



AUDIT AND ADVISORY SERVICES

Performance Management Audit Project No. 11-563

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May 11, 2011

John Wilton
Vice Chancellor
Administration and Finance

Vice Chancellor Wilton:

We have completed our audit of current campus performance management practices as per our annual audit plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

The purpose of our audit was to identify and evaluate current practices across the campus relating to various aspects of performance management. The audit scope included campus staff, but excluded academic and student employees. During the audit, we interviewed selected human resource professionals across the campus, conducted a survey to assess current performance management practices, and reviewed a sample of completed performance evaluations.

Overall, we noted a number of performance management strategies that are generally perceived to be elements of a strong performance management program. However, we also observed an apparent disparity in quality and timeliness of the performance management process across campus. For example, although probationary reviews are required, we noted in our testing that documentation of these reviews is inconsistent. In addition, we noted that there are limited management tools for handling underperformance.

The quality of the process also appears to greatly depend on the experience and initiative of the Departmental Human Resource Manager (DHRM) or Director of Human Resources (HR) in the individual department, as opposed to an institutional process communicated by campus senior management and/or central HR. There is also an apparent disparity in training and experience among the DHRMs.

We have also noted that the role, assigned responsibilities, and level of authority of DHRMs in individual departments is not consistent across campus but rather appears to be defined by the emphasis and importance placed on performance management by individual unit senior management.

As a result of our audit, we have observed that due to budgetary constraints and other operational priorities, a strong performance management process is not a current priority for certain departments. It also appears that individual employees do not always recognize the value and importance of the process and feel that their efforts are not always directed towards specific results or are adequately acknowledged. Management plans to address these observations through expanded training

opportunities and the potential migration to a common timeframe and system for conducting performance reviews. As well, the campus is undertaking an effort to create Human Resources shared service centers, which will help support the consistency and adequacy of performance management processes across the campus.

The aforementioned and other observations with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to both you and your staff for their assistance. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley
Chief Audit Executive

cc: Assistant Vice Chancellor Jeannine Raymond
Senior Vice President Sheryl Vacca
Associate Chancellor Linda Morris Williams
Interim Associate Vice Chancellor and Controller Delphine Regalia

**University of California, Berkeley
Audit and Advisory Services
Performance Management**

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OVERVIEW

Executive Summary

The purpose of our audit was to identify and evaluate current practices across the campus relating to various aspects of performance management. Our audit addressed potential risk and control areas related to:

- The performance review process during the probationary period
- Performance expectations and results
- Corrective action to improve performance
- Growth and career development
- Confidentiality as related to performance reviews and related documentation

During the audit, we interviewed Human Resources (HR) professionals across campus, conducted an employee survey and reviewed a campus-wide sample of completed performance evaluations. We have made the following key observations:

- There is an apparent disparity in quality and efficiency of the performance management process across campus. For example, although probationary reviews are required, we noted in our testing that documentation of these reviews is inconsistent. In addition, we noted that there are limited management tools for handling underperformance.
- The quality of the process also appears to greatly depend on the experience and initiative of the Departmental Human Resource Manager (DHRM) or Director of HR in the individual department, as opposed to an institutional process communicated by campus senior management and/or Central HR. There is also an apparent disparity in training and experience among the DHRMs.
- We have also noted that the role, assigned responsibilities, and level of authority of DHRMs in individual departments is not consistent across campus but rather appears to be defined by the emphasis and importance placed on performance management by individual unit senior management. We also observed that due to budgetary constraints and other operational priorities, a strong performance management process is not a current priority for certain departments.
- It also appears that individual employees do not always recognize the value and importance of the process and feel that their efforts are not always directed towards specific results or are adequately acknowledged. Further, from the employee's perspective, a clear overall organizational strategy and individual department goals are not clearly communicated.

Source, Purpose, and Scope of the Audit

The purpose of the audit was to identify and evaluate practices across the campus relating to various aspects of performance management. Our audit procedures focused on the following key control areas:

1. Completion of performance reviews for new hires and continuing employees within their probationary period and subsequently on an annual basis, respectively
2. Use of clear criteria, measurement tools, and support for performance reviews
3. Guidance for supervisors and managers to support the performance review process
4. Support for developing both campus and departmental workforces
5. Use of campus and departmental tools and protocols related to the managing low performing employees
6. Confidentiality of performance reviews and related information

Our audit methodology included an anonymous survey, interviews and review of relevant documentation. We surveyed a randomly selected sample of employees, supervisors and managers across campus. Approximately 300 surveys were sent and over 100 responses received during the audit. Additional information on the survey participants is included in the table below.

Demographic Information of Respondents	Percentage of Survey Respondents
<i>Non-represented employees</i>	86%
<i>Represented employees</i>	14%
<i>Number of years in the current position</i>	
11 years or more	30%
6-10 years	22%
2-5 years	38%
1 year or less	10%
<i>% Managers or Supervisors</i>	38%

We also interviewed a sample of DHRMs across campus. Our survey and interviews were designed to identify the components that are integral to an effective performance management process. We also considered individual departmental practices as well as self-assessment by DHRMs of existing best practices and desired improvements. In addition, we also performed a detailed review of a sample of performance review documentation across various departments and control units.

Our audit scope included the performance management process related to employees designated as permanent staff (non-academic personnel with no specific end date to their employment) only.

Background Information

Chapter 7 of the campus *Guide to Managing Human Resources* outlines an effective performance management process and the steps necessary to ensure that:

- Employees are recognized for their efforts and there is a link between individual contributions of employees and organizational objectives;
- A clear path exists for career development and professional growth; and
- An annual review process serves as an effective tool that summarizes on-going performance management efforts.

Historically, performance management on campus has been managed in a decentralized manner, with little emphasis on the importance of the process and the benefits to be gained by individuals and the campus. However, over the last several years, recognizing that the success of its operations rests on the individual and collective success of its employees, the campus has focused its efforts on performance management, including developing and rolling out new job families and standards for non-represented employees and standardizing performance evaluation forms to include consistent measurement and success factors.

Performance management (within the broader topic of a high-performance culture) was also highlighted as an area warranting further emphasis on campus by the Operational Excellence (OE) diagnostic review launched in October 2009 to identify opportunities to improve the efficiency and effectiveness of campus operations. A summary of OE review assessments was issued in April 2010, and stressed the need for “commitment to a high-performance operating culture, built around the setting of clear institutional goals, and effective people management and development.” The campus is in progress of proposing organizational and process/system changes that will address the findings of the OE review, including changes that will have bearing on performance management.

Summary Conclusion

Notable Strengths

During our audit we noted a number of performance management strategies that are generally perceived to be elements of a strong performance management program, including the following:

- Recognizing their individual department needs, human resources professionals in the Engineering Research Support Organization (ERSO) and the Art Museum and Pacific Film Archive (BAM/PFA) have developed individualized performance evaluation forms with competencies that are directly related to the specific department job descriptions. Each rating in the ERSO form is assigned a level of importance, as it pertains to specific job function to help staff and managers weigh the overall performance. Specific instructions are included to ensure consistent application.

- The School of Law has established a process to track questions and concerns of managers, supervisors and employees and interact with departments often on all HR-related matters.

Summary of Observations

We have made the following key observations:

- There is an apparent disparity in quality and efficiency of the performance management process across campus. For example, although probationary reviews are required, we noted in our testing that documentation of these reviews is inconsistent. In addition, we noted that there are limited management tools for handling underperformance.
- The quality of the process also appears to greatly depend on the experience and initiative of the DHRM or Director of HR in the individual department, as opposed to an institutional process communicated by campus senior management and/or Central HR. There is also an apparent disparity in training and experience among the DHRMs.
- We have also noted that the role, assigned responsibilities, and level of authority of DHRMs in individual departments is not consistent across campus but rather appears to be defined by the emphasis and importance placed on performance management by individual unit senior management. We also observed that due to budgetary constraints and other operational priorities, a strong performance management process is not a current priority for certain departments.
- It also appears that individual employees do not always recognize the value and importance of the process and feel that their efforts are not always directed towards specific results or are adequately acknowledged. Further, from the employee's perspective, a clear overall organizational strategy and individual department goals are not clearly communicated.

General Observations and Associated Risks

There are potential financial and operational consequences that highlight importance of an effective performance management process. The risks include the following:

- Performance management suffers because of the lack of clearly defined organizational goals and objectives which are cascaded down to the unit level. With a lack of top down communication of overall strategic objectives, there is no alignment of organizational and individual goals which may hinder the ability of managers and supervisors to effectively provide direction and motivation to employees.

- Inconsistent monitoring of performance affects productivity and employees' overall contribution to the strategic objectives of the University.
- An ineffective performance management process can potentially increase the University's exposure to litigation.
- Standards that establish behavioral objectives (by level/job family) for each competency on the performance evaluation are important. Absent such standards, there is a risk that employees across campus are not evaluated using similar criteria.
- In the absence of strategies and skills for addressing underperformance, morale, unit performance, and individual development are at risk.
- An inconsistent approach to performance management runs a risk that employees are not held accountable for their performance and not rewarded for their achievements.
- Key elements to having an effective workforce include availability of training opportunities, providing performance-based compensation and prioritizing investment of time and effort into creating challenging and measurable goals and visible career path for employees. Lack of such investment of time and resources, can potentially create uninspired, complacent and unmotivated employees who are not interested in contributing to the success of their department.
- The impact of investment in training is measured by the Center for Organizational and Workforce Effectiveness (CO_rWE). However, such information is not readily available to all departments. Absent such data and encouragement to re-enforce the concepts learned in the departments, there is a risk that extensive campus training efforts are not translated into value to attendees and the respective departments.

Detailed Observations

Our detailed observations as well as management responses and action plans are described in the following section. We have assessed management's responses and action plans and believe that they are responsive to our observations.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Inconsistent Documentation of Probationary Period Evaluations

Observation

Based on our testing of employees, all of whom had successfully completed the probationary period, we noted that performance reviews related to the probationary period are generally not documented. Chapter 6 of the campus *Guide to Managing Human Resources* states that employees should be evaluated in writing at least once during the probationary period.

Management Response and Action Plan

Based on the audit findings, campus HR will remind managers and DHRMs about the need to complete a performance evaluation during the probationary period. The action plan is expected to be completed by July 1, 2011.

Limited Management Tools for Handling Underperformance

Observation

Though general guidance is available online, through a supervisory training program, Keys to Enhance Your Supervisory Success (KEYS), offered by campus HR and COrWE and in policy requirements, assistance on understanding how to apply relevant policies would help managers and supervisors. Department HR managers work with consultants in central HR on tactical details appropriate to specific situations. However, managers would likely benefit from training on how to handle difficult situations that may result from underperformance. Ineffective management of underperformance potentially negatively impacts morale of staff in the unit and the unit's ability to reach its goals.

Management Response and Action Plan

This is addressed below as well in the section on performance evaluation forms. Managers do need assistance learning how to handle difficult situations. This assistance will be available in part from the staff in the shared services centers. The first center is scheduled to open in fall 2011. Training will be provided by May 2012. As these centers expand, they will be the primary vehicle for delivering more focused training on addressing underperformance.

Course content for line managers is being developed now for roll out later in 2011/12. Additional tools for managing underperformance will be available in an automated performance management system, expected within a year. The action plan for implementing ePerformance is expected to be completed by July 1, 2012. However, actual implementation is contingent on systemwide decisions on functionality in the new UC Human Resources Information System (HRIS).

Campus HR Not Involved in Hiring and Onboarding of DHRMs

Observation

Campus HR is not currently involved in the hiring of departmental human resources managers (DHRMs) and establishing minimum qualifications for these positions. DHRMs report directly to unit senior management without a dotted line responsibility to central HR. There is also no centrally managed on-boarding or training process to ensure that DHRMs are aware of all related campus policies and practices. Absent such involvement, there is a risk that newly hired DHRMs may not possess core competencies required of human resources professionals.

Management Response and Action Plan

Department HR managers are hired by the department manager who is often hiring someone with skills in budgeting or some other functional area. In many cases, the HR skills are considered secondary. Although there is monthly training for DHRMs, it cannot be a replacement for basic HR professional training and experience. The staffing of HR shared services centers will address this area of need. Campus HR will have a role in determining the staffing in the centers, and setting the professional expectations on an on-going basis. On-boarding will include oversight from campus HR. Formation of the first centers is anticipated in 2011.

Audit and Advisory Services (A&AS) Comment on Management Response and Action Plan

Given organizational changes resulting from Organizational Excellence initiatives to move toward a shared services model to support certain campus functions such as human resources, A&AS expects to assess the processes and controls related to human resource processes in shared service centers as they become implemented across the campus.

Role of DHRMs Varies Greatly Across Units

Observation

The role of the DHRM within individual departments varies greatly, and is often lacking influence and authority related to the performance management process. The reporting structure also varies across units from DHRMs reporting to department heads to reporting to other HR managers. Additionally, the role of DHRMs generally depends on the vision of senior unit management and their commitment and support of the performance management process, not necessarily on a centrally-outlined set of requirements.

Management Response and Action Plan

The role is accurately described. There are about 125 department human resources managers (DHRMs) whose roles and authority vary significantly by department. They are generally advisory to managers on staff related personnel matters, and service providers to employees. They are often professionals from another functional area, e.g. budget officers, who take on the HR duties as a portion of their job. In the campus network of HR providers, the need for department based HR support will diminish with the creation of shared services centers over the next 12-18

months. Individual departments would receive HR services from a regional center staffed by trained HR professionals.

Decision making in personnel matters rests with the department manager. HR may recommend action and may make procedural decisions. The campus is taking steps to change the method of providing HR services to the campus, and the level of expertise available to campus managers.

A&AS Comment on Management Response and Action Plan

Given organizational changes resulting from Organizational Excellence initiatives to move toward a shared services model to support certain campus functions such as human resources, A&AS expects to assess the processes and controls related to human resource processes in shared service centers as they become implemented across the campus.

Lack of Central Coordination and Communication Regarding Performance Management Process

Observation

The performance review process on campus is currently managed with no annual top-down communication from campus Senior Management or from central campus HR. Based on our interviews of HR professionals, this top-down communication was identified as a determining factor to the success of the performance management process in their department, followed closely by the importance of communication and support from individual department leaders. It appears that a set annual performance period could facilitate such communication.

The majority of the respondents from surveys and interviews (about 60%) have indicated that from their perspective, institutional goals and strategies, as related to individual departments, are not clear. This lack of clarity may hinder unit managers' ability to manage direct reports, set goals and, performance standards, and manage to those standards.

Management Response and Action Plan

It is agreed that conducting annual performance reviews in the same month campuswide would facilitate the evaluation process. Just in time training to managers could be delivered in the preceding month, and analysis of outcomes could be done in the month following the reviews. That data would be useful to talent development efforts throughout the year. Campus HR will pursue this with senior leadership. The recommendation will be presented to senior leadership by June 30, 2011.

Opportunities to Improve Performance Evaluation Forms

Observation

We noted through our survey that approximately 75% of employees indicated that they receive an annual performance evaluation, and approximately 60% of the employees evaluated in FY 2010 have used standard forms published on the campus HR website.

Per our interviews with HR professionals on campus, the majority of respondents indicated that standardized forms added consistency to the performance evaluation process. They also noted that the improvement they would most like to see is to have specific behavioral objectives added to the core competencies section of the form. Managers and supervisors often ask DHRMs for specific examples of behaviors that demonstrate competencies and assistance in determining ratings based on specific fact patterns. DHRMs feel that definitions in this area will help with consistent application of ratings across the department and campus.

Our review of a sample of performance evaluations also highlights the reluctance of supervisors and managers to provide constructive criticism. Feedback on the forms, if any, is generally addressed in "comments". We have noted that issues addressed in "comments" are often not reflected in the rating for respective competency. Based on the comments provided to us in our survey, one potential explanation for this observation is a lack of understanding of the criteria to be used to assign a rating.

Management Response and Action Plan

The audit addresses three areas of need: standardized forms, creation of behavioral objectives for core competencies, and improvement addressing underperformance. The performance evaluation forms were revised and standardized about three years ago. The forms and the evaluation process were scheduled for automation in 2009. However, other system changes took precedence, delaying this effort. This project is rescheduled for 2011/12. Assuming funds are available, and the campus has the capacity for change, this need will be addressed within the next 12-18 months by July 1, 2012. It will be influenced by the implementation of the systemwide HRIS.

When the forms were standardized, the next step was the creation of behavioral objectives. In fact, campus HR collaborated with UC Davis HR staff to begin work on them. Some progress was made but they are far from complete. These are labor intensive to write and may be available from external vendors. We will seek funds to address this need.

The third area of need is more challenging as it includes the need to help managers understand their role in addressing underperformance, and improving the efficiency of our methods of addressing underperformance. We will increase the training in this area by October 1, 2011.

Opportunities to Promote Professional Development

Observation

During our interviews, a majority of DHRMs stressed that there is value to the campus and to the employee in investing time and effort into professional development. From their perspective, emphasis placed by unit senior management on discussions around growth and professional development as well as career path options for employees varies by unit and is demonstrated by differing levels of time investment and financial support. They also noted that there is a disparity in departments' financial resources available for learning and development in this area. It is our understanding that funding through the Staff Recognition and Development Program (about \$2.3M in FY 2010) is being used for career development programs which are administered by

COrWe. It appears that units' senior managers have limited visibility into these and other "no cost" programs offered by the campus.

Performance evaluation forms provide room for documenting goals and professional development plans. However, there are currently no documented instructions regarding how these goals and plans should be developed and evaluated in the next performance cycle. The majority of DHRMs interviewed feel that increased department emphasis on career development and learning will a) allow managers to work more effectively with individual employees and develop personalized career development plans and b) align these with strategic objectives of the department to benefit the organization and employee.

About 40% of survey respondents emphasized that they feel supported by their managers/supervisors in pursuing professional development needs and interests. The same percentage of respondents noted that learning opportunities are identified and encouraged by their management team, but due to lack of funds and/or workload, it is not feasible to take advantage of such opportunities.

About 20% of survey respondents noted that they do not routinely (or never) meet with supervisors/managers to discuss direct responsibilities or professional development. Additionally, learning and development outside of immediate work responsibilities is not emphasized or encouraged.

Management Response and Action Plan

Campus HR will be expanding the membership of the Workforce Strategy Team to include managers of various segments of our workforce with learning and development needs. That team will recommend training priorities, and be a forum for sharing the impact of existing programs. In addition, as part of the automation of performance evaluations, tools can be provided that make goal setting and monitoring easier. We can also provide training to managers on how to use these tools. This project is expected to extend through mid 2012, with an expected completion date of July 1, 2012, assuming the systemwide HRIS is implemented by that time.

New information was communicated to campus managers in the last two months that emphasizes their role in actively developing their subordinates. It is now posted on the campus HR website.

Opportunities for Performance Management Training for Managers and Supervisors

Observation

There is currently no mandatory training for new managers and supervisors to ensure their preparedness to manage employee performance. The majority of survey respondents who identified themselves as managers or supervisors have not attended a training related to performance management, whether offered by campus or outside source. Those who have attended such a program typically rated the program as "good" or "very good" in terms of value in guiding them through the performance management process. Those who have not attended noted that it was because of lack of availability or lack of awareness of the training opportunities.

Survey respondents also indicated that unit senior managers are not held responsible for seeking out professional development opportunities for their department.

One of the performance metrics for managers and supervisors is related to their ability to manage staff. Based on interviews with DHRMs, from their perspective, this metric is not emphasized in their individual departments. Based on the surveys, we also noted that respondents feel that managers and supervisors are not held accountable for a weak or ineffective performance management process and are not being rewarded for having an effective process.

We noted that KEYS offers an extensive curriculum of performance management, as well as other management-related, courses. The KEYS training program is managed by COrWE. The marketing group within COrWE sends out periodic campus-wide emails notifying employees of the programs available, holds campus-wide forums to explain the program and prints other marketing materials.

Out of total of 20 KEYS workshops offered in May-September of 2010, the attendance rate was measured by COrWE at about 48%, with average participants per class of about 12, out of 24 available slots. About 60% of the attendees were classified as managers and supervisors.

The value of learning and development can only be evaluated taking into consideration the willingness of the individuals to learn and apply information to future actions. However, the data appears to suggest that attendance is not emphasized and/or encouraged by unit management. From our interviews, we understand that there are typically other competing priorities within departments and managers' development is not necessarily a priority.

Management Response and Action Plan

No training on the Berkeley campus is mandatory unless it is required to meet external regulatory or compliance requirements, or is a directive from the Regents. Supervisory training (which includes performance management training) prior to spring 2010 did not meet campus demand so the program was redesigned and expanded. The new classes were rolled out in spring 2010. We will continue running them through spring 2011. However, at this time we believe we have saturated the campus market. Attendance in last year's KEYS program was better at the outset and tapered off during the summer months. The staff overseeing the program have been asked to report spring 2011 attendance in June. At that time, the curriculum will be reviewed and updated as needed. The next step is to bring training to entry and mid-level managers. COrWE is working on some options for us to consider later this year no later than January 1, 2012.