbers of missing dates, we were unable to look at discipline year by year.

DHS and DWS had the highest number of incidents per HR specialist while DEQ and DNR had the lowest values. Figure 2.4 demonstrates that there are differences in specialists’ workload pertaining to discipline. DHS, DWS and Tax are process-oriented operations and, as a result, have higher numbers of disciplinary actions (such as failures to meet production levels). On the other end, DNR and DEQ are program-directed agencies and have fewer production-related disciplinary actions.

We believe DHRM should account for workload when assigning HR specialists to field office to ensure adequate service. Although disciplinary incident advice is not the only task that HR specialists handle, it is the only actual measure we were able to compile. As an example, the HR specialist at DNR handles more worker’s compensation claims than other field offices, a task not represented in this workload metric (see Appendix B for additional information).

Eight field offices have only one specialist. While the other four field offices have between two and four dedicated HR specialists, DEQ with a very low discipline value has two specialists. DHS and USBE have HR managers that can assist the specialists to help offset the workload. Since there are so few specialists it may be difficult to equalize the workload. From our discussion with field office specialists, we were told one way to help offset workload is to use HR technicians, in the field or at the Employee Resource Information Center (ERIC) who can be used to help with routine tasks that some specialists handle.

DHRM should consider workload differences when staffing HR specialist.

New HRIS information system should have the capabilities to address workload concerns with field offices.

DHRM is currently in the process of developing a Human Resource Information System (HRIS) that will provide the ability to track the HR functions they currently cannot track. DHRM has worked to identify workflows and are developing standard operating procedures. In addition, the department is gathering data on workflows to create baselines and quality measures.

The goal of the new system is to improve efficiency and inform management of workflows. We believe DHRM should continue this process and ensure metrics are developed and tracked to measure the workload for the field offices. Set procedures, benchmarks, and metrics will help DHRM management to monitor workload, be more efficient, and ensure provision of adequate customer service to state agencies.

Also, during the audit, concerns were raised about the quality of applicants many agencies are receiving. Some hiring managers feel application questionnaire responses may not accurately reflect applicants resume or experience. This may be the result of the current review process of applicants. We were told by a few agencies that the applicants in the first interview pool were not the best candidates for the job. We believe that DHRM should discuss recruitment concerns with the agencies and work together to generate solutions.

Service Level Agreements Need to Clearly Document HR Services and Responsibilities

Our review of DHRM's field offices found inconsistencies in the level of human resource (HR) services provided to their assigned state agencies. We believe that the HR responsibilities of both DHRM and state agencies can be better clarified using improved service level agreement documents. Currently, some provided HR services and specific agency needs are not recognized or documented in the service agreements. As examples, both the Department of Technology and the Department of Administrative Services have more complete service level agreements that include performance metrics for agency requested tasks.

Agreements Do Not Reflect Specific HR Services

State agencies that receive DHRM services are required to have a service level agreement in place. *Utah Code* 67-19-6.1 states that the

DHRM executive director and agency head must annually sign and review an agreement specifying:

- Services to be provided by the department;
- Use of agency facilities and equipment by the field office;
- Protocols to resolve discrepancies between agency practice and Department of Human Resource Management policy; and
- Any other issue necessary for the proper functioning of the field office.

DHRM's service level agreements are generic, not agency specific. According to statute, the service level agreements should specify any issues necessary for the proper functioning of the field office. Specific HR projects requested by the agencies should clearly be outlined in the agreement to help ensure the proper functioning of the field offices.

To better ensure the proper functioning of the field offices, the workload for each office needs to be recognized. Some agencies involve the HR directors in specific agency-driven HR projects. For example, one field office director conducts ongoing exit surveys and analysis and is in the process of conducting a secretarial study and a position benchmarking study. Another field office director is helping an agency to accomplish 12 agency-selected HR objectives. Other HR directors appear to be mainly managing their staff and providing general HR support.

Field offices' and directors' workloads vary and are largely dependent on the agencies they serve. We found variations in the number of staff and projects supervised by directors. Some directors were heavily involved with the agencies while others appeared to strictly manage staff and give general HR guidance. DHRM should review the directors' workload and staffing to ensure experience is aligned to field office workload. It may be the case that some directors are more heavily involved in projects than others; if so, this extra work should be reflected in service agreements which is currently not the case.

We recommend that DHRM include HR-related services or specific projects that go beyond providing the basic HR services in service level agreements as needed. For the 2016 service level agreements, DHRM has added a clause that additional HR services

Directors' workloads varies between field offices depending on user agencies.

Additional projects, agreed upon by user agencies and DHRM management, should be recognized in service level agreements.

must be stated in writing and attached to the service level agreement. However, as of this audit, the agreements do not have any attachments specifying specific HR projects.

We believe this addition will not only help DHRM better assess the offices' workload, but will also help ensure that provided HR services are consistent among agencies. The responsibilities of DHRM and each agency should also be clearly stated for specific projects as well as for all HR services, which is discussed in the next section.

Service Level Agreements Can Be More Clear and Complete

DHRM service level agreements could be written to more clearly state the HR responsibilities of DHRM and the state agencies they serve. Currently, DHRM's agreements are the same for each user agency and include: the purpose of the agreement, the agreement period, provisions of the statute that pertains to DHRM, and statute explaining the responsibilities of the agency served. DHRM also provides an attachment to the agreement that outlines, in general, the services that DHRM will provide.

Other Service Providers' Service Level Agreements Are More Inclusive. Both the Department of Technology Services (DTS) and the Department of Administrative Services (DAS) service level agreements are written more clearly than DHRM's. These agreements clearly list the responsibilities of the providing agency and the state agencies they serve by subject matter. For example, in the DTS service level agreement with DAS, one of the listed responsibilities states that "DTS will provide support for Google Mail, Contact, and Calendar functions. DAS will provide support and training for the other Google Apps." Also, both DTS and DAS negotiate services with agencies that they serve based on individual needs, so agreements will have some differences in terms of services provided.

Some state agencies feel DHRM's service level agreements are not as clear as they could be. While agencies understand generally what services DHRM provides, they are not clear on all specific services. We believe that DHRM should review both DTS and DAS service level agreements and consider changing their service level agreements to a similar format—each HR responsibility of DHRM and the agency receiving the service clearly stated in the service level agreements.

DTS and DAS service agreements are more clear and detailed.

For 2015, all but one agency served by DHRM signed the service level agreement. That agency did not sign because it wanted clarification of the services DHRM will provide the agency. As of this audit, DHRM had met with this agency about the service level agreement but have not yet reached an agreement. We have also been told by other agencies' administrators that they would like to meet with DHRM administration to discuss HR services. We believe DHRM administration should meet with the agencies they serve each year to determine the services and special projects that DHRM will provide. DHRM should clearly state the agency's responsibilities and the parameters of each DHRM provided service.

Other Service Providers Tie Performance Metrics to Services Stated in Their Agreements. Both DTS and DAS provide metrics for each service provided to the agencies they serve. The metrics are tied to the services listed in the agreements. For DTS, agencies can go to the DTS website and review DTS's performance on each service provided. DTS has a metric and a targeted benchmark for each service, including a customer satisfaction metric and target benchmark.

DAS provides each agency a DAS Customer Service Summary annually, showing metrics and workload. One metric, for example, is the percent of underutilized vehicles. However, DAS staff told us they are building an on-line system similar to DTS's, so agencies they service can review metrics and workload in real time and compare their metrics with other state agencies.

DHRM should consider following the examples of DTS and DAS and develop metrics and targeted benchmarks for the services described in their service level agreements. For example, DHRM could develop a metric and a benchmark for the number of days it takes to process a new hire. DHRM could also develop metrics for the disciplinary process. Making the metrics readily available to state agencies would enable the agencies to make comparisons to other agencies, better understand their HR workload, and see DHRM's performance.

Recommendations

1. We recommend that the Department of Human Resource Management develop metrics and benchmarks to monitor the field offices' workload.

2. We recommend that the Department of Human Resource Management update its service level agreements by:
 - a. Clarifying DHRM and state agencies responsibilities
 - b. Including specific human resource services that are requested by agencies
 - c. Developing metrics to measure the department's performance and the agencies activities based on the services stated in the agreements

Chapter III

Although Consistent, Discipline Processing Needs to Be Enhanced

The Department of Human Resource Management (DHRM) advises state agencies on employee discipline decisions. To determine whether DHRM gives consistent advice, we reviewed discipline logs for 6 of the 12 DHRM's field offices. We found that the majority of discipline imposed is applied consistently, but DHRM can improve its process with better documentation. Additionally, field offices should use standardized forms and processes to ensure the information documented for each incident is relevant, complete, and accurate.

Misconduct Actions Are Generally Consistent

Field offices refer to their discipline logs to ensure that the discipline imposed is consistent. Our review of sampled discipline logs found that the discipline imposed was generally consistent. This consistency is demonstrated by the lack of overturned cases by the Career Service Review Office (CSRO). Each DHRM field office has discipline logs that track and summarize state employee discipline incidents with a primary purpose of helping to ensure that the discipline advice given by HR specialists to their agencies is consistent. Administrative rules require the consistent application of rules and standards when determining discipline.

However, state agencies make all discipline decisions, not DHRM staff. Even though we did not find a large number of inconsistencies, DHRM should continue to give consistent advice to each state agency to ensure that employees in the same work environment are treated consistently. Disciplinary action is more severe than corrective action. Figure 3.1 shows the levels of discipline and corrective action recognized by DHRM.

Discipline imposed is generally consistent but documentation in field office logs varies and should be improved.

Figure 3.1 DHRM’s Recognized Disciplinary and Corrective Actions. Actions are listed in descending order of severity.

Action Level	Corrective Actions/ Performance Improvement	Disciplinary Actions
Least Severe	Verbal Warning	
	Written Warning	
	Performance Improvement Plan (PIP)	
		Written Reprimand
Most Severe		Suspension Without Pay
		Demotion
		Dismissal

Source: DHRM Administrative Rules

Discipline and Corrective Actions Were Mostly Consistent Among Agencies

We reviewed the discipline logs of 6 of the 12 DHRM field offices for years 2012 through 2015 and found that action taken on employee misconduct was generally similar. Most actions appeared consistent within each individual office and between offices. The actions also appear to be appropriate as only 1 of 235 actions appealed to the CSRO between 2012 and 2015 was overturned.

In each field office, we found examples of consistent discipline imposed within the discipline logs. The following list identifies the reviewed field offices and a common action in each that displayed consistent action taken for a first misconduct offense:

- State Tax Commission Logs – Action taken for cash handling errors was written warnings
- DWS Logs – Action generally taken for accuracy issues (with regard to eligibility determinations for public assistance programs) was written warnings
- DHS Logs – Action taken for not meeting documentation standards was performance improvement plans
- DOH Logs – Action taken for unprofessional behavior was written warnings
- UDOT Logs – Action taken for being late to work was written warnings

Review of six field offices’ disciplinary logs found generally consistent actions are taken.

- DNR – No action taken in sufficient numbers to establish consistency

To compare actions among the different agencies, we focused on three general types of misconduct: time and attendance, performance, and sleeping on the job. For time and attendance misconduct, such as being late to work, agencies gave a written warning for the first offense. For poor performance, agencies also gave a written warning for the first offense. For sleeping on the job, agencies gave a written reprimand for the first offense.

We also found instances where agencies gave more severe punishment for repeat misconduct. For example, with time and attendance issues, a written warning was given for the first offense, a written reprimand for the second offense, and a suspension for the third offense. While this review focused on the consistent application of DHRM's processes across all field offices, DHRM acknowledges that courts, in reviewing the propriety and consistency of actions, do not consider the differences in actions taken between agencies.

Disciplinary Actions Are Rarely Overturned by the Career Service Review Office

The lack of cases overturned by the Career Service Review Office (CSRO) or that resulted in a lawsuit is evidence of the consistent and fair employee discipline imposed. The CSRO serves as the final administrative review for grievances that have not been resolved in prior appeals to the direct supervisor, division director, and/or agency head. The CSRO will review grievances filed for the following reasons:

- Dismissal
- Demotion
- Suspension
- Reduction in force
- Dispute concerning abandonment of position
- Wage grievance

Between 2012 and 2015, 235 grievance files were opened and only 1 was overturned by the CSRO. Comparing Utah to other states is difficult because each state's grievance and appeal processes differ.

Discipline imposed was generally more severe for second offenses.

Only one grievance was overturned by the CSRO between 2012 and 2015.

We reviewed 41 cases that appeared to be inconsistent and found only 10 displayed inconsistencies.

Most cases could be explained by additional information from personnel files.

Some Discipline Actions Were Not Consistent

There are some inconsistencies between the logs and personnel files that need to be addressed. These inconsistencies existed both within and across the field offices we reviewed. At times, insufficient documentation in the logs gave a misleading appearance of inconsistency. We reviewed the discipline logs of the six field offices and selected 41 incidents that appeared to have imposed discipline or corrective action inconsistent with actions taken in similar incidents. After reviewing employee files for more complete information, only 10 of the 41 cases displayed inconsistent disciplinary actions.

The reason for our reassessment of the number of inconsistent actions is that the files included far more complete information that supported the decisions. This additional information included disciplinary letters sent to the employees that contained additional detail and information on previous incidents of misconduct that were not listed in the logs. The discipline logs lacked the documentation necessary to draw fully informed conclusions. Adding to this lack of coordination, field office staff did not document their disciplinary advice given to agencies in either logs or files.

Inconsistencies Existed Within the Same Agencies

Some similar misconduct incidents appeared to result in inconsistent disciplinary actions. We took into account previous disciplinary action(s), seriousness of the misconduct when comparing discipline imposed, and agency policies. Figure 3.2 highlights six incidents of inconsistency identified in this review.

Figure 3.2 Summary of Disciplinary Inconsistencies for First Offense. Inconsistencies exist in all field offices.

Misconduct	More Severe Action	Less Severe Action
Language/Violent Behavior	Three-day suspension without pay	Written reprimand
Failure to Supervise	Two-day suspension without pay	Written reprimand
Sleeping on the Job	One-day suspension without pay	Written reprimand
Arguing	One-day suspension without pay	Written reprimand
Accuracy Issues	Performance improvement plan	Written warning

Source: Field office discipline logs

Each of the figure's rows demonstrate inconsistencies found for similar offenses within a single field office. In one case, the more severe action for a first offense exceeded an action taken against another employee's second offense for similar misconduct. In four of the five comparisons made in Figure 3.2, the more severe level of discipline imposed was suspension without pay. For similar misconduct, other employees received only a written reprimand – the lowest form of discipline. Finally, in one comparison, the action taken was a performance improvement plan for a first offense, although other employees usually were given a written warning.

In addition to the 41 selected incidents, we also found a number of occurrences where agencies appear to use written warnings and written reprimands interchangeably. However, a written reprimand is a disciplinary action, while a written warning is not considered discipline. DHRM should review the use of written warnings and written reprimands to ensure that these actions are used consistently.

Inconsistencies Existed Across State Agencies

The issue of inappropriate level of discipline is complicated because agencies make their own discipline decisions. DHRM takes an important advisory role as it should have adequate incident and historical documentation to help the agency make an informed decision. It is also important to note that state agencies have their own discipline policies that HR specialists must follow, so there will be some variance in discipline between agencies. However, DHRM should ensure the advice they give agencies is consistent with established policies as it also serves as guidance to the agencies.

Our review did find examples of apparent inconsistent actions between state agencies that may be aided by better, more consistent documentation. As an example, for sleeping at work one agency gave a suspension, while another gave a written reprimand in one instance and a written warning in a second. A similar example results from working non-approved overtime. Here, one agency gave a written reprimand while another gave a written warning. Again, we could not discern any significant differences from the available documentation.

DHRM does not have a consistent practice of what is documented across field offices.

HR Specialists' Advice Should Be Documented

Agencies make discipline decisions, but DHRM should ensure the advice they give agencies is consistent. DHRM has the responsibility to maintain the discipline logs and provide information on past discipline to ensure consistency and fairness. We recommend that DHRM require that their HR specialists document the options and associated risks they provide to assist agencies' disciplinary decisions. The reviewed discipline logs recorded the misconduct and the action taken by the agency, but the HR specialists' advice was not documented.

Currently, there is no consistent approach to what specialists and directors document in the discipline logs. Employee discipline files and the logs did not detail what other incidents were used as reference or what advice was given by DHRM. Without proper documentation, DHRM management does not know whether the advice that HR specialists and field directors gave was consistent.

Some agencies are frustrated because field office HR staff have occasionally given discipline advice that they change later on. Changes in advice can happen for a variety of valid reasons, such as new information or discussions with legal counsel. Documenting advice could help reduce this concern. Proper documentation would give management the ability to review advice for soundness and consistency.

Discipline Log Review Shows Standardization Is Needed to Ensure Consistency

DHRM maintains employee discipline files; however, the primary working document is the discipline logs. The log is used by HR specialists to give consistent discipline advice to agencies. A review of six field offices' discipline logs showed that DHRM needs a standardized process to document employee misconduct.

This review found a variety of inconsistent information documented in each of the discipline logs. The discipline logs were also missing some pertinent information and contained inaccurate information. It also appears that some agencies were not consulting with DHRM on employee discipline decisions. To improve the discipline logs, DHRM is developing a new data system that will help

DHRM better track misconduct incidents and discipline actions. Without an emphasis on consistent and accurate information, the state could be subject to liability issues.

Logs Need to Be Standardized

Field offices' logs were formatted differently, inconsistent in content, and contained varying levels of detail (see Appendix C to see differences in content). In one field office, we found two different discipline logs for two user agencies that the field office served. The logs had different formats and content. Notable differences in the discipline logs included the following:

- Discipline logs had two specific columns for misconduct and details about the misconduct while other logs had a single column to describe the misconduct.
- Logs had different formats with different column titles. Some field offices tracked an employee's position and others had a field for "other information" that included previous offenses.
- Logs had various dates for misconduct incidents such as date reported to HR, date of incident, date of letter to impose discipline, and date action was finalized.

Even though the logs had a number of differences, it should be noted that two field offices' discipline logs stood out from the others. These offices' logs were more complete, categorizing misconduct with well-thought-out alpha and numeric codes or standardize wording. The information in those logs was presented in a consistent format that appeared easy for the field office staff to review.

Because DHRM is centralized, we believe all field offices should use one discipline log format that requires the same information to document misconduct. This would help improve consistency across all field offices, ensure employees are treated equally, and allow for staff to move between field offices without needing additional training.

Each field office log was formatted differently with varying level of details documented.

Since DHRM is centralized, field offices should follow the same documentation practices and use the same forms.

Discipline logs were missing information ranging from dates to the discipline imposed.

Logs Need to Be Complete and Accurate

Log entries were often incomplete, lacking context and necessary information. Missing data in the logs, ranging from missing the date of the misconduct to no entry of the actual discipline imposed, severely limits the use of the logs as historic documentation. (The missing dates also prevented year-by-year analyses of the logs for this audit.) The logs did not include all misconduct incidents. We found incidents in the employee discipline files that were not documented in the logs. In addition, we found incidents with inaccurate information in the logs we reviewed, as examples:

- A log stated the employee received a 24-hour suspension without pay, but the actual discipline imposed was a written reprimand.
- A log stated an employee was suspended for 10 days, but information in the employee's discipline file indicated 8 days.
- A log stated that an employee was suspended, but the time period was not stated. The employee's discipline file stated five days.

These deficiencies are concerning because the discipline logs are used as a reference of past disciplinary actions to enable consistency in current actions. A standardized form and process would allow for consistent levels of detail and information that aids in fulfilling *Utah Code* 67-19-6.1(4)(c) which states that a state agency shall “. . . discipline its employees in consultation with the department [DHRM].” The service level agreements between user agencies and DHRM also state that the agencies will “. . . consult with DHRM on decisions concerning employee performance improvement and discipline.”

As mentioned previously in this report, DHRM is working on a new data system, HRIS, that will help resolve some of these concerns. The new system should ensure that all field offices use the same electronic forms, which will require data entry in certain fields, reducing missing information. We believe this system could increase consistency and help DHRM to better track actions taken on employee misconduct.

Code calls for agencies to discipline their employees in consultation with the DHRM.

Recommendations

1. We recommend that the Department of Human Resource Management document the options and associated risks they provide to agencies to assist in agency discipline and employee performance improvement decisions.
2. We recommend that the Department of Human Resource Management standardize the discipline logs used by all field offices.
3. We recommend that Department of Human Resource Management provide training to state agencies and ensure that agencies consult with the department on decisions regarding discipline and employee performance improvement.

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Chapter IV Service Fee Concerns Are Being Addressed

The majority of funding for the Department of Human Resource Management (DHRM) are service fees paid through its four separate Internal Service Funds (ISFs). DHRM charges state agencies for HR related services. Four service fees cover the delivery costs of HR services and state payroll processing costs. High retained earnings levels in two of the service fees do not comply with federal guidelines. DHRM has worked on reducing these retained earnings for several years. Two additional issues with the legal services' ISF are being addressed by DHRM. First, now that the AG's office has ISF authority, DHRM is working with policymakers to potentially transfer the legal services ISF to the Office of the Attorney General (AG's office). And, second, the methodology to collect the fee will need to be changed to meet federal guidelines.

DHRM Is Mostly Funded Through Service Fees

DHRM's funding has been comprised of two distinct line items. First, the administration and IT functions of DHRM has historically been funded directly through general fund appropriations. Second, general operations have been funded by DHRM's ISFs. The majority of the funding for DHRM has come through its HR Services ISF. For fiscal year 2017, a greater percentage of DHRM's funding has been shifted to its ISFs. As a result, DHRM's general appropriation has been reduced by \$2.6 million.

When agencies HR staff were consolidated under DHRM, House Bill 269 (2006 Legislative General Session) allowed DHRM to have ISFs. DHRM was permitted to charge state agencies a set rate, based on full-time equivalent (FTE) employees for payroll and HR services. DHRM, along with the rate committee monitors expenses to make sure the ISFs' rates cover HR costs.

**Fiscal Year 2017
change made DHRM
nearly all ISF funded.**

More of DHRM Funding Has Shifted to Its Internal Service Funds

The majority of the DHRM’s funding, approximately \$12 to \$14 million annually comes from its ISFs. In fiscal year 2016, approximately \$2.7 million of DHRM’s funding came from their General Fund appropriation. For fiscal year 2017, the Legislature shifted the majority of funding from the department’s General Fund appropriation to the department’s ISFs. To balance this change, the HR Services ISF rate was increased from \$617 to \$723 per FTE and a new \$12 per FTE ISF rate was created to pay for HR’s core systems. The general fund appropriation for DHRM was eliminated with the exception of \$82,400 to cover the cost of the administrative law judge reviews. Figure 4.1 shows this change in DHRM’s financing sources.

Figure 4.1 Comparison of DHRM Revenues Between FY 2016 and FY 2017. For fiscal year 2017, the Legislature reduced DHRM’s general fund appropriation by \$2,572,200, and the funding source shifted to agency service fees.

Revenue Source	FY2016	FY2017
Internal Service Funds		
HR Services	\$11,246,900	\$13,199,400
Payroll Services	574,000	669,400
Legal Services	111,300	300,000
Core System		237,600
ISF Total	\$11,932,200	\$14,406,400
General Fund Appropriation	2,654,600	82,400
Other Dedicated Credits*	209,400	200,000
Beginning Nonlapsing	300,000	50,000
Total	\$ 15,096,200	\$ 14,738,800
ISF Retained Earnings	\$ 1,823,100	

Source: 2016 COBI

**For the State Management Liability Training*

Figure 4.1 shows that almost all of DHRM’s funding now comes from its internal service funds. The shift of funding in fiscal year 2017 to DHRM’s ISF reduced DHRM’s total funding by \$357,400. To address this funding shift, state agencies were given additional appropriations for fiscal year 2017 to cover the increase in HR service fees.

DHRM Charges State Agencies for HR Services. There are four service fees that DHRM charges state agencies based on FTEs and deposits in the following ISFs:

1. **HR Services.** This fee is the primary program for the development and delivery of human resource services to state agencies. This program develops and delivers frontline services including: classification, recruitment assistance, training, management of grievances, and application of DHRM policies.
2. **Payroll Services.** This fee covers the costs to process payroll for state agencies, which is part of the ERIC service center. HB 80 requires all state agencies to receive payroll services from DHRM with the exception of DTS, DNR, UDOT, DPS, and the Utah Schools for the Deaf and the Blind.
3. **Legal Services.** This state agency fee is for the Office of the Attorney General (AG) legal services involving employee issues with the Career Services Review Office (CSRO).
4. **Core Systems.** This fee pays for the costs of the main HR system, (HRE) and the recruitment system (NEOGov).

Statute Requires a Rate Committee to Approve Service Fee Rates. *Utah Code* 67-19-11(3) creates a rate committee that consists of the executive directors or their designee from seven state agencies that use services and pay fees to one of DHRM's internal service funds. The current rate committee consists of representatives from the Governor's Office of Management and Budget (GOMB), Department of Workforce Services, Labor Commission, Department of Natural Resources, Department of Health, Department of Human Services, and the Insurance Department.

The rate committee meets at least once a year to review the proposed rate and fee schedule for human resource management services rendered and costs incurred by the AG's office in defending the state in a grievance. The rate committee recommends a proposed rate and fee schedule for the internal service fund to GOMB and the Legislature. In addition, the rate committee shall discuss the service performance of each internal service fund and any potential adjustments to the service level received by state agencies that pay fees to an internal service fund.

DHRM's ISF rates are annually approved by a User Rate Committee.

DHRM's Expenses Are Monitored

DHRM, along with the rate committee, monitors the service fee rates to make sure that the funding is adequate to meet expenses. At the same time, DHRM has also been reducing its ISF retained earnings for the past few years to meet federal requirements.

Figure 4.2 shows the division of DHRM's expenses between DHRM's two revenue sources, the general fund appropriation and the internal service funds. For fiscal year 2016, DHRM administrative costs are being paid from the general fund appropriation, and agency costs are paid from the ISFs. Moving forward, all of DHRM's expenses will be paid from its ISF, except for the administrative law judge reviews and the state management liability training.

Figure 4.2 Fiscal Year 2016 Expenses for DHRM. DHRM's main expense is personnel services—salary and benefits for employees.

Expense	General Appropriation	Internal Service Fund (ISF)
Total Revenues	\$ 3,164,000	\$ 11,932,200
Expenditures:		
Personnel Services	\$ 1,014,700	\$ 11,055,800
Current Expense	257,300	651,100
Data Processing Exp.	1,380,200	303,100
Travel	15,100	23,400
Total Expenses	\$ 2,667,200	\$ 12,033,400
Net Revenues	496,800	(101,200)

Source: 2016 COBI

*For the State Management Liability Training

Figure 4.2 shows that DHRM spent most of their general appropriation in 2016, except for \$496,800 while the ISFs had a deficit of \$101,200. The deficit reduced the overall ISFs retained earnings to \$1,823,100 by the end of fiscal year 2016. DHRM has been actively reducing the retained earnings in the ISFs to meet federal guidelines that are discussed in the next section.

Two Service Fees Are Problematic

Both DHRM's payroll services and legal services have retained earnings that exceed federal guidelines. The federal government's Cost Allocation Services does not allow internal service funds (ISFs) to exceed 60 days of operating capital (fund balance held as retained earnings). DHRM has been working to reduce the ISFs retained earnings. Since 2011 total retained earnings have decreased \$1.3 million from a high of \$3.1 million to \$1.8 million in fiscal year 2016. The retained earnings for the two funds still remains about \$366,000 greater than allowed.

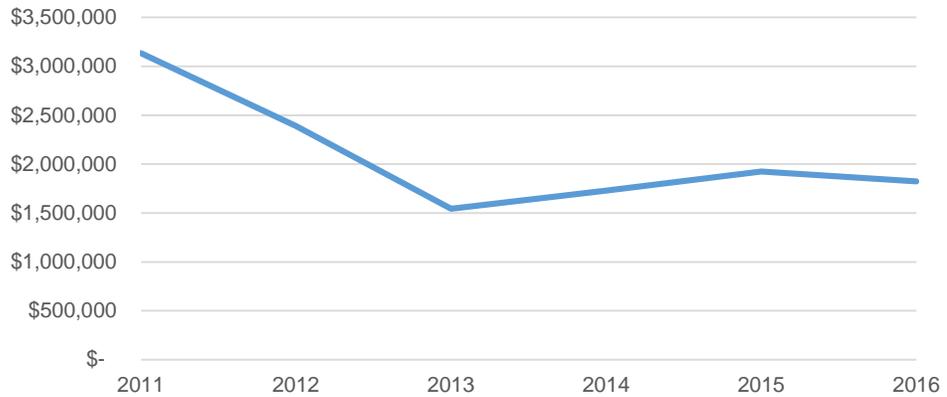
Two additional issues with the legal services ISF are currently being addressed by DHRM. First, the legal services ISF is a pass through fee to the AG's office for administrative hearing related expenses. Now that the AG's office has ISF authority, this funding should be assigned to and managed by the AG's office. Second, the methodology to collect the fee will need to be changed to meet federal guidelines. Collecting the fee based on FTE is no longer acceptable to Cost Allocation Services.

Retained Earnings for Two Service Fees Exceed Federal Guidelines

The federal government does not allow ISFs retained earnings to exceed 60 days of operating capital, because federal cost allocators require services to be aligned with costs. The federal government does not want federal funding to be accumulated by state programs. The federal government's Cost Allocation Services reviews the state's ISFs annually. Figure 4.3 shows that DHRM has worked to reduce the ISFs retained earnings from \$3.1 million in 2011 to \$1.8 million in 2016.

DHRM's retained earnings have exceeded federal guidelines since FY2011.

Figure 4.3 Internal Service Funds' Retained Earnings History. DHRM's retained earnings have decreased by \$1.3 million since 2011.



Source: DHRM

DHRM was required by Cost Allocation Services, as of last year, not to allow retained earnings for each individual ISF service fee to exceed the 60-day limit. Two of the four service fees retained earnings exceed the federal limit.

As of 2016, the payroll services ISF exceed the federal limit by \$281,000, and legal services ISF exceed the limit by \$85,000. The payroll services ISF was negative for several years, but was increased by the addition of imputed revenues (revenue gains from federal and state sources that were not collected) from 2013. The federal government determined that \$378,457 of revenues that could have been collected by DHRM were not. This amount, although not collected, was attributed to revenues and thus increasing the retained earnings for the legal service ISF.

DHRM along with the rate committee are monitoring the retained earnings as the service fee rates are reviewed annually. Adjustments have been made to the payroll services rate. In 2015 the rate was \$64 per FTE but it has been reduced to \$54 per FTE in 2017. Also, DHRM will not be charging state agencies a fee for legal services in 2017, but will be directly billing agencies the actual costs of the cases up to the amount of their appropriation and relying on the retained earnings (of \$145,100) to cover the remaining cost of the administrative hearings. DHRM will also be required to pay back the federal portion of the retained earnings that exceed the federal limit in 2017. We recommend that in the future DHRM keep retained earnings balances for the ISFs within federal guidelines.

Fewer cases brought before the CSRO resulted in lower spending and unintended increases to retained earnings.

The retained earnings spend down resulted in a user rate reduction from \$64 to \$54 per FTE in FY 2017.

Legal Services ISF Issues Are Being Considered by DHRM

The legal services ISF is a pass through fee to the AG's office. Since 2012, DHRM has been collecting the fee for the AG's office. When employees grieve to the CSRO, state agencies have asked the AG's office to represent them at the administrative hearings. The fee is to cover the AG's office billings to represent state agencies at the hearings.

A consultant was hired by the Division of Finance, to conduct a review of the Statewide Cost Allocation Plan in 2015. The consultant's report recommended that the AG's office bill the administrative hearing costs directly to the customer agencies, instead of passing the billings through DHRM. We agree with the consultant's recommendation. In the 2016 General Session, the AG's office was given ISF authority. With this new authority, we believe that the AG's office should manage the legal services ISF and bill agencies for their services.

The second issue with the legal services ISF is DHRM's allocation of the AG's office billings based on FTEs. DHRM charges all state agencies an ISF rate based on the agencies' FTEs. The concern of the federal government's Cost Allocation Services is that the billings from the AG's office are not based on actual hours and costs. Some agencies have paid the legal services fee, but have not had an employee grieve to the CSRO. The federal negotiator has disallowed this method of charging beginning in fiscal year 2017, but is not requiring payback of past years if a new funding methodology is used. The consultant, also identified this issue in their report. The consultant was concerned that the Cost Allocation Services could require DHRM to refund the federal portion of the billings.

As mentioned above, for fiscal year 2017, DHRM is going to directly bill agencies for the administrative hearings costs up to the amount the agency was appropriated, then use the \$145,000 in the ISF's retained earnings to cover shortages. It may be difficult for a small agency to pay the full-cost to be represented at a hearing. For fiscal year 2018, the AG's office needs to work with Cost Allocation Services to develop an acceptable methodology that aligns costs and services for the period that the service is provided.

**The Office of the
Attorney General's
new ISF authority
allows the AG rather
than DHRM to bill user
agencies for hearing
costs.**

Recommendations

1. We recommend that the Department of Human Resource Management keep retained earnings for the internal service funds within federal guidelines.
2. We recommend that the Legislature consider transferring the legal services internal service fund to the Office of the Attorney General.

Appendicies

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Appendix A

Agencies Served by DHRM Field Offices. Only 5 of the 12 field offices serve a single agency, the rest of the field offices service between 2 and 8 agencies.

Field Office	Agencies Served	Number of Agencies
Capitol Hill	Capitol Preservation, State Treasurer, Department of Administrative Services, Department of Technology Services, and Navajo Trust Administration	5
DEQ	Career Service Review Office, Department of Environmental Quality, Department of Heritage & Arts, Governor's Office, Governor's Office of Economic Development, Public Lands Policy Coordinating Office, School and Institutional Trust Lands Administration, and Utah Science Technology and Research Initiative	8
DHS	Department of Human Services	1
DNR	Department of Human Resource Management and Department of Natural Resources	2
DOH	Department of Health, Department of Insurance, and the Office of the Inspector General	3
DPS	Board of Pardons and Parole, Department of Public Safety, Department of Veterans' Affairs, and Utah National Guard	4
DWS	Department of Workforce Services	1
Labor	Department of Alcoholic Beverage Control, Department of Commerce, Financial Institutions, Labor Commission, and Public Service Commission	5
Tax	Utah Department of Agriculture and Food and Tax Commission	2
UDC	Department of Corrections	1
UDOT	Utah Department of Transportation	1
USBE	Board of Education	1

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Appendix B

Ratio of Employees to HR Specialists. HR specialist ratios vary dramatically. The HR specialist for the DPS field office is responsible for more than 4 times the employees that a DEQ specialist oversees. The HR Manager position is a limited position that is used in two field offices to augment the HR Specialists.

Field Office	No. of Specialists	No. of Managers	No. of Employees	Ratio of Employees to Specialist	Ratio w/ Managers
DEQ*	2	-	952	476	-
DWS	2	-	1,784	892	-
DHS	4	2	4,207	1,052	701
Corrections	2	-	2,147	1,074	-
Capitol Hill*	1	-	1,242	1,242	-
Tax*	1	-	1,280	1,280	-
DOH*	1	-	1,320	1,320	-
Labor*	1	-	1,358	1,358	-
USBEL	1	1	1,441	1,441	721
UDOT	1	-	1,635	1,635	-
DNR*	1	-	2,042	2,042	-
DPS*	1	-	2,120	2,120	-

Source: DHRM

Note: * indicates that the listed field office services more than one agency. See Appendix A for a list of all agencies served by each field office.

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Appendix C

List of Discipline Log Headings by Field Office. Each HR field office had different headings for their discipline logs creating varying degrees of detail and information.

Heading	Tax	UDOT	DWS	DNR	DHS	DOH
Common Headings:						
Agency Head/Director	•	•	•	•	•	
Description of Misconduct	•	•	•	•	•	•
Discipline Detail/Hours of SWOP	•	•			•	
Discipline Imposed	•	•	•	•		•
EIN		•	•	•	•	•
General Category of Misconduct	•	•				
Location/Division/Org./Area	•	•	•	•	•	•
Name of Employee Disciplined	•	•	•	•	•	•
Other Information			•	•	•	•
Supervisor (Name)			•	•		•
Dates:						
Date			•	•		•
Date Action Finalized					•	
Date Discipline/PI Imposed/Letter Issued	•					
Infraction Date				•		
Date Letter of Intent Issued	•				•	
Date Received Final Letter		•				
Date Referred to HR	•				•	
Other Headings:						
Action By						•
Comments	•					
CSRO (Y/N)	•					
Final Outcome				•	•	•
HR Docs		•			•	
Intent Issued By					•	
Probationary/Seasonal (Y/N)	•				•	
Specialist or Manager	•		•		•	
Supervisor (Y/N)	•				•	
Title		•				
Year					•	

Source: Individual field office discipline logs

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Agency Response

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State of Utah

GARY R. HERBERT
Governor

GREG BELL
Lieutenant Governor

Department of Human Resource Management

DEBBIE CRAGUN, MAOM,SPHR
Executive Director

WENDY PETERSON, SPHR
Deputy Director

November 4, 2016

John Schaff, Auditor General
Legislative Auditor's Office
W315 State Capitol Complex
Salt Lake City, Utah 84114

Dear Mr. Schaff,

Thank you for the opportunity to review and respond to the draft Performance Audit of the Department of Human Resources Management's Field Service Operations. We appreciate the hard work and professionalism of the auditors and welcome the recommendations made by the team.

The recommendations from the audit and DHRM's response are as follows:

Chapter II - HR Services Need to Be Better Documented and Measured

Recommendation # 1

We recommend that the Department of Human Resource Management develop metrics and benchmarks to monitor field offices' workload.

Response #1

DHRM supports this recommendation. DHRM has made progress in these areas in the past 18 months and several active projects will increase our ability to measure field office workload. As noted in this audit, DHRM is using core product/service lines to produce measurement profiles, define standard work, and evaluate capacity. DHRM has implemented a limited (manual) method of data gathering against this framework until it can be collected within the new Human Resource Information System (HRIS) system.

The development of a new HRIS targets a comprehensive workflow management system and will reflect lessons learned from improving operations. It is anticipated that the core system (coded by DTS) will be launched in early 2017. Workflows will progressively be developed for all aspects of HR work according to standard operating procedures. It is anticipated that all HR workflows will be active in HRIS before the conclusion of FY2019.

We further note that as these elements will produce important insights, there remains some elements of value-adding HR work that does not automatically translate into the initiation of a standard workflow. For example, HR employees engage in consultative services that do not always produce an end product. These services are essential to both HR and customers but become difficult to capture, quantify and measure. Appropriate benchmarking will require further research and development into these areas.

Recommendation #2

We recommend that the Department of Human Resource Management update its service level agreements by a) clarifying DHRM and state agency responsibilities; b) including specific human resource services that are requested by agencies; c) developing metrics to measure the department's performance and the agencies activities based on the services stated in the agreement.

Response #2

The Department of Human Resource Management is supportive of this recommendation. Currently, much of the shared work in HR product/service lines have a high degree of variation. Standard operating procedures should contribute to greater clarity of responsibilities in HR product/service lines. Measurements, metrics, and data visualizations of agency activities will be able to be viewed according to the standard product/service lines. DHRM will examine appropriate methods to provide the same analytics for specifically requested services. We will include some of these additional metrics in the new Service Level Agreements.

Chapter III - Although Consistent, Discipline Processing Needs to Be Enhanced

Recommendation #1

We recommend that the Department of Human Resource Management document options and associated risks they provide to agencies to assist in agency discipline and employee performance improvement.

Response #1

DHRM is supportive of this recommendation. In connection with recommendation #2 below, DHRM agrees on the need to make our discipline logs more standardized. DHRM notes that some initial work has been completed related to employee relations logs. However, these logs will need to be updated according to the recommendations of this audit. As part of that standardization we believe a section should be created in the log to document options and risks provided to the agency. Once the logs are standardized, we will implement training on this requirement.

Recommendation #2

We recommend that the Department of Human Resource Management standardize the discipline logs used by all field offices.

Response #2

DHRM is supportive of this recommendation. See response to recommendation #1.

Recommendation #3

We recommend that the Department of Human Resource Management provide training to state agencies and ensure that agencies consult with the department on decisions regarding discipline and employee performance improvement.

Response #3

DHRM is supportive of this recommendation. We recognize the need for agencies to take more of an active role in employee performance management and will work with our training director to create and implement management training to address this recommendation.

Chapter IV - Service Fee Concerns Are Being Addressed

Recommendation #1

We recommend that the Department of Human Resource Management keep retained earnings for the internal service fund within federal guidelines.

Response #1

DHRM is supportive of this recommendation. DHRM constantly monitors the retained earnings balance and, in FY 16, charged agencies less than the legislatively authorized rates in order to reduce retained earnings. DHRM will continue to work towards reducing the retained earnings balance within the limit.

Recommendation #2

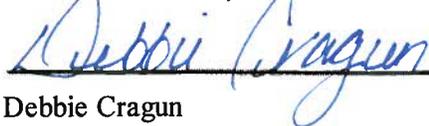
We recommend that the Legislature consider transferring the legal services internal service fund to the Office of the Attorney General.

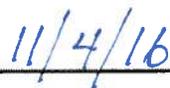
Response #2

DHRM is supportive of this recommendation. In the most recent rate committee meeting which was held in September, DHRM's recommendation to eliminate this rate from the DHRM internal service fund was approved unanimously by the rate committee. DHRM will continue to work with policymakers to determine how to best transfer the legal services funding to the Office of the Attorney General.

Once again, thank you for the opportunity to respond to the audit report. We greatly appreciate the time spent by the auditors to understand our agency. DHRM is already in the process of making some of the recommended changes. Please don't hesitate to contact me with any questions or comments regarding our response.

Executive Director, DHRM


Debbie Cragun


Date