



Most Classified Employees in Three Departments Did Not Receive Annual Performance Evaluations for 2015

Departments of Human Resources,
Information and Innovation, and
Finance and Management



Mission Statement

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Dear Colleagues,

Performance evaluations are key to holding individual public servants accountable, and Vermont state policy and statute requires that performance evaluations be completed annually for classified employees. Only 63 percent of respondents to the 2015 State of Vermont Employee Engagement Survey agreed that performance evaluations are completed annually in their respective departments.

Our audit objective was to determine whether classified employees in the departments of Human Resources (DHR), Information & Innovation (DII), and Finance & Management (F&M) received timely annual performance evaluations in 2015. We focused our audit on these departments because they had some of the lowest levels of performance evaluations completed in 2015, according to the employee engagement surveys.

As a result of our audit, we concluded that only 27 of 181 classified employees in the three departments received an annual performance evaluation in 2015. Furthermore, a non-statistical sample of 20 of 154 classified employees who did not receive an annual evaluation in 2015 revealed that nine had not received an annual performance evaluation for more than five years, and three with hire dates in 2013, 2012, and 1998 had no record of an annual evaluation.

We interviewed 22 of 46 supervisors from these three departments to understand the causes for the low level of completed annual performance evaluations for 2015. These interviews showed the following:

- Most supervisors did not know whether their own written performance expectations included the responsibility for annual evaluations, and the supervisors they reported to had not followed up with them in 2015 regarding annual performance evaluations.
- About half stated they did not begin receiving notifications of upcoming evaluations that were due until late 2015 or early 2016.
- Less than half (45 percent) indicated they had received some training in the State's performance evaluation system.

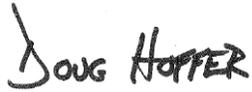
Senior officials in DII and F&M indicated that annual performance evaluations were not a priority in their departments, but they would be going forward. DHR hired an additional field administrator in late 2015 who has been working to improve the process to ensure annual performance evaluations are completed. Within the next two years, all designated supervisors and managers are required to complete the DHR four-day course, Supervising in State Government Level 1, which addresses performance evaluation topics such as key steps to a performance review and completing the required performance evaluation form.

This report makes recommendations to the Commissioners of DHR, DII, and F&M

that address the low completion rate for annual performance evaluations.

I would like to thank the management and staff at DHR, DII and F&M for their cooperation and professionalism during the course of this audit.

Sincerely,



DOUGLAS R. HOFFER
State Auditor

ADDRESSEES

The Honorable Shap Smith
Speaker of the House of Representatives

The Honorable Peter Shumlin
Governor

Andy Pallito
Commissioner, Department of Finance and
Management

The Honorable John Campbell
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Introduction

Performance evaluations are key to holding individual public servants accountable. Annual performance evaluations are required for all classified employees by both Vermont statute and state personnel policy.

Vermont DHR policies establish the State's performance management system, including annual performance evaluations, and indicate that it is essential to a productive agency/department. Further, DHR's Guide to the State's Performance Management System states that effective performance management can enhance the productivity and motivation of employees. In addition, performance evaluations are used to inform decisions for classified employees related to promotion, merit-based bonuses, performance problems, and reductions-in-force (e.g., layoffs).

According to the results of the 2015 State of Vermont Employee Engagement Survey, only 63 percent of respondents agreed that performance evaluations are completed annually, with responses for individual departments ranging from 20 percent to 89 percent. The 2014 Employee Engagement Survey yielded somewhat poorer results, with 57 percent of respondents indicating performance evaluations were completed annually.

The 2015 survey indicated that DHR, DII, and F&M had some of the lowest levels of performance evaluations completed annually (36, 23, and 31 percent, respectively). Because of the importance of performance evaluations, we decided to perform an audit to determine whether classified employees in these three departments received timely annual performance evaluations in 2015.

Appendix I contains detail on our scope and methodology. Appendix II contains a list of abbreviations used in this report.

Highlights

Annual performance evaluations are required for all classified employees by Vermont statute and state policy. According to the 2015 Employee Engagement Survey results, only 63 percent of respondents agreed that performance evaluations are completed annually, with individual departments ranging from 20 percent to 89 percent. Our objective was to determine whether classified employees in DHR, DII, and F&M received timely annual performance evaluations in 2015.

Despite state statute and human resource policy that require completion of annual performance evaluations for classified employees, only 15 percent (27 of 181) of classified employees employed by DII, DHR, and F&M received an annual evaluation for 2015.¹ Seventeen of the performance evaluations were completed within 45 days of the employees' anniversary date – the time period prescribed by the Collective Bargaining Agreements (CBAs) for completion of annual performance evaluations for members of the bargaining units. Ten were completed after 45 days, including six DHR and F&M employees categorized as managerial or confidential (not members of a bargaining unit), whose late evaluations ranged from 52 to 170 days. DHR believes these performance evaluations were provided to the employees within a reasonable time period of their anniversary dates, but this is not a standard established in DHR's performance evaluation policy. In the absence of DHR policy, SAO believes it is practical to use the CBA 45-day benchmark.

We examined a non-statistical sample of 20 classified employees who did not receive an annual performance evaluation in 2015, and found that nine had not received an annual performance evaluation for more than five years. An additional three had no record of an annual evaluation ever being completed, one of whom was originally hired by the State in 1998. Supervisors indicated that they give frequent verbal feedback to their staff outside of the formal evaluation process. While ongoing feedback is encouraged by DHR's Guide to the State's Performance Management System and is a part of the minimum standard for performance management set by the Society for Human Resource Management (SHRM),² neither of these sets of guidelines suggests that verbal feedback is a substitute for a documented annual performance review.

Supervisors we interviewed cited various reasons for not completing evaluations as required, including a lack of training in the State's

¹ This relates to all classified employees who were employed at the three departments at December 31, 2015.

² Performance Management, Society for Human Resource Management, November 20, 2012.

performance evaluation system and evaluations not being treated as a priority by departmental management. In addition, senior management at DII and F&M did not inform supervisors of expectations regarding the completion of annual evaluations. DHR maintains spreadsheets to track due dates and completion of performance evaluations for DII, F&M, and its own employees. However, notifications of due dates did not occur until the hiring of an additional DHR field administrator late in 2015.

According to the supervisors interviewed, performance evaluations communicate future expectations and goals which can promote motivation and job satisfaction and evaluations provide an opportunity for employees to improve or correct poor performance. Moreover, annual performance evaluations for classified employees are utilized in decisions related to promotions and merit bonuses, to address poor performance, and in some circumstances, the order of separation in the event of a layoff.

Recommendations

We make a variety of recommendations to the commissioners of DHR, DII, and F&M, such as including in supervisors' written performance expectations the responsibility for timely completion of performance evaluations; reviewing data regarding which supervisors have completed Supervising in State Government 1(SSG1); and ensuring that those supervisors that have not completed the course, do so before the end of 2018.

Background

DHR's Role in the State's Performance Management System

DHR oversees the State's Performance Management System. According to DHR, this system provides an effective supervisory tool that can enhance the productivity and motivation of employees. DHR's Guide to the State's Performance Management System describes the three components of the State's approach: 1) setting employee job expectations; 2) observing employee performance and providing feedback throughout the year; and 3) completing an annual performance evaluation documenting the employee's actual performance over the year compared to performance expectations.

DHR's Field Services and Workforce Development division provides human resources support and services to employees, agencies, and departments throughout state government. Field Services Teams, which in some instances are embedded within agencies and departments, act as the liaison between agencies and departments and DHR's Operations division. These teams provide a variety of human resources functions for assigned departments, including performance management. Specifically, they provide consultative services on the phases of performance management, including performance evaluations, and may audit performance evaluations to ensure they are in compliance with personnel policies and the CBA.

Annual Performance Evaluation Requirements

3 V.S.A. §322 requires that officers and employees that act in a supervisory capacity complete service rating forms³ at least annually for each classified employee under their immediate supervision in accordance with the service rating procedures established by the Commissioner of Human Resources. A classified employee is an employee of the State of Vermont who is hired to fill a position in the classified service in accordance with merit principles as administered by DHR.⁴ Classified service positions include permanent full-time, limited service, confidential,⁵ managerial,⁶ and supervisory⁷ positions.

³ All classified employees receive an annual performance evaluation on a prescribed form, AA-PER-6C. See Appendix III for an example of a performance evaluation form.

⁴ Employment within the executive branch of state government is either classified or exempt. The exempt category includes state police, temporary, elected, and appointed positions.

⁵ A classified employee having responsibility for, knowledge of, or access to information relating to collective bargaining, personnel administration, or budgetary matters that would make membership in or representation by an employee organization incompatible with his or her official duties.

⁶ The Vermont Labor Relations Board (VLRB) determines whether a managerial position is exempt or classified. A managerial position requires an employee to function as head of an agency, department, or institution, or as director of a major program or division.

⁷ VLRB determines which positions are supervisory. "Supervisory" means an individual having authority to make decisions about hires, promotions, layoffs, and discipline.

DHR Policy 7.0 applies to all classified state employees and requires that annual performance evaluations be completed for all classified employees on the anniversary date of the employee's completion of original probation,⁸ or on the anniversary date of restoration or reduction-in-force rehire to State service.

The CBAs require a meeting be held to discuss an evaluation within 45 days after the applicable anniversary date⁹ and apply to all classified employees who belong to a bargaining unit (e.g., non- management or supervisory). If the deadline is not met, the employee is assigned an annual overall presumptive rating equal to his or her last annual overall rating, but not less than a satisfactory rating.¹⁰ Written feedback furnished to an employee, which would have constituted the annual evaluation had it been timely, is not considered an evaluation and is not put in the employee's file.

Classified employees designated as confidential or managerial are not members of a bargaining unit. The CBA provisions related to holding an evaluation meeting within 45 days of an anniversary date and presumptive ratings are not applicable to confidential and managerial employees.

DHR, DII, and F&M Employees

Table 1 provides a breakdown of the number of classified employees and the number of supervisors in DHR, DII, and F&M. Supervisors include classified and exempt positions.

Table 1: Number of Classified Employees and Supervisors as of December 2015^a

Department	Classified Employees	Supervisors ^b
DHR	82	25
DII	103	16
F&M	24	5
TOTAL	209 ^c	46

^a The data in this table is from spreadsheets prepared by DHR for the purpose of tracking annual performance evaluations.

^b For purposes of this report, "supervisor" means an employee whose responsibility includes completing annual performance evaluations.

^c This includes 181 classified employees who were due an annual performance evaluation during 2015, and 28 who were not due an annual evaluation for various reasons such as being on original probation.

⁸ The end of probation generally is six months after the date of hire.

⁹ The "applicable anniversary date" is the anniversary of the employee's completion of original probation, or on the anniversary of restoration or reduction-in-force rehire to state service.

¹⁰ There are four ratings: outstanding, excellent, satisfactory, and unsatisfactory.

Very Few Classified Employees in DHR, DII, and F&M Received Timely Annual Performance Evaluations for 2015

Although state statute and human resource policy require completion of annual performance evaluations for classified employees, only 15 percent (27 of 181) of classified employees working in DHR, DII, and F&M received an annual evaluation for 2015.¹¹ A non-statistical sample of 20 of the classified employees who did not receive an evaluation in 2015 showed that nine did not have a performance evaluation during the last five years. Further, three employees had no record of an annual evaluation ever being completed, one of them having worked for the State since 1998. We interviewed 22 of 46 supervisors in the three departments and these supervisors cited various reasons for not completing evaluations as required, including a lack of time and evaluations not being treated as a priority by departmental management. DHR prepared a spreadsheet to track due dates and completion of performance evaluations for DII, F&M, and its own employees in order to provide notifications to supervisors regarding due dates. However, notifications did not occur until the hiring of an additional staff member late in 2015. Supervisors indicated that they give frequent verbal feedback to their staff outside of the formal evaluation process. However, such informal feedback cannot substitute for a documented performance review. According to some supervisors interviewed, performance evaluations communicate future expectations and goals, which can promote motivation and job satisfaction, provide an opportunity for employees to improve or to correct poor performance. Moreover, those classified staff that have not received annual performance evaluations may forgo opportunities to qualify for promotion and/or bonuses.

Most Employees Did Not Receive an Annual Evaluation for 2015 and Some Have Not Been Evaluated for Years

Spreadsheets maintained by DHR to track the status of annual performance evaluations for each of the three departments showed a low level of completion of annual evaluations for 2015 (see Table 2). Senior officials in DHR, DII, and F&M confirmed that the spreadsheets fairly represented the status of annual evaluations for 2015.

¹¹ This relates to all classified employees who were employed at the three departments at December 31, 2015.

**Table 2: Number of Annual Performance Evaluations Completed for
Classified Employees in 2015**

	DHR	DII	F&M	Overall
Number of classified employees who should have received an annual performance evaluation for 2015 ^a	68	92	21	181
Number of annual performance evaluations completed	15	8	4	27
Percent of classified employees who received annual performance evaluations	22%	9%	19%	15%
Number of timely annual performance evaluations ^b	10	6	1	17
Percent of classified employees who received timely annual performance evaluations	15%	7%	5%	9%

^a This represents the classified employees as of December 31, 2015 but excludes classified employees in probationary periods or who left the departments during the year.

^b SAO determined timeliness based on DHR Policy No. 7.0 and CBA provisions. DHR believes that all 15 annual performance evaluations were timely.

Based on the results of the annual Employee Engagement Survey for 2014 and 2013, these departments also completed few annual performance evaluations in the previous two years.¹²

- DHR – 39 percent of employees reported receiving annual performance evaluations in 2014 and 38 percent in 2013.
- DII – 16 percent of employees reported receiving annual performance evaluations in 2014 and 30 percent in 2013.
- F&M - 25 percent of employees reported receiving annual performance evaluations in 2014 and 21 percent in 2013.

A non-statistical sample of 20 of 154 classified employees who did not receive an annual evaluation in 2015 revealed the following:

- Six employees received an annual evaluation within the last five years.
- Nine employees had not received an annual performance evaluation for more than five years (one had not received an annual evaluation for 27 years).
- Three employees with start dates in 2013, 2012 and 1998, had no record of an annual performance evaluation.
- Two had an annual performance evaluation in 2016.

¹² Survey response rates in 2014 and 2013 respectively were 97 percent and 72 percent (DHR), 66 percent and 60 percent (DII), and 44 percent and 58 percent (F&M).

Based on the number of annual performance evaluations completed in 2015, the 2014 and 2013 survey results, and the sample of 20 classified employees, it's likely that many employees in these departments have not received annual performance evaluations for years.

In addition to verifying that a low number of employees received evaluations in 2015, SAO determined that more than one-third of completed evaluations were not timely (10 of 27). Four of the late evaluations were for classified employees with membership in a bargaining unit subject to a CBA, which requires annual performance evaluations to be completed within 45 days of the classified employees' anniversary date. Annual performance evaluations completed more than 45 days after an anniversary period are not considered a formal evaluation and are not included in a classified employee's file.

The remaining six late evaluations were for DHR and F&M classified employees designated as managerial or confidential. According to DHR, certain provisions of the CBAs are applicable to classified employees designated as managerial or confidential,¹³ but not the provision related to timeliness of annual performance evaluations. DHR officials stated that confidential and managerial employees' annual performance evaluations are governed by the statute that requires an evaluation at least annually, and indicated that an evaluation completed within a reasonable timeframe would be acceptable.

This statute, 3 V.S.A. §322, also states that performance evaluations shall be completed in accordance with procedures established by the DHR commissioner. DHR policy 7.0, requires evaluation on the anniversary date for all classified employees, with an acknowledgement that the CBA provisions must be complied with for bargaining unit members. Policy 7.0 does not provide a different timeframe for confidential employees or managerial employees and DHR did not define what would constitute a reasonable timeframe. A DHR official provided an example, stating that an evaluation occurring four months (approximately 120 days) after the anniversary date would be considered to be within a reasonable time period.

In the absence of DHR policy addressing a reasonable time period for completion of annual performance evaluations for confidential employees, we believe the 45-day standard established by the CBA is a practical benchmark. Using this standard, five of the fifteen DHR performance evaluations were not completed timely. Rather, these evaluations were completed 52 to 170 days after the employee's anniversary date.

Although some 2015 annual performance evaluations were late, most were

¹³ An agreement by the executive branch called an extension of benefits, specifies which provisions are relevant for confidential and managerial employees. Medical/dental insurance, annual leave, parental/family leave, and court/jury duty are among the benefits that extend to confidential and managerial employees.

consistent with DHR guidelines for completing the form. All of the forms were signed by the employee and supervisor and included a performance rating and supervisory comments regarding actual performance. All but one contained performance expectations. Six DHR evaluations had not been signed by the appointing authority as required by policy.¹⁴ The supervisor who completed these forms explained that this was because she did not have regular access to an appointing authority. However, state policy requires that the appointing authority or designated official approve annual performance evaluations. Best practices issued by the Society of Human Resource Management (SHRM)¹⁵ indicate that management review helps ensure that narrative descriptions match ratings, that ratings are not positively or negatively biased, that especially high or low ratings have been properly justified, that evaluation criteria are being applied systematically across supervisors and employees, and that proper distinctions are made between employees.

This supervisor also pointed out that the evaluations, once submitted to DHR, were not returned to her to obtain the appointing authority's signature. According to DHR personnel, evaluations are reviewed for completeness by DHR field administrators, though this was not done consistently in 2015 due to shortage of staff. An additional staff member was hired in October 2015, which may improve DHR's review of evaluations.

We interviewed 22 of 46 supervisors in the three departments and many said that they gave frequent verbal feedback to their subordinates outside of the annual evaluation process, via weekly, bi-weekly, or monthly meetings. Some indicated that they documented feedback when performance improvement was needed. Frequent feedback is encouraged by DHR's Guide to the State's Performance Management System and is a part of the minimum standard set by SHRM. However, neither of these sets of guidelines indicates that informal verbal feedback is a substitute for a documented annual performance review, and state law requires an annual performance review.

Some supervisors interviewed believe there are negative consequences for not completing annual evaluations as employees may find it demoralizing not to know where they stand, or to have nothing written to acknowledge their accomplishments. Other supervisors indicated that performance evaluations communicate future expectations and goals, which can promote motivation and job satisfaction. Further, if an employee needs improvement and there is no written record of deficiencies, it's difficult to correct poor performance if the employee does not know what their job expectations are

¹⁴ Per DHR Policy No. 2.3 this is the person authorized by statute or lawfully-delegated authority to appoint and dismiss employees. According to DHR, appointing authority may be the exempt agency or department head, or may be a senior individual in the chain of command who has been delegated authority to review and sign off on performance evaluations.

¹⁵ Performance Management by Elaine D. Pulakos, SHRM Foundation, page 28.

or does not have expectations to be evaluated against.

Annual performance evaluations for classified employees are also utilized in decisions related to promotions and merit bonuses, to address poor performance, and in some circumstances, the order of separation in the event of a layoff. Those classified staff that have not received annual performance evaluations may forgo opportunities to qualify for promotion and/or bonuses, may not receive feedback needed to improve performance, and may be laid off before those that have received performance ratings with consistently high ratings.

Management Did Not Prioritize Annual Performance Evaluations, and Other Reasons Given for Non-Completion

Senior managers from DII and F&M disclosed that annual performance evaluations were not a priority in their departments, and there was no external pressure to complete them. These managers stated that they did not convey specific expectations regarding the completion of annual evaluations for 2015 to the supervisors subordinate to them, nor did they track the completion of evaluations by departmental supervisors beyond approving the evaluations presented to them for signature. Supervisors that reported to these managers also indicated that annual evaluations were not treated as a priority by departmental management.

In contrast, the Commissioner of DHR conveyed her expectation to supervisors that evaluations be completed for all staff. Despite this, the rate of completion of annual performance evaluations remained very low in DHR. According to SHRM, senior management support for a performance focus is vital, as is the creation and maintenance of a culture that supports individual and team accountability for solid performance.

While discussing the departments' levels of compliance with the requirement to complete evaluations, a DHR director stated that DHR does not have the authority to tell other departments that evaluations must be completed. In fact, 3 V.S.A. § 315 states that officers and employees of the State must comply with "rules, regulations, and orders of the Commissioner of Human Resources" related to the classification system, including the use of a particular form for annual performance evaluations and other related procedures.

DHR's mission is to provide leadership to state government departments with regard to managerial and workforce excellence and regulatory requirements. Further, the department's role includes providing leadership to other departments in the design and delivery of human resource processes. In fact, DHR assists state entities with implementing the performance management system, and the department's 2011-2015

strategic plan had goals related to the performance management system, including performance evaluations. However, Employee Engagement Survey results showed that DHR ranked the fourth lowest in 2015 and the sixth lowest in 2014 and 2013 for completion of annual performance evaluations, which seems contrary to their leadership position.

SAO interviewed 22 of 46 supervisors in the three departments, and supervisors cited various reasons for not completing annual performance evaluations.

Written performance expectations for supervisors

Most of the supervisors were broadly aware of a general expectation that they perform annual performance evaluations. However, 85 percent did not know whether their own written performance expectations included the responsibility for annual evaluations, and the majority stated that the supervisors they report to had not followed up with them in 2015 regarding annual performance evaluations. This may change going forward, as the majority of the supervisors we interviewed indicated that in late 2015 through early 2016 their supervisor had communicated that completion of timely annual performance evaluations was expected.

Less than half received training

Only 45 percent of supervisors interviewed indicated they had received some training in the State's performance evaluation system. Within the next two years, all designated supervisors and managers are required to complete the DHR four-day course Supervising in State Government Level 1 (SSG1). The course materials address the State's performance management system, including performance evaluation topics such as annual evaluation strategies, key steps to a performance review, and completing the required performance evaluation form. The materials also make clear that the completion of annual performance evaluations is the supervisors' responsibility.

Lack of time

Six supervisors cited lack of time as the leading reason for not completing performance evaluations. Of these six supervisors, one was responsible for completing sixteen evaluations while the remaining five were responsible for completing between one to eight evaluations. Another supervisor we interviewed completed nine evaluations that were due in 2015 and acknowledged the difficulty in finding time to do performance evaluations, but emphasized the importance of doing so despite budget cuts and fewer staff. Furthermore, DHR policy No. 7.0 states that the planning, observation, evaluation, and development of employee job performance is a fundamental management responsibility and is essential to a productive agency or department.

Duration of supervisory relationship

Three supervisors believed it was not appropriate to perform an evaluation when the supervisor or subordinate was new to the role and only had a brief working relationship. DHR policies and CBA terms related to performance evaluations do not exempt supervisors from the requirement to provide an annual performance evaluation to an employee on the basis of the duration of the supervisory relationship. Neither addresses how to handle annual performance evaluations when an employee moves to a different position or is assigned to a different supervisor within the same agency. As a result, state agencies and departments will need to develop their own approach to coordinating performance feedback for classified employees that transfer between state organizations or are assigned to a different supervisor during the course of an evaluation period.

Aspects of performance evaluations are burdensome

Supervisors also said they found some specific aspects of the evaluation system burdensome. For example, obtaining timely approval and signatures from the reviewer and the appointing authority within the 45-day timeframe can be challenging. Consistency of rating was also a concern for some of the supervisors we interviewed. For example, supervisors stated the rating scale is ambiguous and inflexible. One supervisor stated the rating score is difficult to work with, especially when a subordinate's actual performance is between a satisfactory and excellent and suggested a 5-point rating score instead of a 4-point rating system.

A senior manager from one of the departments believes that more employees may be getting excellent and outstanding ratings because the satisfactory rating is deemed as a negative rating by some supervisors. In fact, a few supervisors reported that they believe "Satisfactory" is an unacceptable rating and therefore do not use it. According to the SHRM standard for performance management, clear definitions of each level of performance must be provided to raters, and raters should be provided with examples of behaviors, skills, measurements, and other data that will assist them in making a decision regarding the performance level. While the handouts for the SSG1 training include the definitions for the rating scale, this information duplicates what is included in the performance evaluation form and the DHR Guide to the State's Performance Management System and does not provide examples of the types of behaviors and skills that reflect the different ratings.

Lack of notification of due dates

DHR utilized a spreadsheet to track due dates and completion of performance evaluations for DII, F&M, and its own employees and infrequently provided some supervisors with reminders of the due dates for performance evaluations. About half of the supervisors interviewed stated

they began receiving reminders from DHR in late 2015 to early 2016 for upcoming evaluations that were due. DHR confirmed that notifications of due dates did not occur until the hiring of an additional DHR field administrator late in 2015.

According to DHR, they use data in VTHR¹⁶ and in organizational charts maintained by departments to update the tracking spreadsheets for changes in supervisors. As DHR processes changes in the status of employees in VTHR (e.g., new hires and transfers); it also updates the tracking spreadsheets. However, there may be some instances where employees are moved to a different supervisor within the same department and a change is not processed in VTHR. In addition, DHR did not consistently compare the tracking spreadsheet to department organization charts. To ensure that all supervisory changes are reflected in the tracking spreadsheet, DHR could request that the relevant departments verify the accuracy of supervisors each quarter before sending the quarterly notification of annual performance evaluations due.

DHR tracks which employees in DII and F&M have received annual performance evaluations from their supervisors and whether the annual performance evaluation is timely, but management at F&M told us that in 2015 they did not receive this information from DHR. The DHR field administrator for DII was unable to provide documentation to show what, if any, data was sent to DII. In contrast, the Commissioner of DHR recalled receiving a report of performance evaluation due dates for DHR early in 2015. According to the SHRM national standard for performance management, performance measures such as the percentage of employees receiving their regular performance reviews and the percentage of supervisors that complete their performance reviews properly and timely can be used to assess the efficiency of performance management process. DHR's tracking spreadsheets contain the information needed to calculate these measures and should be regularly provided to DHR, DII, and F&M senior management.

Finally, six of the supervisors we interviewed said that they do not believe that evaluations add value. Three of these supervisors said that even though some employees may need improvement, there is no incentive for them to do so and the evaluation process is not effective at remediating poor performance. However, the State has a process for holding employees accountable, which can include annual performance evaluations, and dismissal from employment could be the result if poor performance is not remediated. Others noted that there are no adverse consequences to either employee or supervisor for failure to complete annual evaluations, as long as

¹⁶ VTHR is the system the State utilizes to process hires, track employee movement, create payroll, and house data for federal and state reporting. VTHR is an Oracle/PeopleSoft system.

informal verbal feedback is given by the supervisor. Adding credence to these concerns, DHR's analysis of the 2015 employee engagement survey noted that employees were concerned that "underperformers were not being held accountable" and "want low performers to be managed out." The department suggested that a solution would be to build in accountability for supervisory performance, including evaluations across state government at the manager, supervisor, and leadership level.

As is evident from our interviews, supervisors have various reasons for not completing annual evaluations and differing opinions on whether annual performance evaluations offer benefits to the State's workforce. According to DHR's Guide to the State's Performance Management System, in order to meet the State's mission to provide essential services to Vermont citizens, each state employee must perform his or her job as capably as possible. The mandatory SSG1 training is a good step toward communicating that the State's performance management system, including annual performance evaluations, is a mechanism to achieve this, and that it is the responsibility of supervisors.

Conclusions

Annual performance evaluations are one of three components of the State's performance management system, which DHR believes is essential to a productive agency or department. In the department's most recent strategic plan, DHR identified improving the completion rate of annual performance evaluations across state government as a priority. Yet, the department had a very low rate of completion of annual performance evaluations for 2015, as did DII and F&M.

DHR did not consistently provide notifications of due dates for annual performance evaluations to its own supervisors and to supervisors in DII and F&M. This may partially explain the low completion rates for these three departments. The hiring of an additional employee in DHR, who is charged with sending these notifications, may improve the consistency of notifications to supervisors and improve the completion rates of annual performance evaluations.

Most supervisors interviewed in the three departments were uncertain about whether their performance expectations included completion of annual performance evaluations for subordinates. Senior officials in DII and F&M stated that completion of annual performance evaluations had not been a priority in the past, but they indicated it would be emphasized going forward.

Supervisors in the three departments cited additional reasons for not completing annual performance evaluations, such as lack of training and

ambiguity of the performance ratings. Supervisors are required to attend DHR’s SSG1 training, which should increase the number of supervisors with training in annual performance evaluations. However, the SSG1 handouts contain the same information for performance ratings that is already available in DHR’s Guide to the State’s Performance Management System, so the training may not address the concerns some supervisors have about the ratings.

The SSG1 training is a reminder for supervisors of their responsibility for completing annual performance evaluations, but senior management support for and prioritization of completion of annual performance evaluations is critical. Adding this as a supervisor expectation and senior officials following up and holding supervisors accountable, could demonstrate this support and prioritization.

Recommendations

We make the recommendations in Table 3 to the Commissioner of the Department of Human Resources.

Table 3: Recommendations and Related Issues

Recommendation	Report Pages	Issue
1. Amend personnel policy 7.0 to specify that completion of annual performance evaluations for confidential and managerial employees must be within a reasonable time period and define what constitutes a reasonable time period.	11	The CBA requires annual performance evaluations to be completed within 45 days of classified employees’ anniversary date. DHR officials stated that confidential and managerial employees’ annual performance evaluations are governed by statute that requires an evaluation at least annually and indicated that an evaluation completed within a reasonable timeframe would be acceptable. However, this is not addressed in DHR’s policy.
2. Include completion of annual performance evaluations in the DHR supervisors’ performance expectations and assess whether they completed timely performance evaluations.	14, 17	Most supervisors interviewed were not certain whether completion of annual performance evaluations was included in their performance expectations, and the majority stated that the supervisors they report to had not followed up with them in 2015 regarding annual performance evaluations. DHR’s analysis of the 2015 Employee Engagement Survey included a recommendation to build in accountability for supervisory performance, including evaluations across state government at the manager, supervisor, and leadership level.

Recommendation	Report Pages	Issue
3. Periodically review data regarding which supervisors have completed SSG1, and ensure that those supervisors that have not completed the course do so before the end of 2018.	14, 17	More than half of the supervisors interviewed indicated that they had not received training related to the State's performance evaluation system. The course materials for SSG1 address the State's performance management system, including performance evaluation topics such as annual evaluation strategies, key steps to a performance review, and completing the required performance evaluation form. The materials also make clear that the completion of annual performance evaluations is the supervisors' responsibility.
4. Amend the Guide to the State's Performance Management System to include direction related to coordinating annual performance evaluation feedback among departments or supervisors when an employee transfers between departments or changes supervisors.	15	In some instances, supervisors reported that they had not completed annual performance evaluations either because the subordinate had only recently transferred from another position in state government, or because the supervisor had only recently assumed that position. DHR policies and CBA terms related to performance evaluations do not exempt supervisors from the requirement to provide an annual performance evaluation to an employee on the basis of the duration of the supervisory relationship.
5. Add materials to the SSG1 training that provide examples of the types of behaviors and skills that reflect the State's four performance ratings.	15	Some supervisors expressed concern over the interpretation and implementation of the rating scale, including a senior manager who believes that some supervisors deem "Satisfactory" to be a negative rating. The SHRM standard says that clear definitions of the ratings should be provided to supervisors, along with examples.
6. Periodically provide the tracking spreadsheets to DII and F&M officials to validate that the appropriate supervisors are listed.	16	According to DHR, they use data in VTHR and in organizational charts maintained by departments to update the tracking spreadsheets for changes in supervisors. However, changes processed in VTHR may not include instances where employees are moved to a different supervisor within the same department. In addition, DHR did not consistently compare the tracking spreadsheet to department organization charts.
7. Provide status updates to senior management of DHR, DII, and F&M that show which employees have had evaluations when due and which supervisors have completed timely annual performance evaluations.	16	According to the SHRM national standard for performance management, performance measures such as the percentage of employees receiving their regular performance reviews and the percentage of supervisors that complete their performance reviews properly and timely can be utilized to provide an indication of the efficiency of the performance management process. DHR's tracking spreadsheets contain the information needed to calculate these measures.

We make recommendations in Table 4 to the Commissioners of the
departments of Information & Innovation and Finance & Management.

Table 4: Recommendations and Related Issues

Recommendation	Report Pages	Issue
8. Include completion of annual performance evaluations in supervisors' performance expectations and assess whether they completed timely performance evaluations.	14, 17	Most supervisors interviewed were not certain whether completion of annual performance evaluations was included in their performance expectations and the majority stated that the supervisors they report to had not followed up with them in 2015 regarding annual performance evaluations. DHR's analysis of the 2015 Employee Engagement Survey included a recommendation to build in accountability for supervisory performance, including evaluations across state government at the manager, supervisor, and leadership level.
9. Obtain data from DHR regarding which supervisors have completed SSG1 and ensure that those supervisors that have not completed the course do so before the end of 2018.	14, 17	More than half of the supervisors interviewed indicated that they had not received training related to the State's performance evaluation system. The course materials for SSG1 address the State's performance management system, including performance evaluation topics such as annual evaluation strategies, key steps to a performance review, and completing the required performance evaluation form. The materials also make clear that the completion of annual performance evaluations is the supervisors' responsibility.
10. Obtain updates from DHR that show which employees have had annual performance evaluations and which supervisors have completed timely annual performance evaluations.	16	According to the SHRM national standard for performance management, performance measures such as the percentage of employees receiving their regular performance reviews and the percentage of supervisors that complete their performance reviews properly and timely can be utilized to provide an indication of the efficiency of the performance management process. DHR's tracking spreadsheets contain the information needed to calculate these measures.

Management Comments

On July 21, 2016, the commissioners of the departments of Human Resources, Finance and Management, and Information and Innovation provided comments on a draft of this report. These comments are reprinted in Appendix IV. The commissioners agreed with our findings and the comments included statements that improvements would be made or were in process.

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In accordance with 32 V.S.A. §163, we are also providing copies of this report to the commissioner of the Department of Finance and Management and the Department of Libraries. In addition, the report will be made available at no charge on the state auditor's website, <http://auditor.vermont.gov/>.

Appendix I

Scope and Methodology

To address our audit objective, we reviewed state statutes, DHR personnel policies, and the non-management and supervisory CBAs to gain an understanding of the State's requirements related to annual performance evaluations. We also reviewed DHR's Guide to the State's Performance Management System. We obtained the results of the Employee Engagement Survey for years 2013 through 2015 and reviewed information regarding the number of employees who agreed that performance evaluations are completed annually and the percentage of employees that responded to the survey. We reviewed DHR's performance report submitted with fiscal year 2016 budget materials and their strategic plan for 2011-2015. We also reviewed DII's strategic plan for 2013-2018 and F&M's strategic plan for 2012-2015. We obtained best practices from the Society of Human Resource Management related to performance management systems, including performance evaluations.

To understand the processes related to annual performance evaluations for DHR, DII, and F&M, we interviewed senior officials from these departments, including deputy commissioners, and the DHR Director of Labor Relations and Director of Operations. We also interviewed DHR field administrators to gain an understanding of the process used to track completion of annual performance evaluations and provide reminders to supervisors of due dates for annual performance evaluations. Based on these interviews, we documented the processes relating to the annual performance evaluation cycle. We obtained agreement from the departments that our understanding of the processes was correct and corroborated some of these processes, such as notifications of due dates, during interviews held with 22 supervisors.

We obtained the spreadsheets maintained by DHR field administrators to track the status of annual performance evaluations for classified employees of DHR, DII, and F&M. We performed some limited testing of the accuracy of the data in the tracking spreadsheets. For example, we compared employee name, supervisor, and anniversary date in the tracking spreadsheets to a VTHR extract provided by DHR. We also compared the employees listed in the tracking spreadsheet to the departments' organizational charts as of November or December 2015. Senior officials from the three departments confirmed that the tracking spreadsheets fairly represented the status of annual performance evaluations for their classified employees during 2015. As a result, we did not perform additional tests of the reliability of the data.

We requested the signature page of the most recent annual performance evaluation for 20 classified employees with no date in the tracking spreadsheets for an annual performance evaluation or with a date prior to 2014 and determined the most recent date that an annual performance

Appendix I

Scope and Methodology

evaluation had been received.

We evaluated whether all 27 of the 2015 annual performance evaluations were completed according to DHR guidelines such as proper signatures and the inclusion of performance expectations and CBA requirements for timeliness. To do this, we assessed whether sections of the performance evaluation form were completed. In addition, we obtained delegation of authority forms¹⁷ for DHR and F&M to ensure the individual listed on the evaluation as the appointing authority was authorized to sign the evaluation. There was no delegation of authority for DII. To assess timeliness, we calculated the number of days from the employee's anniversary date to the date the supervisor held a conference with the employee and compared the result to the 45-day benchmark established by the CBAs.

We selected a non-statistical sample of 22 of 46 supervisors from the three departments and interviewed them to understand factors affecting the timeliness or non-completion of evaluations. The supervisors selected were at different supervisory levels, had varying lengths of service, represented various divisions within the departments, and had differing histories of completing evaluations. We summarized and reported the interview results.

We obtained training materials from DHR for the mandatory course, SSG1, and reviewed the course content to determine if it includes information and guidance related to annual performance evaluations. We obtained data from DHR regarding the number of designated supervisor and manager required to attend this training and the number that have attended as of May 2016.

Our audit was performed at the Montpelier state offices between March and July 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹⁷ This form is utilized to assign signature authorization for persons authorized to approve purchasing, payroll, personnel, and other documents.

Appendix II Abbreviations

CBA Collective Bargaining Agreement

DII Department of Information & Innovation

DHR Department of Human Resources

F&M Department of Finance and Management

SHRM Society of Human Resource Management

SSG1 Supervising in State Government Level 1

VLRB Vermont Labor Relations Board

VTHR The State's primary centralized payroll and human capital Management system used for the processing, recording, tracking, and reporting of payroll, benefits, leave balances and other employee data is the VTHR system. VTHR is an Oracle/PeopleSoft system.

Appendix III Performance Evaluation Report

Save Form

Print Form

PERFORMANCE EVALUATION REPORT

DOCUMENT A - Evaluation Summary

Employee: _____	Type of Evaluation:
Department: _____	<input type="checkbox"/> Original Probation
Position Title: _____	<input type="checkbox"/> Annual
Evaluation Period _____ From: _____	<input type="checkbox"/> Promotion
Performance Review Conference held on: _____	<input type="checkbox"/> Special
	<input type="checkbox"/> Warning
	<input type="checkbox"/> Separation

OVERALL PERFORMANCE DURING THE EVALUATION PERIOD IS RATED AS: (Check one)	
<input type="checkbox"/>	OUTSTANDING The employee's overall performance significantly and consistently surpasses all performance standards established for the position. This evaluation recognizes an employee's sustained excellence and accomplishments which are substantially above usual expectations.
<input type="checkbox"/>	EXCELLENT The employee's overall performance in all areas frequently exceeds the performance standards established for the position. This evaluation recognizes an employee's consistent effectiveness and accomplishments which are above usual expectations.
<input type="checkbox"/>	SATISFACTORY The employee's overall performance consistently meets the performance standards established for the position and regularly achieves expected results. An employee at this achievement level meets usual expectations and performs tasks in a timely and acceptable manner.
<input type="checkbox"/>	UNSATISFACTORY The employee's overall performance inconsistently meets the performance standards established for the position and indicates that significant tasks are not completed in the time or manner expected. Performance is below the minimum acceptable level for the position. Correction of performance deficiencies is necessary for continued employment.

Name of Supervisor: _____	Signature: _____
Title: _____	Date: _____
Name of Reviewer: _____	Signature: _____
Title: _____	Date: _____
Appointing Authority: _____	Signature: _____
Title: _____	Date: _____
Employee: _____	Signature: _____
Title: _____	Date: _____

To the Employee: Signature only indicates receipt of the evaluation.

AA-PER-6C (Revised May 1997)

STATE of VERMONT

Department of Personnel

Appendix III Performance Evaluation Report

SUMMARY OF MAJOR JOB DUTIES WITH PERFORMANCE EXPECTATIONS

(Even though they need not be listed below, employees are also expected to adhere to general performance expectations applicable to all employees, such as, but not limited to: reporting for work on time, following work rules & procedures, maintaining effective working relationships with public and co-workers, etc. These general performance expectations can be used in determining the employee's final rating.)

Major Job Duties/Performance Expectations

DOCUMENT B - Performance Comments

Employee:
Evaluation Period From:
Department:

SUPERVISOR COMMENTS

PERFORMANCE EXPECTATIONS FOR NEXT EVALUATION PERIOD

(Identify any changes or additions to employee's job duties or performance expectations for the next rating period.)

REVIEWER COMMENTS

APPOINTING AUTHORITY COMMENTS

EMPLOYEE COMMENTS



State of Vermont
Department of Human Resources
Department of Finance and Management
Department of Information and Innovation

Agency of Administration

MEMORANDUM

DATE: July 21, 2016

TO: Douglas R. Hoffer, Vermont State Auditor

FROM: Maribeth Spellman, Commissioner, Department of Human Resources
Andy Pallito, Commissioner, Department of Finance and Management
Richard Boes, Commissioner, Department of Information and Innovation

SUBJECT: Management Comments to Draft Report

We have received the draft report regarding completion rates for performance evaluations during calendar year 2015 and appreciate the efforts of your staff in compiling this report. Employee engagement is a key component to the success of any organization, with effective performance management being one among many factors which impacts employee engagement. Effective performance management requires a strong relationship between supervisors and employees, to include frequent communication, articulation of performance expectations, and feedback. While the overall level of employee engagement and effectiveness of the myriad performance management techniques cannot be measured against one data point, we acknowledge that our efforts in documenting performance expectations and feedback on the required form, has not been adequate.

Prior to and during the course of this audit process, we have been making efforts to improve employee engagement and the performance management process, to include:

1. **Mandatory training for all supervisors.** In April 2015, DHR launched a mandatory supervisory training program, which, as part of the 4-day curriculum, contains training on performance management. This program is mandatory, with the goal of training all state supervisors by 2018.
2. **Employee engagement survey and consulting services.** DHR conducts an annual, statewide employee engagement survey, designed to evaluate employee satisfaction and provide meaningful feedback to organizations. The survey responses are available on the DHR website and the data is broken down by Agency/Department. Further, DHR is using this data in conjunction with Agencies/Departments as a tool for discussion focused on organizational management and planning. Questions/feedback regarding performance management are intertwined throughout the survey.
3. **Modifications to the performance evaluation form/scale through the collective bargaining process.** The performance evaluation form and rating scale is a product of the collective bargaining process. As such, any substantive modifications must be bargained. The development of more meaningful performance measurements relative to individual performance objectives is a goal of DHR, and movement was achieved in this direction as part of the most recently bargained contract.

Appendix IV Management Comments

4. **Improved tracking of the timeliness/completion of performance evaluations.** The hiring of additional staff to track, monitor and remind supervisors of their obligations regarding pending performance evaluations, has greatly facilitated the completion of evaluations, with over 70% of evaluations currently completed for calendar year 2016, with an expectation of 100% compliance by the end of the calendar year.
5. **Review/update of policy 7.0.** DHR is in the process of reviewing and updating policy 7.0, with a targeted completion date of end of FY 2017.
6. **Review/update of Guide to the State's Performance Management System.** DHR is in the process of updating this guide with a targeted completion date of end of FY 2017.

As noted above, the Department of Human Resources is already tackling many of the issues contained in the audit recommendations. We are supportive of all of the audit recommendations, will move forward on the items identified above, and will include completion of performance appraisals as a performance expectation for all supervisors/managers within DHR.

The Departments of Finance and Management and Information and Innovation are supportive of the audit recommendations and are working to improve internal processes, to include discussing the importance of performance evaluations at staff meetings and holding supervisors accountable for the performance evaluations of their employees. We understand documentation of appraisals as mandated by DHR policy and the bargained agreement is an important part of a comprehensive performance management strategy. Management will continue to meet regularly with DHR in an effort to fill gaps in understanding and implementation of DHR policy and process, and to assist managers and supervisors in understanding the rules around performance appraisals. We will hold ourselves accountable for significant improvement in documentation.