

**University of California**

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**Performance Management**

Theories, Realities, and Approaches to Auditing  
2013 University of California Compliance and Audit Symposium

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**Agenda**

- Introductions and objectives for today
- Setting the stage
  - Definitions
  - Importance to audit
  - Performance management in practice
- Performance management at UC
- Auditing performance management
  - Challenges
  - Policies and guidance
  - Topics and measures
  - Examples

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**Performance Management**

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**Setting the Stage**

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**Definitions**

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“A successful performance management system:

- Provides information to employees about their performance
- Clarifies organizational expectations
- Identifies development needs
- Documents employee performance for personnel records”

- Institute of Internal Auditors, CIA Learning System

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**Definitions**

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- Performance appraisals, but also...
  
- Goal setting and alignment
- Workforce development
- Succession planning
- Compensation
- Reward systems
- Counseling process

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**Importance to Audit**

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- Key driver for achieving organization's objectives in an efficient manner
  - Aligns individual and organizational goals
  - Establishes relevant criteria and metrics
  - Assesses adequacy of skills/performance relative to the nature of the work
  
- Can strengthen or undermine control environment
  - Employee understanding of accountabilities
  - Employee morale
  - Appropriateness of measures and incentives

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**Importance to Audit**

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- Consequences of ineffective performance management programs
  - Grievance/litigation exposure
  - Loss of high performing employees due to a lack of recognition
  - Negative impact to team morale due to unwarranted retention/promotion of low performing employees or inconsistencies in performance ratings
  - Negative impact to operations and controls due to employees lacking requisite skills

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**Importance to Audit**

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Performance Management attempts to identify, encourage, measure, evaluate, improve, and reward employee performance.

**Agree or Disagree?**

1. Controls can work or fail based upon someone's mood.
2. Auditors should be skilled at understanding people and what motivates them.

You must decide whether the following department and Advisory Service is real or fictitious...

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**A Case Study  
The Dysfunctional Department**

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- Very important department strategically
  - The poor productivity of this department was affecting many other departments
- During the last few years, the department consisted of only one or two employees
  - Other universities usually have 5 to 10 employees in this department
- Difficult area to evaluate as it was an area that is not usually audited

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**A Case Study**  
**Reason for Audit's Involvement**

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- Former Audit Director saw some transactions in the financial system she couldn't understand
- Department was identified as a high risk area and an audit of the department was added to the audit plan
- Vice Chancellor over the area convinced her that the department had "personnel issues" and that an audit would not be helpful
  - Eventually the audit was changed to an advisory service on the audit plan

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**A Case Study**  
**Department's Personnel Issues?**

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- During recent years, the department had grown to four employees

Breakdown of employees:

- Director
- Assistant Director
- Senior Analyst
- Analyst

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**A Case Study**  
**The Players**

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- The Director
  - Many years of experience working at different universities
  - Never had experience with this area before she was hired as Director
  - While she was the only employee in the department, she was too busy to set up any policies and procedures for the department

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**A Case Study**  
**The Players**

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- The Assistant Director
  - Very angry that no procedures had been set up for the department before she arrived
  - Completely overwhelmed with the amount of work "as the department was understaffed"
  - Spent a large portion of her time arguing with the Director
    - Put together large binders of documentation explaining her disagreements with the Director
    - Called the campus Whistleblower Hotline to complain about Director

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**A Case Study**  
**The Players**

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- The Senior Analyst
  - Years of experience with this area working for Fortune 500 companies
    - Told me numerous times that he was more qualified than the Director
  - Without being asked, he put together useful reports which were sent out to many campus departments
  - One of his responsibilities was to review salaries. As a result, he was bitter about his "pathetic salary".
  - Had his own real estate appraisal business on the side

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**A Case Study**  
**The Players**

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- The Analyst
  - Just arrived in the department a few weeks before the advisory service
  - Told me about the long e-mail arguments between the Director and Assistant Director
    - Everyone in department was cc'd in these arguments

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**A Case Study**  
What's wrong with the Department?

- According to Director...
  - Department is understaffed
    - Current staff is overwhelmed with their current responsibilities
    - Unable to get to projects which other departments need them to complete
  - Poor systems keep them from being efficient

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**A Case Study**  
What's wrong with the Department?

- According to the department employees...
  - Poor leadership
  - Responsibilities don't match their job descriptions
  - No "structure"
    - No department policies and procedures so employees have had to come up with their own way of doing things

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**A Case Study**  
What's wrong with the Department?

What would you recommend for this department?

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### A Case Study What's wrong with the Department?

What would you recommend for this department?

**Fire them all and start over!?**

- What can we as auditors do to help departments like this?
- Are Human Resources issues outside of our audit universe?

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### Potential Benefits of Performance Management

- Focus staff on the organization priorities
- Provide a basis for improving the capabilities of the staff
- Align individual efforts with the organization's goals thereby increasing overall efficiency and effectiveness
- Adjust rewards and recognition with performance outcome, ensuring retention of high performers, and reducing employee turnover
- Create a document trail that protects the organization a legal standpoint
- Ensure trust and engagement between staff and the organization

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### Performance Management in Practice

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### Performance Management in Practice

UCLA Management Professor, Samuel Culbert, wrote an article called "15 Questions to Make You Think Twice About Performance Reviews"

"Ask yourself, Do either employees or managers ever look forward to ever look forward to a performance review?" - Culbert

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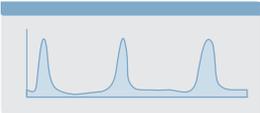
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### Performance Management in Practice

Effective Performance Management	Poor Performance Management
	

Source: Pulakos, E., Mueller-Hanson, R., O'Leary R., Meyrowitz, M. "Building a High-Performance Culture: A Fresh Look at Performance Management" (SHRM Foundation, 2012)

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### Key Challenges at Large

- Process to support administrative decision-making versus process to support performance
  - Imperfect assumptions
- Focus on tools and process versus underlying drivers and supports
  - Intermittent versus on-going
  - Complexities and burdens in implementing
  - One system cannot achieve all objectives

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### Examples of Various Tools and Processes

- Category rating
- 360-degree feedback
- Comparative methods
- Narrative methods
- Management by objective (MBO)
- Behaviorally anchored rating scale (BARS)

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### Current Thinking on Best Practices Within the performance management cycle

- Performance planning
  - Behavioral expectations
  - Results expectations
- Ongoing feedback
  - Two-way communication supported by training
  - Timely relative to the event
- Employee input
  - Statement of accomplishments versus self-rating
- Performance evaluation
  - Behavioral performance standards by level
  - Key accomplishments versus objective results
  - Narrative support for ratings
- Performance review
  - No surprises
  - Focus on developmental plans

Source: Pulakos, E., "Performance Management, A roadmap for developing, implementing and evaluating performance management systems" (SHRM Foundation, 2004)

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### Current Thinking on Best Practices Other Considerations

- Alignment with other HR systems
- Tone and example at top
- Automate
- Train employees and managers
- Evaluate and improve

Source: Pulakos, E., "Performance Management, A roadmap for developing, implementing and evaluating performance management systems" (SHRM Foundation, 2004)

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Forward Thinking on Best Practices		
	"Old Thinking"	"New Thinking"
<i>Organizational Alignment</i>	Cascading goals	Mission articulation and discussions of fit
<i>Goals</i>	SMART goals at the beginning of the cycle	Ongoing expectations as work evolves
<i>Development</i>	Reluctance to discuss; primarily formal training	Part of daily routine; acquiring experience, mentoring
<i>Feedback</i>	Once or twice a year; perfunctory and dreaded	Regular discussions embedded in work
<i>Performance Ratings</i>	Detailed to support decisions; often cumbersome and low value	Simplified; small number of factors defined by standards
<i>Training</i>	For managers on formal system requirements	For managers and employees on day-to-day behavior
<i>Policies and Procedures</i>	Extensive, with documentation requirements	Considerably streamlined
<i>Evaluation, Monitoring</i>	Whether steps are completed or not	Pulse surveys to gauge behavior, satisfaction, results and perceived value

Source: Pulakos, E., Mueller-Hanson, R., O'Leary R., Meyrowitz, M. "Building a High-Performance Culture: A Fresh Look at Performance Management" (SHRM Foundation, 2012)

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## Performance Management

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Performance Management at UC

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## Key Challenges at UC

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- Limited resources to pay for performance
- Constrained resources hinder supervisor/manager mentorship and opportunities for employee growth
- Historical emphasis on faculty versus staff roles and development

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**Current Practices**

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- The Council of UC Staff Assemblies (CUCSA) Report
  - Spectrum of approaches across the system
  - Inconsistently valued and performed
  - Evaluation of past versus focus on strengthening future
  - Point in time versus on-going
- Examples
  - UCOP
  - LBNL
  - Merced
  - Berkeley

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**Selected Initiatives**

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- UCOP Working Smarter
  - Mandatory Education
  - Benefits Redesign
  - UC Path
- UCOP Performance Management Review Plan
- Operational Excellence / Restructuring Initiatives
  - All campuses
- The Promotion Project, UC San Diego
- UC Berkeley High Performance Culture
- Other?

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**UC Policies**

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- PPSM 12, Non-Discrimination in Employment
- PPSM 14, Affirmative Action
- PPSM 22, Probationary Period
- PPSM 23, Performance Appraisal
- PPSM 30, Salary Administration
- PPSM-34, Incentive and Recognition Award Plans
- BFB-G-41: Employee Non-Cash Awards and Other Gifts
- PPSM 50, Professional Development
- PPSM 60, Layoff and Reduction in Time for Professional and Support Staff
- Positions
- PPSM 62, Corrective Action
- PPSM 64, Termination of Career Employees – Professional and Support Staff
- PPSM 65, Termination of Career Employees – Managers and Senior Professionals
- Labor agreements for represented employees
- Campus-specific procedures and guidance

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**Performance Management**

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Auditing Performance Management

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**Key Challenges in Auditing**

- Undervaluing of HR topics for audit plan
- Protected and sensitive data
- Labor / employee relations considerations
- Areas of grey / management judgment

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**Legal Requirements for Appraisals**

Performance reviews are an employment practice covered under Title VII of the Civil Rights Act

- Performance reviews must include:
  - Sufficient evidence - An absence of evidence might imply discrimination
  - Formal evaluation criteria that limit the subjectivity of the appraiser
  - Personal knowledge of and contact with the employee being rated
  - Equitable treatment of all employees
  - Counseling to help poor performers improve

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### Performance Management Guidelines Based on Case Law

- Evaluate employees on job-relevant factors
- Inform employees of expectations and evaluation standards in advance
- Have a documented process with specified roles for managers and employees
- Train managers and employees on the performance management process and relevant skills
- Document justifications for rewards/decisions by managers
- Provide timely feedback on performance issues
- Ensure secondary review of performance evaluations
- Allow employees to formally comment on and appeal evaluations
- Make sure evaluations used for decision-making are consistent with decisions

Source: Pulakos, E., Mueller-Hanson, R., O'Leary R., Meyrowitz, M. "Building a High-Performance Culture: A Fresh Look at Performance Management" (SHRM Foundation, 2012)

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### Potential Topics and Measures

- Performance appraisal process
- Goal setting and alignment
- Workforce development
- Succession planning
- Compensation
- Reward systems
- Counseling process

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### LBNL Audit Summary

- Objective/scope
  - Verify compliance with mandate
    - Completed within expected timeframes
    - Communicated prior to finalizing
  - Sample across all lab personnel
- Preliminary outcomes
  - Central top-down coordination and communication
  - Monitoring and reporting

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### UC Berkeley Audit Objectives

- Identify and evaluate practices across the campus relating to various aspects of performance management. Audit procedures focused on the following key control areas:
  - Completion of performance reviews for new hires and continuing employees within their probationary period and subsequently on an annual basis, respectively
  - Use of clear criteria and measurement tools
  - Guidance for supervisors and managers
  - Support for workforce development
  - Use of campus and departmental tools and protocols related to managing low performing employees
  - Confidentiality of performance reviews and related information

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### UC Berkeley Audit Methodology and Scope

- Audit methodology included:
  - An anonymous survey of employees and supervisors/managers
  - Interviews with campus and department human resources personnel
  - Reviews of documentation including detailed testing of a sample of performance reviews across various departments and control units.
- Audit scope included permanent staff

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### UC Berkeley Audit Findings

- Probationary period evaluations
- Support for handling underperformance
- Human resources manager hiring and onboarding
- Central top-down coordination and communication
- Appraisal forms, criteria, and anchors
- Support for workforce development
- Supervisor / manager training

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**Wrap-Up**

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- Takeaways
  - Performance management is:
    - More than just performance appraisals
    - Area of increasing emphasis
    - Changing landscape
    - Valid audit or advisory service topic
  
- Questions?

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**Contact Information**

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