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Executive Summary

Preface

An organization's Human Resources (HR) function is charged with developing and implementing strategies/policies related to its most valued assets – the employees who individually and collectively contribute to the achievement of its goals. The broad purpose of HR is to maximize the return on an organization's human capital investment and minimize HR-related financial, operational, and regulatory risks. As such, HR activities touch virtually every aspect of an organization's operation and have substantial resource implications. Indeed, at the County of Orange, salary and employee benefits costs represent \$1.6 billion, or 29%, of the County's total FY 2010/11 \$5.5 billion budget.

On November 9, 2010, the Board of Supervisors (Board) authorized a comprehensive performance audit of the County of Orange Human Resources Department (HRD) to be completed by the Office of the Performance Audit Director (Office).¹ The Board's direction to perform this audit is timely, given the dire fiscal condition of many state and local governments and the current debate on public employee compensation.

The 50 findings and recommendations in this audit are designed to assist the Board and HRD in a number of ways:

- ❑ Provide an overview of the Countywide HR system and equip policymakers with important information that will assist in decision making.
- ❑ Identify several financial/operational/organizational options the Board can consider to help close the County's structural budget deficit.
- ❑ Augment the County's preparations for the 2012 negotiations with the majority of County labor organizations.
- ❑ Present findings and recommendations that will allow for critical improvements to both HRD and Countywide HR efficiency and effectiveness.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit team plan and

¹ The specific scope of work and methodology for this audit are contained in the main body of this report.

perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on audit objectives. The audit team believes that the evidence obtained in this audit provides a reasonable basis for its findings and conclusions based on audit objectives.

Primary Audit Conclusions

After five months of intensive research on the major facets of HRD and the County's HR system, the Office has reached the following conclusions:

1. Though HRD has made several notable improvements in recent years – in its relationship with agencies/departments, in its negotiation efforts with labor organizations, in its development of policies and procedures manuals for recruitment and position classification, and in its provision of several employee benefits programs – HRD is still underperforming in many areas, with significant negative impacts to the County as a whole.
2. Despite years of internal and external scrutiny, there remains a large gap between the mission-critical role HRD states it should fulfill within the County HR system versus what it is currently achieving, as evidenced by the number of significant audit findings in this report. Perhaps the most illustrative deficiency is HRD's underperformance as the leader and role model in many HR areas, including succession planning, training, classification/compensation, and performance appraisal.
3. Some of HRD's deficiencies are driven by staffing shortages, while others are performance-related. Indeed, several previous audits/reviews have identified the negative impacts of low HRD staffing levels. Despite HRD management's acknowledgement that a resource shortage has led to some core deficiencies, they indicate that additional resources were not requested from the County Executive Officer (CEO) or the Board.
4. The multiple cost savings options (\$149+ million) available to the County have the potential to significantly close the existing budget gap and, in turn, reduce or eliminate the need for layoffs or furloughs that may result in service reductions.
5. The scale and volume of challenges facing the County in the upcoming 2012 labor negotiations, coupled with the number of deficiencies raised in this audit, calls for a

change in the practice of using the HR Director as the Lead Negotiator for the major bargaining units.

6. The County's current hybrid HR system has inherent challenges that are exacerbated by HRD's deficiencies and by certain practices of agencies/departments and is in need of improvement.

Background Information

State Regulations

In California, county government HR functions are regulated under California Government Code Sections 19800-19810 and related provisions of the California Administrative Code titled: "Local Agency Personnel Standards" (LAPS). Every three to five years, the State conducts audits of each county to ensure that personnel systems receiving federal and State funding conform to LAPS and that these standards are consistently applied on a countywide basis.

Hybrid County HR System

The County of Orange utilizes a hybrid system (i.e., a combination of centralized and decentralized responsibilities/activities) to provide its HR services. Under this system, each agency/department employs its own HR staff which performs nearly all its daily HR activities, while HRD retains certain centralized Countywide HR responsibilities. The chart on the following page delineates this arrangement.

Responsibility for HR Activities

HR Activity	HRD	Agency/ Department
Labor Negotiations	X	
Benefits Administration	X	
HR Information Technology Infrastructure	X	
Equal Employment Opportunity	X	
HR Policies and Procedures and Compliance Monitoring	X	
Classification/Compensation: <ul style="list-style-type: none"> ▪ Maintaining County Classification and Compensation Plans ▪ Preparation of Class/Comp Requests ▪ Review and Approval of Requests 	X X	 X
Employee Discipline Administration: <ul style="list-style-type: none"> ▪ Preparation and signing of discipline documents ▪ Approval of Proposed Suspensions ▪ Approval of Proposed Discharges ▪ Representing the County during Disciplinary Appeal Arbitrations 	 X X	 X X
Recruiting: <ul style="list-style-type: none"> ▪ Recruitment administration ▪ Development and compliance with Selection Rules 	 X	 X
Employee Training	X	X
Performance Appraisal: <ul style="list-style-type: none"> ▪ Development of performance evaluation tools ▪ Writing of performance evaluations ▪ Filing of performance evaluations 	X X	 X X
HR-related Board Agenda Items	X	

Countywide HR Expenditures and Positions

On a Countywide basis, in FY 2009/10, 195 Full Time Equivalent positions (FTEs) performed HR activities at a total cost of \$25.5 million, as shown in the chart on the following page.

HR Positions and Expenditures by Agency/Department

Agency/Department	Total Agency/Dept Positions	Number of HR Positions (FTEs)	FY 2009/10 Actual HR Expenditures
Human Resources Department	39	39	\$9,814,035
Assessor	339	2	\$165,300
Auditor-Controller	414	4.3	\$646,602
Board Offices	37	HR services provided by Clerk of the Board	\$0
Child Support Services	626	7.5	\$612,337
Clerk of the Board	30	1	\$111,927
Clerk-Recorder	101	1.5	\$123,170
County Counsel	98	0.7	\$84,856
County Executive Office	189	1.6	\$172,440
District Attorney	731	5	\$475,541
Health Care Agency	2,463	25	\$2,404,675
John Wayne Airport	179	3	\$333,450
OC Community Resources	1,113	12	\$1,066,642
OC Dana Point Harbor	15	HR services provided by OC Public Works	\$7,322
OC Internal Audit Department	16	0.3	\$46,951
OC Public Works	1,016	9	\$1,119,874
OC Waste & Recycling	287	5	\$582,434
Office of Independent Review	1	0	\$0
Office of the Performance Audit Dir.	4	0	\$0
Probation Department*	1,386	10	\$897,843
Public Administrator/Public Guardian	60	0.7	\$116,686
Public Defender	386	3.3	\$349,176
Registrar of Voters	49	1.1	\$103,457
Sheriff-Coroner Department*	3,814	34	\$2,842,375
Social Services Agency	3,837	26	\$3,130,512
Treasurer-Tax Collector	97	3	\$295,166
Total	17,327	195	\$25,502,771

Sources: FY 2010/11 2nd QBAR for position count; agencies for HR FTEs and for expenditures

* Does not include dedicated personnel for 1) background investigations, or 2) internal affairs investigations

HRD Historical Context

To understand the current state of the County's HR system, it is critical to note key historical events and studies related to HRD. Over the past decade, HRD has been studied by the Grand Jury seven times, by consultants three times, by the State twice, and by the County's Internal Audit Department twice. Many of these historical reviews of HRD detailed significant weaknesses in the HR system and HRD's efforts to address these issues, though many of these same deficiencies remain today. A detailed historical review of HRD is presented in Appendix A. It is important to note that prior to the appointment of the current HR Director (2006), there were three different HR

Directors over the course of six years (2000-2006). As with any organization, frequent leadership changes make it difficult to tackle long-standing challenges.

HRD Accomplishments

There were many noteworthy HRD accomplishments identified during this audit. A summary of the more significant accomplishments follows:

- The last round of labor negotiations was well planned and carried out according to Board direction. County negotiators for the largest bargaining units had a good grasp of the issues and used a positive, management-oriented approach.
- Employee Benefits has instituted a number of positive contract and vendor management practices, including the establishment of performance guarantees and regular performance reporting, with associated financial penalties, in nearly all the major vendor contracts (e.g., ACS, Kaiser, CIGNA, Blue Shield).
- The County's employee discipline and appeals system appears to be in compliance with applicable laws and industry best practices, and, with one important exception (binding arbitration), the system facilitates the County's objectives. In addition, CEO and HRD have worked diligently over the past few years to reduce the amount of time employees remain on paid Administrative Leave pending the outcome of pre-disciplinary investigations, which has yielded cost savings.
- In early 2010, HRD updated its Selection Procedures in response to a 2008 Grand Jury report entitled "Orange County Human Resources Procedures: Out of Date, Out of Time" which criticized the County for not having revised its procedures since 1978. HRD also developed a Recruiter Orientation Program in 2009, which has trained 99 recruiters, HR managers, and HR analysts Countywide.

Summary of Findings and Recommendations

The audit's 50 findings and recommendations are summarized below.

- Many deficiencies identified in past audits/studies of HRD have not been resolved, and several of these audits/studies have not been formally shared with the Board. (Finding 1)

The audit team recommends that all formal audits/studies of HRD be formally submitted to the Board via the public agenda.

- HRD has not established a strategic foundation for HR activities Countywide, nor does it consistently fulfill its leadership role in certain Countywide HR areas, both of which are critical responsibilities in a decentralized HR environment. (Findings 2, 3b, 43, 45)

The audit team recommends that HRD develop a Countywide Strategic HR Plan to clarify the roles and responsibilities of HRD and agencies/departments in the current HR system and develop Countywide HR strategic goals to guide HR practices over the next five years. This strategic planning process should re-establish HRD as the leader in certain Countywide HR activities (e.g., training, succession planning, compensation philosophy), in practice, not just in concept.

- HRD does not adequately fulfill its oversight responsibility within the Countywide HR system for enforcing applicable County and State policies and standards. Furthermore, there are multiple instances where HRD has not adhered to its own policies. (Findings 4, 5, 7, 8, 40, 41)

The audit team recommends that HRD fulfill its stated oversight responsibility.

- There are a number of opportunities to improve HRD's labor relations program. The most critical issue to address is the current practice of using the HR Director as the County's Lead Negotiator (as discussed earlier). Other issues include: (1) the problematic use of "side agreements/letters" in some instances, (2) the lack of HRD staff participation in professional organizations, (3) HRD management not always consulting with/adhering to the advice of County Counsel, and (4) an Employee Relations Resolution that has not been updated since 1990. (Findings 24-36, 46)

The audit team has multiple recommendations to address these issues, including using an outside negotiator for the 2011 contract reopener discussions and the 2012 contract negotiations; this specific change will allow the HR Director to focus on making the necessary improvements to HRD and the Countywide HR system recommended in this report.

- There is no formal Countywide succession planning process, which is especially troubling in light of the high percentage of County employees reaching retirement age, particularly managers. (Finding 45)

The audit team recommends that HRD form a task force to (a) immediately develop a formal succession planning strategy for the County, and (b) identify and analyze succession planning impacts in all future cost savings proposals.

- Important Countywide HR-related statistics/indicators (e.g., frequency and cost of non-management Merit Increases) and performance metrics (e.g., cost-per-hire) are not tracked – or have not been tracked consistently over time – by HRD. (Finding 6, 33, 42)

The audit team recommends that HRD identify and track basic, industry-standard metrics for HRD and that these metrics be included in its Business Plan.

- There has been a lack of progress in addressing some strategic challenges in the area of Employee Benefits, such as the funding for retiree health plans administration, the long-term liability of the Extra Help Employee Defined Benefit Program, the use of the Administrative Funding and Revenue-Sharing Accounts with the County's Defined-Contribution Administrator, and pursuing employee incentives to choose lower cost health plans. (Findings 9, 15, 18, 20)

The audit team recommends that HRD allocates time to prepare action plans for addressing these challenges, using detailed suggestions from the audit report as a starting point.

- A key HR activity – performance appraisal/evaluations – is not achieving its intended purpose of motivating and rewarding employee excellence. (Findings 37–39).

The audit team recommends pursuing the discontinuation of the goal portion of the Performance Incentive Program (PIP) for non-management employees and improving the accountability structure for the content and rating scores in management performance evaluations.

- There continues to be agency/department concern over the inconsistency of HR skill sets across the County. (Finding 44)

To address this issue, the audit team recommends that HRD, through a consultant, conduct a knowledge/skills assessment of HR employees Countywide and develop a training program to address any skills gaps. In addition, HR professionals should be encouraged to obtain certification through an industry organization.

- While vendor/contract management is generally a strength for HRD, the audit team identified important deficiencies in the procurement process for one contract, as well as opportunities for improving the performance of the County's HR vendors by establishing more consistent performance guarantees and auditing vendor-reported performance. (Findings 11-14, 16)

The audit team recommends that HRD further enhance its contract management procedures and oversight.

- Some important HR policies and procedures, primarily in the area of Employee Benefits, are missing, incomplete, or out-dated, which increases the risk of inconsistent practices and inadequate knowledge transfer. (Findings 3a, 10, 17, 19, 21, 22, 31)

The audit team recommends that HRD ensure that necessary staff is assigned to develop, maintain and monitor compliance with important policies and procedures.

Cost Savings Options

The final section of the audit report provides 25 cost savings ideas/options, totaling \$149+ million (page 111), which were either identified in this audit report and/or by other sources, such as CEO/Budget and human resources studies/reports addressing state and national issues.

Implementation of all or some of these options can significantly reduce, and possibly close, Orange County's structural budget gap. Moreover, none of these options require layoffs or furloughs. Some of these options can be implemented by the County alone; others require either a change or introduction of new legislation; most require negotiations with impacted labor organizations.

It cannot be overemphasized that the current public interest in reducing the cost of government, alongside the County's budget situation, provides the most opportune time to pursue the implementation of these options.

Acknowledgements

The audit team would like to thank HRD for its cooperation and time throughout this process. We would also like to express our appreciation to agency/department management for their candor and important participation, County Counsel for their input on HR issues and for the legal review of this document, and CEO/Budget for its data gathering and verification. Lastly, the Office would like to thank our HR consultant, Mark Flannery, for his valuable and insightful contributions to this audit.

Performance Audit of the Human Resources Department

Introduction

Human Resources (HR) is the management of an organization's most valuable assets – the employees who individually and collectively contribute to the achievement of its goals. The broad purpose of HR is to maximize the return on an organization's human capital investment and minimize HR-related financial, operational and regulatory risks. As such, HR activities touch virtually every aspect of an organization's operation and have substantial resource implications. Typically, organizations recognize the strategic importance of HR and structure their HR functions to address needs/issues such as:

- Recruitment, retention, and succession planning
- Developing executive leaders who can strategically plan and effectively manage the organization
- Ensuring compliance with federal and state mandates to avoid costly litigation
- Developing salary and benefits programs that are competitive yet sustainable
- In unionized workplaces, working with employee representatives to address terms and conditions of employment

In an effort to gauge the effectiveness and efficiency of Orange County's Human Resources Department (HRD), the Board of Supervisors (Board) approved a comprehensive performance audit of HRD by the Office of the Performance Audit Director (Office) at its November 9, 2010 meeting.

Scope of Work

The Board directed that the audit include an examination of the following areas:

- The County's current hybrid human resources system (i.e., centralization of some HR services; decentralization of others)
- The County's Employee Relations and Labor Relations processes with employee associations/unions regarding the terms and conditions of employment
- Employee Discipline and Grievance administration
- Position Classification and Compensation system

- ❑ Recruitment system and processes
- ❑ Employee Benefits administration, including such areas as managing the provision of benefits, determining benefits to be offered, and selecting service providers
- ❑ Employee Training

In the audit team's review of these topical areas, some of the key questions to be considered include:

1. Are County agencies/departments satisfied with the level/quality of service/leadership provided by HRD?
2. How well does each HRD function (e.g., benefits administration, labor negotiations, employee discipline, and classification/compensation) contribute to the success of agencies/departments in delivering services to the public, in attracting and retaining quality County personnel, and in achieving County goals and objectives?
3. What are the workload/performance metrics utilized and/or available to assess the efficiency/effectiveness of HRD?
4. What policies and procedures exist for HR Countywide, and how consistently are they applied across agencies/departments?
5. What are the costs of HR operations Countywide and in individual agencies/departments?
6. How well does HRD coordinate with other critical, central administrative functions such as Budget, Purchasing, Information Technology, and Accounting in the provision of its services?
7. What types and levels of training are being administered by HRD staff and to whom?
8. How are contractors utilized by both HRD and agency/department HR functions?

Audit Methodology

This audit required an immense amount of fieldwork, as each HR element (e.g., labor negotiations, classification/compensation, and employee benefits) is multi-faceted and full of nuance. As such, the audit team covered extensive territory in its efforts to research and examine as much key data and information as possible. During our review, the Office performed the following activities:

- Conducted a historical examination of key events and audits/studies of the County's HR function
- Evaluated HRD's policies and procedures against the State's Local Agency Personnel Standards (LAPS)
- Performed financial research and analysis of historical HRD expenditures, numbers and costs of positions, costing of salary and benefits mechanisms, and evaluation of potential cost savings areas
- Interviewed nearly all HRD staff, executive and HR professional staff from most of the County's agencies/departments, representatives from some employee labor organizations, representatives from the Retired Employees' Association of Orange County, some former HRD executives, and representatives from some Board Offices
- Reviewed all major employee benefits areas, including, but not limited to: significant employee benefits programs, including health plans, defined contribution plans, and employee assistance programs; performance guarantees with vendors; and policies and procedures
- Reviewed County Classification and Compensation Plans and associated policies and procedures
- Reviewed Labor Relations information such as Memoranda of Understanding and examined labor negotiations working papers
- Benchmarked HR organizations and HR issues in comparable public jurisdictions
- Examined HRD-related databases and programs such as: OnBase document management system, CAPS Data Warehouse, CAPS+/AHRIS, and the NEOGOV automated recruiting system
- Examined HRD contracts with outside vendors for a variety of HR services
- Developed a survey to ascertain stakeholder feedback on both HRD and the Countywide HR system

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit team plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on audit objectives. The audit team believes that the evidence obtained in this audit provides a reasonable basis for its findings and conclusions based on audit objectives.

Background Information

General Overview

Hybrid County HR System

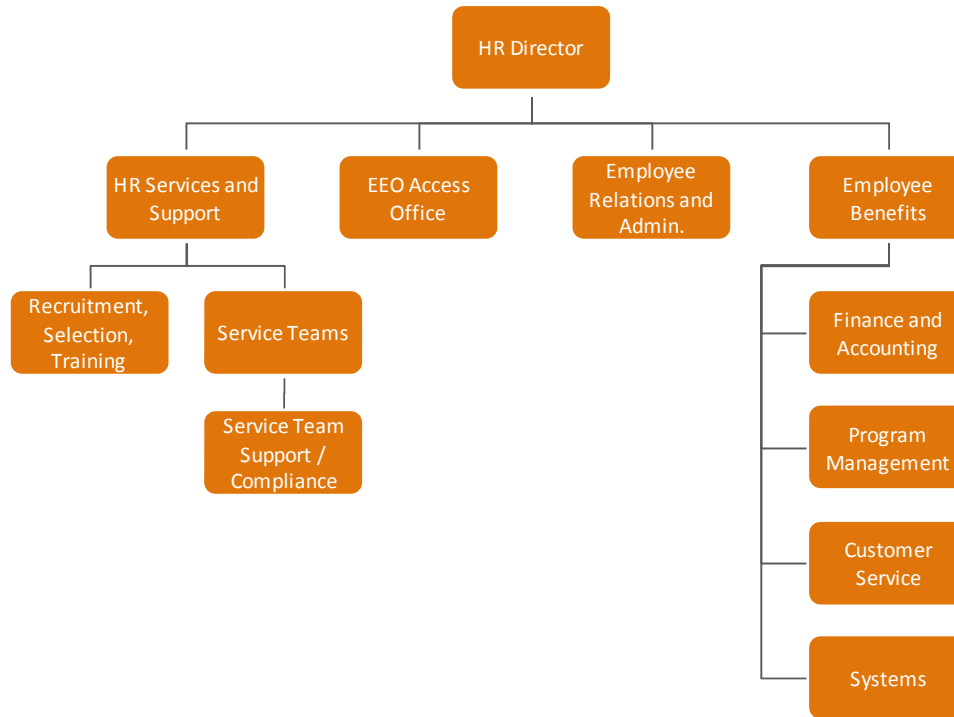
The County of Orange utilizes a hybrid system (i.e., combination of centralized and decentralized responsibilities/activities) to provide HR services. Under this system, each agency/department employs its own HR staff which performs its day-to-day HR activities, while HRD retains certain centralized Countywide HR responsibilities. The table below delineates this arrangement.

Responsibility for HR Activities

HR Activity	HRD	Agency/ Department
Labor Negotiations	X	
Benefits Administration	X	
HR Information Technology Infrastructure	X	
Equal Employment Opportunity	X	
HR Policies and Procedures and Compliance Monitoring	X	
Classification/Compensation: <ul style="list-style-type: none"> ▪ Maintaining County Classification and Compensation Plans ▪ Preparation of Class/Comp Requests ▪ Review and Approval of Requests 	X X	 X
Employee Discipline Administration: <ul style="list-style-type: none"> ▪ Preparation and signing of discipline documents ▪ Approval of Proposed Suspensions ▪ Approval of Proposed Discharges ▪ Representing the County during Disciplinary Appeal Arbitrations 	 X X	 X X
Recruiting: <ul style="list-style-type: none"> ▪ Recruitment administration ▪ Development and compliance with Selection Rules 	 X	 X
Employee Training	X	X
Performance Appraisal: <ul style="list-style-type: none"> ▪ Development of performance evaluation tools ▪ Writing of performance evaluations ▪ Filing of performance evaluations 	X X	 X X
HR-related Board Agenda Items	X	

HRD Organizational Structure

HRD provides the services under its purview with 39 positions and a FY 2010/11 expenditure budget of \$10.9 million, utilizing the organizational structure depicted on the following page.



Structurally, HRD is divided into four functions:

❑ HR Services & Support

This function provides support to County agencies/departments in the areas of classification, compensation, employee discipline, labor relations, and recruitment. In addition, this function has a compliance team that monitors agency/department HR actions for compliance with HR policies and procedures.

❑ Equal Employment Opportunity (EEO) Access Office

This function manages the County's compliance with federal EEO policies and procedures, including consulting with and investigating EEO complaints originating from agencies/departments. This function of HR was not part of the scope of work for this audit.

❑ Employee Relations and Administration

This function supports the HR Director by coordinating labor negotiations, performs special projects, develops Countywide HR policies and procedures, and is responsible for the administrative needs of HRD.

❑ Employee Benefits

This function provides all employee benefits services through HRD employees and contract benefit administrators. Activities include the development of Countywide employee benefits strategies and the management and monitoring of employee and retiree benefits programs.

Countywide HR Expenditures and Positions

On a Countywide basis, in FY 2009/10, 195 Full-Time Equivalent (FTEs) performed HR activities at a total cost of \$25.5 million, as shown in the table below.

HR Positions and Expenditures by Agency/Department

Agency/Department	Total Agency/Dept Positions	Number of HR Positions (FTEs)	FY 2009/10 Actual HR Expenditures
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Public Defender	386	3.3	\$349,176
Registrar of Voters	49	1.1	\$103,457
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Treasurer-Tax Collector	97	3	\$295,166
Total	17,327	195	\$25,502,771

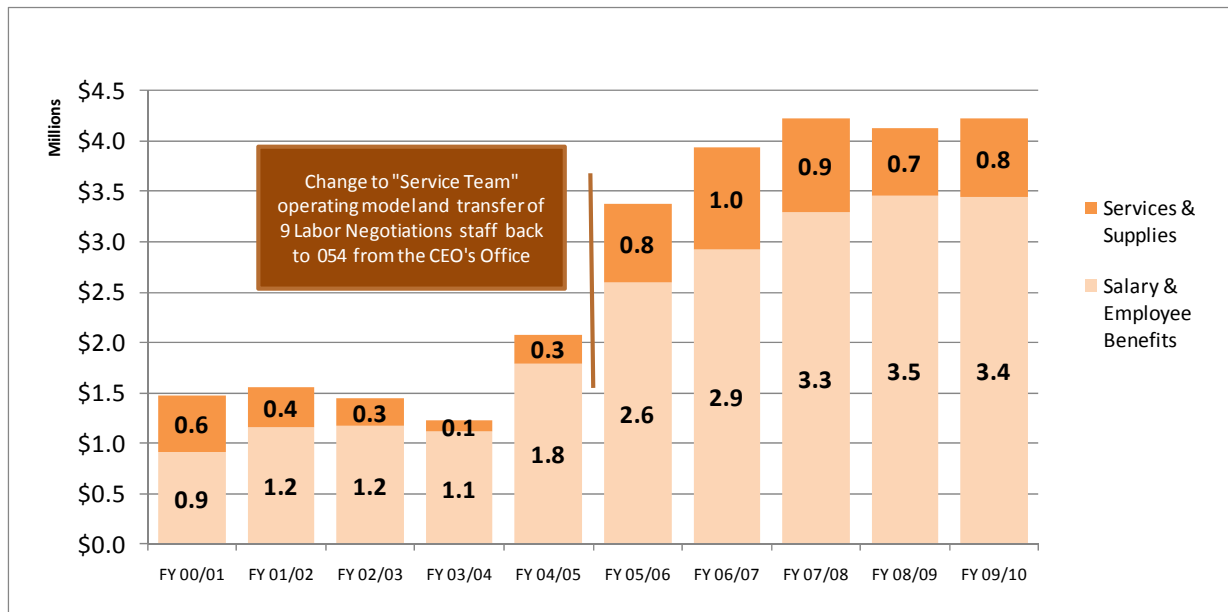
Sources: FY 2010/11 2nd QBAR for position count; agencies for HR FTEs and for expenditures

* Does not include dedicated personnel for 1) background investigations, or 2) internal affairs investigations

HRD Expenditures

HRD finances are split into two separate Agencies/Budget Controls: Human Resources-Agency 054 and Employee Benefits-Agency 056. The chart below and the chart on the following page detail HRD’s actual expenditures for the two Agencies over the past ten fiscal years.

Human Resources – Agency 054, Total Expenditures

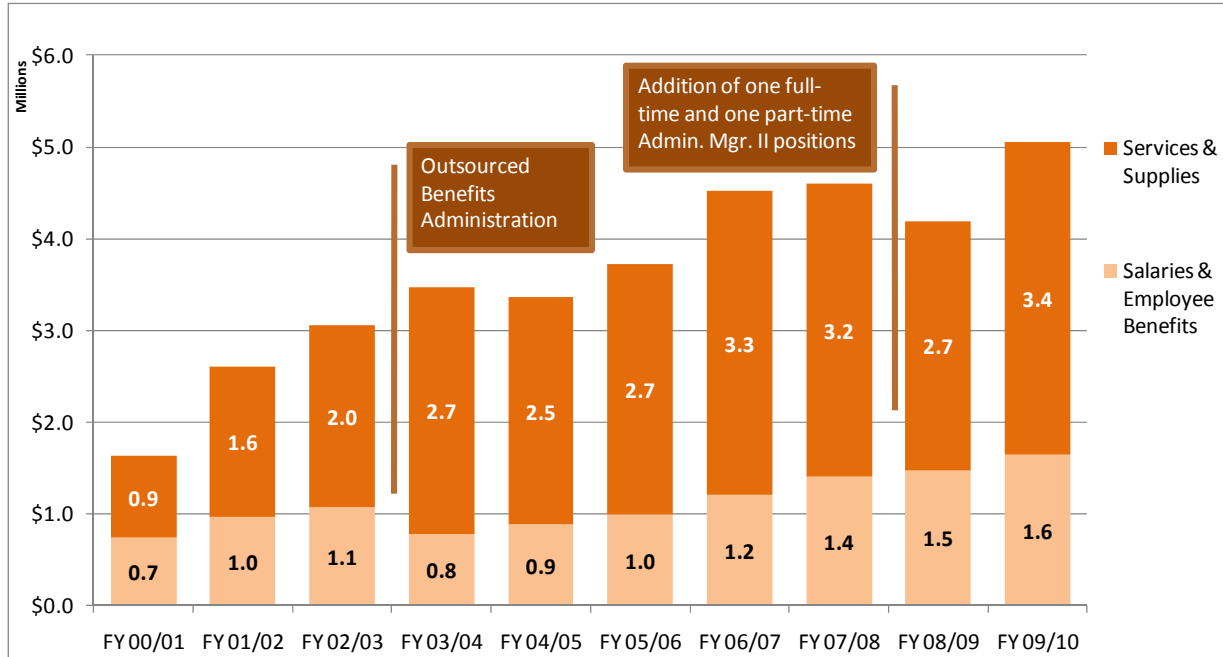


As shown in the chart above, there was a significant organizational change that occurred between FY 2004/05 and FY 2005/06: Labor Negotiations staff was moved from the CEO’s office back to HRD.² Subsequently, from FY 2005/06 to FY 2009/10, total expenditures for Human Resources-Agency 054 increased by more than \$850K (or 25%), despite the number of positions declining by one. The chart shows that the primary driver for this increase was Salary & Employee Benefits (S&EB). Within S&EB, the two contributing line items were Regular Salaries (which increased by \$593K, or 33%) and Retirement (which increased by \$290K, or 89%). A key reason for both of these increases was the reclassification upward of several management positions in HRD, which is discussed later in the Classification/Compensation section of this report. The increased cost of employee pensions was also a significant driver. It should be noted that Human Resources-Agency 054 has a portion of its costs offset by County Intrafund Transfers, the most notable of which are the cost reimbursement from Employee Benefits-Agency 056 for shared resources (e.g., the HR Director) and the reimbursement from the CAPS+ Upgrade, which has borrowed some HRD staff. In FY 2009/10,

² See Appendix A.

approximately \$740K of Human Resources-Agency 054 expenditures was offset by such transfers.

**Employee Benefits – Agency 056, Total Expenditures
(Excluding OBP pass through)**



The Employee Benefits side of HRD (Agency 056) has experienced two notable organizational changes over the last ten years (as shown in the chart above), as well as one significant budgetary change. From a budgetary standpoint, Employee Benefits used to pay for the entire County Optional Benefit Program (OBP) for managers.³ However, beginning in FY 2005/06, the County transferred these costs out to the individual agencies/departments and consequently reduced the expenditures of HRD/Employee Benefits by \$4.4 million. The audit team also learned that, in spite of this change, Employee Benefits still covers the cost of the OBP Program for all judges in the Superior Court, per the separation agreement that the County has with the State. This amounts to approximately \$500K each year.⁴ Since the inclusion of these costs would distort the historical examination of expenditure trends in Employee Benefits, the audit team removed the OBP cost from the S&EB total on the chart above.

³ Under this program, managers are given either \$3,500 or \$4,500 each January, which can either be directed by the employee into a defined-contribution retirement account, a health-care reimbursement account, or taken as a taxable lump-sum cash payment.

⁴ Because this issue pertains to the Countywide Cost Allocation Program (CWCAP), the audit team did not include a specific finding; however, the continued inclusion of this cost in CWCAP should be revisited with Auditor-Controller staff and CEO/Budget.

From an operational standpoint, Employee Benefits has undergone three notable changes: (1) going into FY 2003/04, Employee Benefits outsourced all of the administrative functions related to managing employee enrollment and elections into various health plans and other benefits, (2) in FY 2007/08 and FY 2008/09, Employee Benefits added two additional Administrative Manager II positions, one part-time, one full-time, and (3) similar to Human Resources-Agency 054, Employee Benefits has had several position reclassifications upward during this period.

Having noted these changes, the data shows that the total expenditures of Employee Benefits have increased significantly since FY 2000/01. In FY 2000/01, total expenditures were just over \$1.6 million, but by FY 2009/10, expenditures had increased to over \$5.0 million for a total dollar change of \$3.4 million, or over 211%. Both S&EB and Services & Supplies drove this increase upward, with S&EB growing by \$909K and Services & Supplies by \$2.5 million. Within S&EB, the line items that contributed most to the increase were regular salaries (\$543K increase) and retirement (\$303K increase). Though both of these line items experienced a notable decline between FY 2002/03 and FY 2003/04 due to the outsourcing of benefits administration, there was significant growth after that event caused by (1) multiple upward position reclassifications after the FY 2005/06 reorganization of HRD, and (2) the addition of two positions in FY 2008/09. In the Services & Supplies expenditure line items, the most significant contributor to growth was Professional/Specialized Services, which contains a number of service contracts for benefits related services, growing from \$311,713 in FY 2000/01 to nearly \$3.2 million in FY 2009/10. The two largest contractors covered in this line item are the Self-Service Benefits Administrator, ACS⁵, (\$2.1 million) and Mercer⁶, the County's benefits consultant (approximately \$414K).

HRD Historical Context

To effectively understand the current state of the County's HR system, it is critical to review historical events and studies related to HRD. Much of this information details significant weaknesses in the HR system and HRD's efforts to address these issues, though many continue today. A brief summary of this historical context is presented on the following page, with more detail provided in Appendix A.

⁵ The ACS contract began in FY 2003/04 when the County implemented its outsourcing project for benefits selection/recordkeeping and the associated Open Enrollment process.

⁶ The need to utilize a benefits and investment consultant has grown in step with the increasing number and complexity of benefits programs that Employee Benefits is responsible for managing.

Historical Events

- 1996: A “County Restructuring Plan” was implemented to organizationally restructure the County in response to the 1994 Bankruptcy. The Plan, which was approved by the Board, contained two significant changes related to Countywide HR activities: (1) the Personnel Department was transitioned from a standalone department to a function within the County Executive Office (CEO/HR), and (2) human resources authority/activities were changed from a centralized structure to the current hybrid operating model.
- 2005: CEO/HR separated from the County Executive Office and again became a standalone department (HRD) reporting to the County Executive Officer. This included transferring the Employee/Labor Relations function from CEO/Budget back to HRD.

Previous Studies of HRD

During the past decade, HRD has been studied by the Grand Jury seven times, by consultants three times, by the State twice, and by the County’s Internal Audit Department twice. A summary of the most significant and reoccurring deficiencies identified in previous studies include:

- Countywide HR lacks uniformity and a universally accepted vision.
- HRD does not play a strong leadership role within the County HR system, including having an insufficient level of oversight of Countywide HR activities.
- HR staff lacks the required skill sets to function within a decentralized environment at both the central and agency/department levels.
- HRD has no formal performance metrics [at the time of the study].
- The labor negotiations process has several inefficiencies including: past negotiated items having been approved without a full understanding of their financial impact, the perception from agencies/departments that HRD is poorly organized in its negotiations with unions, and the absence of institutional knowledge about labor relations.
- There are instances of questionable contract management, including significant cost overruns.
- There are severe deficiencies in the management position reclassification process.
- Many HR rules and policies are obsolete or do not exist.
- HRD should increase its staffing level to adequately address traditional core HR functions such as training, employee benefits, development of an HR policy and

procedures manual, and a comprehensive position classification analysis capability.

Finding 1: Several audits/studies of HRD have not been formally presented to the Board on the public agenda.

The audit team confirmed that the following studies of HRD were not formally presented to the Board on the public agenda:

- 1999/2000 Consultant (Deloitte & Touche) Draft Report on CEO/HR
- May 2004 State Audit of CEO/HR
- July 2004 Organization Review of HRD
- September 2007 Consultant (Performance Management Partners) Review of HRD
- September 2010 State Audit of HRD

Failure to formally provide the Board with a comprehensive view of HRD performance limits the Board's ability to oversee and direct the management of this mission-critical operation.

Recommendation 1: All formal studies conducted of HRD should be submitted to the Board, on the public agenda.

Having noted the historical challenges of HRD, the sections of the report that follow address HRD's current performance. Per the Board-approved scope of work, the core activities included in this review of HRD include:

- HRD Strategic Foundation
- Classification and Compensation
- Employee Benefits
- Labor Negotiations
- Employee Discipline & Appeals
- Performance Appraisal
- Recruitment
- Training
- HRD Organizational Structure
- Countywide HR System
- Cost Savings Options

HRD Strategic Foundation

An often cited challenge of many organizations is optimizing their human capital investments. Having a strong strategic foundation is essential to effectively/efficiently reaching this goal. An organization's decisions related to fundamental strategic elements such as vision/mission/goals/performance measures strongly influence the organizational structure for the delivery of services, the specific directions given to employees as they work toward delivering those services, and the environment in which services are provided (centralized vs. decentralized).

During interviews with HRD Executive Management, it was acknowledged that HRD's strategic planning efforts are minimal and that its Business Plan is in need of considerable revision.

Finding 2: HRD has a weak strategic foundation to guide its management and operations.

Human Resources, one of the County's core functions, lacks a strategic plan that sets the framework and long-term direction for human resources activities Countywide. The development of a strategic plan should be one of HRD's primary responsibilities as the HR leadership group in the County, especially given the County's decentralized HR environment.

The departmental strategic elements that have been developed—vision statement, mission statement, core services, strategic goals, and performance measures— are documented in HRD's Business Plan. Aside from the vision statement, which is good, these strategic elements require improvement.

□ Mission Statement: A mission statement is typically a summary of an organization's core purpose or what the organization is trying to accomplish.

HRD's mission statement is "To foster business and customer partnerships, provide exceptional customer service, and to proactively lead in the creation and use of effective organizational systems within a dynamic and diverse environment."

Best practices suggest that a mission statement should be clearly written and specific to the organization's core purpose. In contrast, HRD's mission statement:

- Fails to mention any specific HR activities, including the primary mission of HR organizations: to attract, retain and develop employees.
- Is not sufficiently clear. For example:
 - In what context is “fostering business and customer partnerships” meant?
 - “Providing exceptional customer service” to whom?
 - What “organizational systems” are being referenced?

Mission statements from other HR organizations that may serve as an example for HRD include:

- County of San Diego: “To provide and retain a skilled and competent workforce for County of San Diego departments so that they may deliver superior services to residents and visitors.”
- City of San Rafael: “To recruit, retain, and develop City of San Rafael employees by providing services that are customer responsive, cost effective, aligned with the overall mission of the City and the priorities established by the City Council, and to incorporate the best practices of the human resources profession.”
- Miami-Dade County: “Human Resources is committed to providing the citizens of Miami-Dade County with a diverse, competent, trained, and professional workforce.”

□ Core Services

HRD lists its core services as:

1. The County’s HR corporate leader
2. Delivering employee excellence
3. Recommending, supporting, and implementing policies and procedures to/and for the Board and the County Executive Officer
4. Partnering with County agencies, departments, and other stakeholders to attract and retain a qualified workforce

While this list includes many critical services for a corporate-level HR organization, the list is incomplete. Missing are important core services that are part of any public HR organization: Employee and Labor Relations, Recruitment, Employee Benefits, etc.

❑ Strategic Goals

Strategic goals are developed for the purpose of (1) moving an organization from its current state to a desired state, (2) driving the development of specific strategies and individual initiatives/projects to accomplish those goals, and (3) strengthening the methodology for evaluating and selecting among HR investment alternatives.

A sample of HRD's strategic goals, as written in its 2010 Business Plan, includes:

- Conduct Request for Proposal for the Employee HMO health plans, from November 2009 through June 2010, for an effective date of January 2011.
- Negotiate and implement OCMA labor contract and complete reopener and side letter discussions with the various labor organizations.
- CAPS+/Advantage (AHRIS) System Upgrade.

These "goals" more closely resemble initiatives/actions. Strategic goals typically describe the longer-term objectives of the organization and guide the development of individual strategies/initiatives. As a comparison, the following are strategic goals from other public HR organizations:

- Attract and retain a skilled, adaptable and diverse workforce.
- Provide adequate oversight over HR activities to ensure compliance with federal, state and local regulations; County personnel regulations; and Memoranda of Understanding.
- Continually improve HR processes and procedures to promote the sustainability of County resources.
- Use information technology to more efficiently accomplish work activities.
- Administer medical, dental and vision plans for employees, retirees and their dependents, which emphasize good health practices and responsible utilization, and provide quality, cost-effective coverage.

❑ Performance Measures

Performance measures are meant to gauge an organization's effectiveness and efficiency in achieving its mission and goals. A sample of HRD's current measures, as written in the 2010 Business Plan, includes:

- Perform a Request for Proposal to select the Employee HMO health plans.
- Labor negotiations and reopener and side letter discussions concluded before contracts expire.
- Review HR policies and procedures during the next two years.
- End-of-year survey to agencies/departments to determine if the interactive process is being conducted on a regular basis.

HRD's performance measures are inadequate from a number of perspectives:

1. HRD does not track a number of useful workload metrics, a key starting point for the development of performance measures.
2. HRD concedes that most of them are not performance measures, but rather activities that HRD intends to complete. Furthermore, many of them are also listed as goals.
3. Missing are important measures that are common to most human resources organizations and would assist HRD not only in accomplishing its mission, but in identifying problem areas that could then be proactively addressed. Listed below are some of the more typical examples of HR performance measures:
 - Turnover rates (voluntary and involuntary)
 - Time to hire/fill a position
 - Cost per hire
 - Percentage of labor negotiations concluded before contract expiration
 - Lost time (due to absenteeism, accidents, sick days, etc.)
 - Number of formal grievances and disposition
 - HR staff and expense to FTE ratio
 - Percentage of contested unemployment cases won/lost

Recommendation 2: Develop a 5-year HR Strategic Plan for the County and a more robust HRD Business Plan that includes a mission statement, goals, and performance metrics consistent with industry best practices.

Classification and Compensation

Classification and compensation are core functions of HR systems. First, they are the foundation for conducting most other HR activities (e.g., recruiting, labor negotiations, performance evaluation, and training). Second, classification/compensation decisions have significant current and future financial impacts (e.g., pension liability) for an organization; approximately \$1.6 billion, or 29%, of the County's FY 2010/11 \$5.5 billion budget is composed of salary and benefits costs. Third, classification/compensation decisions are highly personal, affecting an individual's position in the organization and his/her pay/benefits; as such, it is imperative that these decisions are fair and equitable in order to attract, retain, and motivate employees.

State Regulations

County government HR functions are regulated under California Government Code Section 19800-19810 and related provisions of the California Administrative Code titled: "Local Agency Personnel Standards" (LAPS). Every three to five years, the State conducts audits to ensure that agencies receiving federal and State funding (e.g., Social Services Agency, Child Support Services) are in conformance with LAPS. In addition, though not consistently audited, the State requires that LAPS are consistently applied on a Countywide basis.

LAPS pertaining to classification/compensation are included in Merit Principle 2:

1. General Requirement: Equitable and adequate compensation will be provided.
2. Classification: Classification plans shall be maintained on a current basis and shall:
 - a. be the foundation for selection, compensation, training, promotion, demotion, reduction in force, reemployment, and related decisions
 - b. include class specifications formally adopted by the local agency's governing board
 - c. include job-related minimum qualifications or employment standards of education, experience, knowledge, and abilities
3. Compensation: To maintain a high quality public work force and to assure equitable compensation for comparable work, the compensation plan shall take

into account the responsibility and difficulty of the work, the compensation needed to compete in the labor market, and other pertinent factors.

County of Orange Classification and Compensation System

The County of Orange Personnel and Salary Resolution (PSR), approved by the Board, establishes the HR Director's authority over position classification and compensation. The PSR contains personnel rules and compensation policies that are not specific to any one Memorandum of Understanding (MOU) and apply to all County employees, including those that do not belong to a bargaining unit (e.g., Executive Management).

Classification/Compensation Plans

HRD has had a comprehensive classification and compensation structure in place for the past several decades. That structure includes a Classification Plan, Compensation Schedules, and individual HR policies and procedures contained in MOUs and various individual classification/compensation documents.

Classification Plan

Finding 3a: HRD lacks a process to ensure that class specifications remain current.

The County has an established Classification Plan which consists of all County position classification titles with their corresponding class specifications, outlining the specific duties, qualifications, and requirements of each classification. To provide a sense of scale, the County has 817 separate classifications that apply to its 17,327⁷ authorized positions, spread across 24 agencies/departments and 14 employee bargaining units. Every job in the County is assigned to a specific classification (e.g., Deputy Sheriff, Social Worker, Park Ranger, and Plumber). In turn, every classification is assigned a specific salary range or flat rate for employee compensation.

The audit team randomly sampled 40 class specifications to examine the age and content (e.g., duties, minimum qualifications, medical standards). The audit team discovered that many specifications are outdated and do not contain mandatory or useful information. For example, the average length of time since an update was made to class specifications was 20.5 years; several did not contain important information such as environmental and physical conditions of the job, Fair Labor Standards Act

⁷ FY 2010/11 2nd Quarterly Budget Adjustment (QBAR)

(FLSA) exempt/non-exempt status, the length of the probation period, or the position's inclusion into a bargaining unit (union affiliation).

Compensation Plan

Finding 3b: HRD lacks a compensation philosophy to guide pay practices.

The County also has Salary Schedules for each like-grouping of classifications (e.g., Executive Management, Administrative Management, General Employees, Service Employees, and Public Protection Employees). Each Salary Schedule is divided into individual Salary Ranges that are assigned to specific classifications. One important strategic element that is missing is an established County compensation philosophy. It is industry best practice to develop a stated and known philosophy which defines how the organization decides to pay its employees with respect to its position in the labor market (i.e., lead, lag, or meet salaries paid by competing organizations). A compensation philosophy provides managers and employees a clear understanding of the organization's position on compensation and can be used by HRD staff to plan negotiation strategies. In addition, HR industry best practice is to define compensation as "total compensation," including all forms of payment given to an employee (i.e., all salary and benefits). The County has not formally endorsed this strategic approach to guide its compensation practices.⁸

Recommendation 3:

- a) HRD should assign the necessary staff to ensure that the Classification Plan is kept current.**
- b) HRD and CEO, with Board input and approval, should develop a formal, total compensation philosophy for the County.**

HRD Oversight Responsibility for County Classification/Compensation Actions

County agencies/departments have several methods at their disposal to adjust the classification level of a position and/or the compensation of an employee. These methods are regulated at the County by the PSR and individual MOUs with employee unions/associations. Though there are several other ways that an individual's pay can increase (e.g., negotiated salary increases, promotion through a recruitment), the actions listed below are those that are discretionary for agency/department management and

⁸ This deficiency was also raised by Performance Management Partners in its 2007 review of HRD.

consequently demand more oversight from HRD. In addition, it is important to note that these administrative actions are not required to be presented to the Board or discussed publicly.

Position Transactions

- Temporary Promotion – This procedure allows an employee to receive a temporary salary increase for a temporary assignment to duties in a higher classification.
- Position Reclassification (Reallocation) – This action uses rules/guidelines for reclassifying a position from one classification to another classification, typically from a lower paid to a higher paid classification based on a permanent increase in the level of duties and responsibilities.

Employee Pay Changes

- Salary Adjustment – This method allows for the increasing/decreasing of management employee salaries at any time with sufficient justification (as detailed in HR policies and procedures). For Administrative Management employees, Salary Adjustments can be granted for significant new assignments, for salary compaction issues between supervisors and subordinates, and for unique technical expertise critical to department operations; for Executive Managers, the County Executive Officer may increase/decrease salaries based on consideration of such factors as position responsibilities, performance, external market data and internal salary relationships.
- Equity Increase – This compensation adjustment method allows for salary increases where there are equity issues between like management positions. This circumstance is addressed annually between the County and the Orange County Manager's Association (OCMA).

HRD oversight is critical for the following reasons:

- Financially, these methods have significant salary and benefits implications.
- Operationally, it is important to ensure that a competitive salary is paid to attract and retain a competent workforce.
- From a compliance perspective, it is critical that HRD fulfill its oversight role to ensure that only appropriately documented/justified classification/compensation requests are approved.

- From an employee morale perspective, it is critical that classification/compensation decisions be perceived as fair and equitable.

As noted earlier in the historical context section of this report (and in Appendix A), HRD has had difficulty providing adequate oversight of agency/department classification/compensation actions and following its own policies and procedures (standards) in this area. This situation began after the County bankruptcy when the County's HR system transitioned into a hybrid model: roles were revised, staffing for the central human resources function was significantly reduced, and CEO/HR neglected core services such as classification, compensation, and recruiting. In response to this situation, and following a change of HR leadership in 2005, HRD began to update many of its policies and procedures, including a Classification Handbook (2005) and later a revision of its Merit Selection Procedures (2010). While these classification/compensation policies and procedures have been revised, the audit team has documented many instances in this report where these policies/procedures are still not being consistently followed.

Established Standards

As stated, the County has detailed standards and associated policies and procedures pertaining to classification and compensation, which include:

A. Classification Handbook

The purpose of the Handbook is to assist County agency/department HR professionals in conducting position classification studies that are consistent with County policy and State Merit System principles. It is also designed to set forth the specific policies and procedures for tracking, reviewing, and approving classification study requests. A summary of the most critical elements of a classification study are listed below.

- Agencies/departments are responsible for preparing and submitting the classification study, per the Classification Handbook; HRD is responsible for reviewing and approving/denying the study.
- In conducting a classification study, agencies/departments are required to complete the following actions:
 - Researching and reviewing readily available information such as: class specifications, previous studies of the position and/or similar positions, the

- documented change in duties that necessitate a permanent change in classification
- o Interviewing the incumbent, supervisor, and manager
- o Consideration of internal and external salary relationships
- Agencies/departments must include the following information in the final report submitted to HRD:
 - o How study recommendations are consistent with Board policy, the Strategic Financial Plan, and the agency's/department's business and workforce plans
 - o Whether the cost of the study is budgeted and the stability of the funding source
 - o The impact that study recommendations will have on the agency/department and Countywide
 - o How salary and compensation data is relevant to the County and the occupational market involved
 - o The impact of not approving study recommendations
 - o Attachments such as: incumbent surveys, organization charts, salary and compensation analysis, and relevant source material including any related consultant reports
- HRD and the requesting agency/department are required to enter the classification study package, along with all subsequent review and approval documentation, into the "OnBase HR" document management system.

B. Salary Adjustments and Equity Increases

Administrative Managers and most Executive Managers may receive Salary Adjustments or Equity Increases under certain conditions. There are three types of Salary Adjustments available for Administrative Managers that can be granted at the agency/department level without the review of HRD: (1) to ensure an adequate pay differential between supervisors and their subordinates, with the minimum target differential to be maintained between 5.5% and 7.5%, (2) for the addition of significant, higher-level duties, and (3) for being the recognized technical expert in an area of high significance to the County. In addition, Executive Managers are eligible to receive, from the County Executive Officer, a Salary Adjustment for any of the following reasons: increased position responsibilities, performance, external market data, and internal salary relationships.

Criteria for Equity Increases include the surrounding labor market, internal salary relationships, scope of responsibility, and salary differential with subordinate employees.

Both Salary Adjustment and Equity Increase requests must be for “sound business reasons,”⁹ must contain sufficient justification, and subsequently must be filed in the OnBase document management system.

C. Monitoring/Reporting Plan for Management Salaries

In May 2005, HRD instituted a reporting process whereby all management salary changes were to be reviewed for compliance with HRD policies on a bi-weekly basis, with a summary report provided to the County Executive Officer, Deputy CEOs, HRD Chief of Employee Relations, and the CEO Budget Manager.

D. Documentation and Approval Policy for Management Salary Increases

In July 2010, HRD developed a revised procedure for ensuring there is proper documentation when agencies/departments set or change management salaries. In this policy, HRD (1) reiterated the necessity for a justification memo and that it be scanned into the OnBase document management system, and (2) instituted a new requirement that all salary increases of 15% or greater for transfers or promotions require the approval of the Deputy CEO, HRD Director, and County Executive Officer.

E. Temporary Promotions/Temporarily Classified Positions

In April 2010, due to a May 2009 Grand Jury report and subsequent Board inquiries related to temporary promotions/classifications, HRD revised its policy in the following manner: (1) reduced the length of time a position/employee may be temporarily utilized in a higher-level assignment from 18 months to nine months, (2) required that whenever there is a longer-term or permanent staffing need, agencies/departments utilize the existing Reclassification (Reallocation) Process to permanently classify the position to the appropriate level, and (3) prohibited agencies/departments from permanently placing or permanently promoting an employee into a temporarily classified position.

⁹ April 13, 2005 Memo from HR Director to Agency/Department Heads entitled “Implementation of Administrative Management Class and Compensation Structure”

Evaluation of HRD's Oversight/Compliance Performance

The audit team reviewed nine data sets and sources of information¹⁰ to determine if HRD has achieved its role of providing oversight of the County's classification/compensation system.

From a positive standpoint HRD has done well overseeing the following classification/compensation activities:

- Management Pay-for-Performance (P4P) Increases for 2010

Approximately 6% of the County workforce is composed of management employees. Performance-based pay is not automatic for management employees; it must be approved by the Board and implemented with a designated pool of funds. These increases apply to all Administrative and most Executive Managers; excluded are those Executive Managers on contract with the Board. Over the past ten years, the Board has authorized performance-based pay for managers on eight separate occasions. In 2010, a pool of 2.5% (\$2.4 million) of management payroll was designated for disbursement within the following guidelines: 0% for a performance rating of "Meets Expectations" or lower, 2% to 2.9% for "Exceeds Expectations" and 3% to 5% for "Exceptional" performance rating. In addition to the specific ranges, the agency/department total salary increase must stay within the 2.5% pool allocation.

HRD provides central oversight of this program, utilizing a committee consisting of County and the Orange County Manager's Association (OCMA) managers to review a sample of performance ratings to ensure that the justification narratives warrant the performance rating given. In addition, HRD sends out performance rating and cost data to each agency/department to monitor program implementation. Some consistency challenges with the P4P program are discussed later in the Performance Appraisal section of this report.

¹⁰ Data sets and sources include: OnBase HR automated HR file system, Non-management Merit Increases for calendar years 2009 and 2010, Non-management Performance Incentive Program (PIP) awards, Management Pay-for-Performance (P4P) increases for 2010, Management Salary Adjustments and Equity Increases for calendar years 2009 and 2010, Annual Leave Payouts for calendar year 2010, "Monitoring/Reporting Plan for Management Salaries," Internal controls over the agency/department input of HR actions into the CAPS/AHRS system, Interviews of HRD Service Team staff who review, recommend approval/denial, and audit compliance with classification/compensation requests.

- Management Equity Increase Limitations

In an effort to more efficiently address Equity Increases, in 2007, HRD negotiated a new policy and procedure with OCMA (included in the unit's MOU) whereby twice per year, Equity Increase requests are submitted by OCMA to HRD for consideration; Equity Increases could not be given outside of those two submissions. More recently, in 2009, the OCMA agreed to change to a once-a-year submission, although the MOU language still states it shall occur twice per year.

- Annual Leave Payouts

Both management and non-management employees are allowed, per the various MOUs, to request the cash out of certain amounts of Annual Leave balances each fiscal year. Due to the current financial crisis, the CEO has directed that agencies/departments grant these requests only in "hardship" cases. The audit team, in an effort to monitor whether or not this directive has been followed, collected data on Annual Leave payouts for all non-separating employees for calendar years 2009 and 2010. The data shows a substantial decline in the cashing-out of Annual Leave from 2009 to 2010: a 58% reduction in the number of employees cashing out Annual Leave (from 3,198 employees in 2009 to 1,336 in 2010) and a 59% reduction in costs (\$6.5 million in 2009 to \$2.7 million in 2010). Despite this positive overall trend, the data also indicates that progress has not been uniform across agencies/departments, as shown on the following page.

Annual Leave Payouts (CY 2010)

Department/Budget Control	# of Employees in the Department	% of Employees Receiving Payouts	Total \$ Payouts
SHERIFF-CORONER	2,922	3%	\$282,403
CHILD SUPPORT SERVICES	607	24%	\$262,901
OC PUBLIC WORKS	370	27%	\$244,163
OC WASTE&RECYCLING ENTERPRISE	270	53%	\$225,891
OC ROAD	206	42%	\$210,597
OC PARKS CSA26	272	46%	\$201,532
OC FLOOD	222	35%	\$147,804
AIRPORT - OPERATING	170	25%	\$99,695
DISTRICT ATTORNEY	678	6%	\$99,692
OC COMMUNITY RESOURCES	258	19%	\$87,602
SOCIAL SERVICES AGENCY	3,600	2%	\$84,367
PUBLIC DEFENDER	373	5%	\$82,426
OC PUBLIC LIBRARIES	386	16%	\$74,100
AUDITOR-CONTROLLER	393	7%	\$72,925
HEALTH CARE AGENCY	2,309	1%	\$70,074
TREASURER-TAX COLLECTOR	89	30%	\$49,700
PROBATION	1,278	2%	\$48,129
CLERK-RECORDER	95	36%	\$47,501
OC FLEET SERVICES	78	44%	\$46,943
ASSESSOR	302	8%	\$42,671
OC HOUSING	121	28%	\$42,251
INFORMATION & TECHNOLOGY ISF	56	16%	\$26,652
COUNTY EXECUTIVE OFFICE	80	15%	\$23,373
OC WATERSHEDS	43	19%	\$21,699
OC DANA POINT HARBOR	14	29%	\$16,269
BUILDING & SAFETY GENERAL FUND	15	40%	\$16,192
SHERIFF COURT OPERATIONS	370	2%	\$16,185
BOARD OFFICES	37	14%	\$13,494
COUNTY COUNSEL	92	1%	\$7,592
COUNTY TIDELANDS - NEWPORT BAY	8	50%	\$6,726
UTILITIES	15	13%	\$4,858
PROPERTY & CASUALTY RISK ISF	13	8%	\$4,665
SHERIFF-CORONER COMMUNICATIONS	77	1%	\$4,514
INTERNAL AUDIT	16	13%	\$2,948
REPROGRAPHICS ISF	22	9%	\$2,250
NARCOTIC FORFEITURE & SEIZURE	3	33%	\$1,995
WARD WELFARE	1	100%	\$982
TOTAL			\$ 2,693,757

*If an agency is not listed in the chart above, it did not have any annual leave payouts in CY 2010.

Source: CAPS Data Warehouse

Although HRD has done well in some oversight areas, the audit team also identified multiple and significant deficiencies.

Service Team Oversight

Finding 4: HRD does not adequately fulfill its stated responsibility of overseeing the County's classification/compensation system.

The audit team sampled classification/compensation requests in the OnBase system for each agency/department. In this sampling, the analysis yielded a troubling number of instances (i.e., 75) where classification/compensation standards were not followed, yet the requests were approved and implemented (see Appendix B). **It is important to note that the audit team's review was limited to adherence to the established process (i.e., to ascertain compliance with procedural standards as outlined in the Classification Handbook and other HRD policies) and was not to evaluate the outcome of the requested action (i.e., whether or not the audit team agreed with the approval/denial of a request).**

Listed below are the types and numbers of violations of existing policies that were ultimately approved by HRD:

- Position reclassification requests with either insufficient or no information/justification provided (39 occurrences).
- Position reclassification documentation not in the OnBase document management system as required (5 occurrences).
- Reclassification requests based on individual employee skills rather than position duties (4 occurrences).
- Permanently promoting employees into temporarily classified positions, which bypasses the position classification review process (2 occurrences, in addition to multiple Public Administrator/Public Guardian cases).
- HRD failure to follow-up on a request with readily apparent classification, compensation, and recruitment issues that had potentially significant financial/operational/conflict of interest impacts (1 occurrence).
- No documented HRD disagreement with the unauthorized approval of granting Annual Leave for a current employee, which is an action that is only permissible for newly hired employees (1 occurrence).

- Approval of multiple Extra Help requests for one employee that violated the County limit on both the number of hours an Extra Help employee can work in a given year and the number of years an Extra Help employee can work for the County (1 occurrence).
- A conflict of interest instance where an HRD analyst reviewed and recommended approval of a classification study of several HRD positions, one of which was his own position (1 occurrence).
- The absence of any denied classification or compensation requests in the OnBase document management system. It is just as important to maintain a record of the denials of classification requests so that this information can be used in future determinations for same or similar positions.
- Classification requests that were the result of a major reorganization. In March 2008, the CEO recommended, and the Board approved, the creation of the OC Community Resources Department. Subsequent to this action, HRD approved multiple classification requests that were made necessary by the reorganization. County policy¹¹ requires that any classification impacts/costs associated with major reorganizations be included as part of the reorganization proposal presented to the Board for approval. However, the Agenda Staff Report (ASR) requesting Board approval of the reorganization did not include any mention of classification impacts/costs. In fact, the PSR specifically precludes the HR Director from approving reclassifications of positions that result from a major reorganization.¹²

In addition, the audit team identified multiple instances where Salary Adjustments or Equity Increases were granted that were not strict violations of an existing policy but were inconsistent with HR best practices. These include multiple discretionary pay increases for the same employees within a five-month to two-year time frame (8 occurrences), which includes instances of increases granted to Executive Managers with less than a full year on the job after large initial promotion salary increases ranging from 18-27%.

These oversight deficiencies are even more troubling given that approximately 48% of these non-compliant or questionable instances were for classification/compensation requests made by HRD and the County Executive Office for their own positions/employees.

¹¹ Orange County Administrative Policy 0112-04 on Major Reorganizations

¹² PSR Article I, Section 3.B(c)

When HRD staff responsible for reviewing these classification/compensation requests were asked about the aforementioned deficiencies, quoted and paraphrased responses included:

- “Classification/Compensation is not a high priority compared to other HR activities; somewhere in time, we stopped caring as much about classification/compensation.”
- 99% of all classification/compensation requests are ultimately approved; if HRD Service Team staff recommends denial, agencies/departments appeal directly to HRD executive management, who approves them.
- Not much effort is put into reviewing classification/compensation requests for County Executive Office or HRD positions. “They are our bosses and it would not be advantageous for us to deny their requests.”
- “We really don’t look at the merits of classification requests anymore; we only ask three questions: Will the approval of the request cause a salary compaction issue with other employees? Can the agency/department absorb the cost of the request? And does the employee meet the minimum qualifications for the higher classification?”
- “Given the scarcity of information provided in many classification studies and our level of review, it would be improper to refer to many of these as ‘studies’.”

Given the significant consequences of the oversight deficiencies noted above, the audit team discussed these specific accountability weaknesses with HRD executive management, who indicated that, in some cases, they were not aware of the lack of oversight.

Recommendation 4: HRD should fulfill its State mandated and Board-expected role of providing adequate oversight of the County's classification/compensation system. This includes immediately taking the following actions:

- a) Require that all classification and compensation requests are done according to County policy.**
- b) Ensure that all classification/compensation requests (approved and denied) are documented in the OnBase document management system.**
- c) Per existing County policy, ensure that all major reorganizations include a discussion of potential classification/compensation changes prior to approval/implementation.**
- d) Develop a policy which (1) requires that an Administrative/Executive Manager be in his/her position for at least one year before being considered for a discretionary Salary Adjustment, and (2) limits the number of management equity/salary increases in a specific time period (e.g., 1-2 years) for an individual employee in the same position.**

Compliance Team Oversight

Within HRD's Services & Support division, there are three employees who serve in a compliance role, reviewing agency/departments personnel transactions to ensure compliance with HR policies and procedures. In addition, these employees conduct ad-hoc research assignments for Service Team Leaders as needed.

Finding 5: HRD's compliance program is limited.

While compliance team members have done a good job fulfilling their assigned levels of review, HRD's overall compliance program is inadequate in the following ways:

1. Until recently, HRD only required that 5% of Countywide recruitments were reviewed by the Compliance Team. Given this limited examination, there was a high risk of and documented instances where inappropriate recruitments had been processed by agencies/departments. The 2010 State audit of HRD identified this issue, recommending that HRD increase its number of reviews. In response, HRD recently increased the number of recruitments selected for review to 5-10%.
2. HRD does not conduct proactive reviews of agencies/departments to ensure they are adhering to policies and procedures. As a result, some non-compliant personnel actions are implemented (e.g., PA/PG permanent promotions into temporarily classified positions). Many of these violations are extremely difficult

and risky to undo. Moreover, the violations are often identified months after they have been in effect.

3. The Compliance Team has no effective mechanism to compel corrective action from agencies/departments that have violated County policies.
4. Compliance Team members have become “utility players” for HRD to conduct a number of non-compliance-related research and data analysis assignments, reducing their ability to focus on their primary task of reviewing agency/department personnel actions.

Recommendation 5: HRD should improve its compliance program by:

- a) Following through on its commitment to the State to increase the percentage of recruitment reviews to 5-10%, with a portion of these done prior to implementation.
- b) Requiring agencies/departments, on a rotating basis, to submit the documentation for a random sample of personnel actions to the compliance team for review prior to implementation/entry into AHRIS.
- c) Establishing a process for increasing scrutiny over agencies/departments that are frequently out of compliance.

Data Tracking

Finding 6: HRD is not tracking: 1) the frequency and costs of salary increases given for non-management performance, 2) the frequency of PIP goal achievement, and 3) management Salary Adjustments. In addition, Salary Adjustments are not consistently recorded/represented in CAPS Data Warehouse.

Non-Management Salary Increases for Performance (“Merit Increases”)

Approximately 93% of the County’s total workforce is non-management. Each employee is assigned to a job classification which is compensated at a specific salary range. These salary ranges are typically divided into 12 steps with a 2.75% pay differential between each step. Employee movement within a salary range is dependent upon an employee’s performance rating and his/her location on the salary range (i.e., no employee can be compensated above the maximum 12th step). MOU pay rules/guidelines for Merit Increases include:

- 0% raise for below standard performance
- A mandated 2-step or 5.5% raise for standard performance or better
- A discretionary 3-step or 8.25% raise for above standard performance
- A discretionary 4-step or 11% raise for outstanding performance

Audit team research shows that in calendar year 2010, the County paid approximately \$8.0 million in Merit Increases to its non-management employees.

In spite of the significance of this information, when the audit team requested that HRD provide the frequency and cost of these Merit Increases, they did not have these statistics readily available. However, given its significance and the size of these increases (i.e., 5.5%, 8.25%, and 11%) in the current financial environment, it is an obvious area that should be considered during labor negotiations. As a note, this topic will be addressed in the upcoming 2011 reopener discussions.

Non-Management Leave for the Performance Incentive Program (PIP)

The stated purpose of PIP is to recognize and reward outstanding performance among non-management employees. However, the goal portion of PIP has long been a source of public controversy because it has essentially become an entitlement program, as approximately 95% of all employees receive the award.¹³ In an effort to scale back the program, in 2004, the County changed the previous cash award of 2% of an employee's salary to a non-cash award of 40 hours of PIP Leave (which is non-cashable).

However, the current non-cash award is not without cost impacts. In calendar year 2010, 9,812 employees (95%) across seven bargaining units received an annual PIP goal award. This benefit equates to 392,500 hours of PIP Leave, or a loss of productivity equivalent to 189 full-time positions annually. An additional negative impact is that agencies/departments with positions that must be filled on a 24/7 basis have to use overtime in many instances to fill the additional time off taken by its employees.

Management Salary Adjustments

As previously discussed, Administrative Managers and most Executive Managers may receive Salary Adjustments under certain conditions. Most of these adjustments (anywhere up to 7.5% increase) can be granted by agencies/departments without the review or approval of HRD.

¹³ CAPS Data Warehouse provides a list of all employees who received a PIP award and those who were denied a PIP award. Together, these amounts from CAPS total 10,281 employees in CY 2010.

Management Salary Adjustments (CY 2009 and 2010)

Agency/Department	# of Adjustments	Cost
AUDITOR-CONTROLLER	18	\$ 67,891
CHILD SUPPORT SERVICES	6	\$ 21,715
CLERK-RECORDER	1	\$ 14,373
COUNTY COUNSEL	1	\$ 9,027
COUNTY EXECUTIVE OFFICE	4	\$ 25,709
DANA POINT HARBOR	1	\$ 5,054
HEALTH CARE AGENCY	15	\$ 73,382
HOUSING&COMMUNITY SERVICES	1	\$ 5,928
HUMAN RESOURCES	1	\$ 3,598
JOHN WAYNE AIRPORT	2	\$ 27,331
OC COMMUNITY RESOURCES	17	\$ 107,390
OC FLOOD	2	\$ 8,466
OC PARKS	9	\$ 63,981
OC PUBLIC WORKS	10	\$ 70,699
OC ROAD	2	\$ 13,478
OC WASTE & RECYCLING	3	\$ 19,864
PROBATION	1	\$ 6,261
PUBLIC DEFENDER	1	\$ 12,376
SHERIFF-CORONER	2	\$ 14,560
SOCIAL SERVICES AGENCY	14	\$ 101,587
TREASURER-TAX COLLECTOR	5	\$ 26,562
UTILITIES	1	\$ 6,282
TOTAL	117	\$ 705,515

Source: CAPS+ Data Warehouse

It should be noted that when the audit team initially requested the annual number and amount of Salary Adjustments granted over the past two years, the information was not readily available from HRD. The audit team subsequently obtained this data from CAPS Data Warehouse; however, there were some inconsistencies identified in the system. Specifically, the number of Salary Adjustments varies, depending on which data query is utilized. Consequently, the audit team used a more conservative total of 117 Salary Adjustments; however, other data queries yielded up to 150+ such actions in CY 2009 and CY 2010.

Recommendation 6: HRD should identify and track critical classification/compensation metrics necessary to fulfill its stated oversight role. In addition, the HRD Compliance Team should perform periodic reviews of an adequate percentage of Salary Adjustments to ensure compliance with HR policies and consistent recording in CAPS/CAPS+.

Finding 7: HRD has not been consistently completing the “Monitoring/Reporting Plan for Management Salaries”.

As previously mentioned, the Monitoring/Reporting Plan for Management Salaries was developed in 2005 to create an oversight process by which all discretionary management salary actions are reviewed for compliance with HRD policies on a bi-weekly basis, with a summary report provided to the County Executive Officer, Deputy CEOs, HRD Chief of Employee Relations, and the County Budget Manager. The audit team’s review of HRD’s completion of this Plan yielded several deficiencies:

- Reports have been produced on an inconsistent basis. HRD completed only some reports from 2005-2007, completed no reports in 2008 or 2009, and, for 2010, only completed reports from April to the present.
- There was no documentation demonstrating that these reports had been distributed to the County Executive Officer, Deputy CEOs, HRD Chief of Employee Relations, and the CEO Budget Manager.
- The reports that were completed showed numerous instances of agency/department non-compliance with classification/compensation standards, yet there was no documentation of any follow-up on these issues.

Recommendation 7: HRD should complete its self-initiated oversight reporting responsibilities with respect to discretionary management salary actions.**Automated Human Resources System (AHRS) Oversight****Finding 8: AHRS does not automatically prohibit agency/department staff from permanently promoting individuals into temporarily classified positions, nor does HRD consistently know when these violations occur.**

As noted earlier in this section, the audit team identified instances where some agencies/departments permanently promoted employees into temporarily classified positions without HRD knowledge. By definition, it should not be possible for a person to be permanently promoted into a position which has only been temporarily classified. All County positions are initially approved at a specific classification by the Board during budget hearings. These positions should only be filled by employees at that classification level. Permanently promoting an employee into a temporarily classified

position circumvents the position control system and violates the PSR.¹⁴ The proper sequence of events is to first prepare a classification study to permanently reclassify a position to the desired level; then conduct a recruitment to promote the employee into that position.

One way to prevent this violation from occurring would be to prohibit such an action in the County's HR system of record, AHRS. HRD management stated that it attempted to have this situation addressed in the recently upgraded CAPS+ version, but due to insufficient funds, this remedy was not implemented. To provide a sense of scale, the audit team asked HRD staff to compile a list of all such inappropriate actions from calendar year 2007 through calendar year 2010. The results of this research are presented below.

**Permanent Promotions of Employees into Temporarily
Classified Positions (2007-2010)**

Agency/Department	Number of Occurrences
Assessor	7
Auditor-Controller	1
Clerk-Recorder	2
County Counsel	1
Health Care Agency	1
OC Community Resources	3
OC Waste & Recycling	1
Public Administrator/Public Guardian	13
Sheriff-Coroner	10
Total	39

Source: HRD research

Recommendation 8: In conjunction with the Auditor-Controller, HRD should revisit the need to prohibit the permanent promotion of an employee into a temporarily classified position in AHRS.

It is important to note that the various classification and compensation actions (e.g., reclassification, Salary Adjustments, Equity Increases) discussed in this section of the report are not in and of themselves negative practices. Indeed, they are essential elements in providing executive management with the tools it needs to attract and retain a competent workforce. What has been found deficient in this audit, from data and testimonial evidence, is the lack of sufficient oversight by HRD. This oversight is critical due to the significant consequences associated with the many violations cited throughout this section:

¹⁴ Article I, Section 3.A

- Violation of State LAPS could impact future state and federal funding.
- Violation of County HR policies and the County's stated value system of "servant leadership" can damage public trust and reduce employee morale, especially when the violations are committed by management/leadership.
- HRD's lack of accountability to stated classification/compensation policies and procedures creates a disincentive for agencies/departments to "play by the rules" and encourages manipulation of the system.
- Approval of unwarranted position/employee classification/compensation requests leads to permanent increases in salary and benefits costs to the County, which are especially problematic during times of financial distress.

Employee Benefits

Employee benefits programs represent a significant component of the total compensation package utilized to attract and retain employees. In the public sector, pension and retiree medical expenses have come under increasing scrutiny over the last decade as the cost of their provision has escalated significantly (e.g., pensions and retiree medical). At the County, the audit team estimates that current total benefits packages range in cost from 30-40% of a non-sworn employee's salary to 70-80% of a sworn employee's salary.¹⁵ The two primary cost drivers are pension contributions and health care premiums. In terms of health care premiums for employees, the average annual increase from FY 2008/09 to FY 2010/11 has been approximately 7% for Health Maintenance Organizations (HMOs) and over 10% for the County's Preferred Provider Organization (PPO) Plans. With respect to pension costs, the County's annual required contribution to the Orange County Retirement System (OCERS) grew from \$201.3 million in FY 2005/06 to \$279.5 million in FY 2009/10, an increase of \$78.2 million, or 39%, in four years. It should also be noted that an even greater rate of increase is projected in the near term for this required pension contribution.

The audit team reviewed HRD's provision of employee benefits services by examining Employee Health Plans, Program and Contract Management, Budget and Finance Systems, and Organizational Culture.

Employee Health Plans

The County offers its employees (with the exception of those who are members of AOCDS and ACLEM¹⁶) a choice of four health plans:

- CIGNA HMO
- Kaiser HMO
- Premier Wellwise PPO
- Premier Sharewell PPO

Currently and historically, the HMO plans (CIGNA and Kaiser) have greater numbers of participants than the PPO plans (69.6% of total participants in 2005 and 72.3% in 2010). HMO plans are generally lower in cost (based on premiums) than PPO plans, since they require the use of providers in the HMO network. However, based on premiums, the least expensive plan offered by the County is actually the Premier

¹⁵ These amounts include premium pays.

¹⁶ These bargaining units administer their own health plans.

Sharewell PPO plan. This plan has a high annual deductible and is designed for employees who have other health insurance coverage but want to supplement their family’s coverage. Because the cost to the County is significantly lower than other plans, the County pays employees who enroll in the Premier Sharewell plan (\$69 per month in 2011).

For comparison purposes, the table below shows the 2005 and 2011 rates for all four health plans. From 2005 to 2011, rates for three of the health plan options increased significantly: 45.8% for CIGNA, 52.8% for Kaiser, and 16.4% for Premier Sharewell (single coverage).

Health Plan Monthly Rates, 2005 and 2011

Health Plan	Coverage Tier	2005	2011	% Change
CIGNA HMO	Employee Only	\$316.48	\$461.53	45.8%
	Employee + 1	\$625.53	\$912.23	45.8%
	Employee + 2 or more	\$870.36	\$1,269.28	45.8%
	TOTAL			
Kaiser HMO	Employee Only	\$263.70	\$402.91	52.8%
	Employee + 1	\$527.40	\$805.81	52.8%
	Employee + 2 or more	\$746.27	\$1,140.26	52.8%
	TOTAL			
Premier Wellwise	Employee Only	\$680.51	\$625.37	-8.1%
	Employee + 1	\$1,197.69	\$1,156.96	-3.4%
	Employee + 2 or more	\$1,687.66	\$1,563.46	-7.4%
	TOTAL			
Premier Sharewell	Employee Only	\$214.98	\$250.15	16.4%
	Employee + 1	\$353.08	\$437.75	24.0%
	Employee + 2 or more	\$455.95	\$575.35	26.2%
	TOTAL			

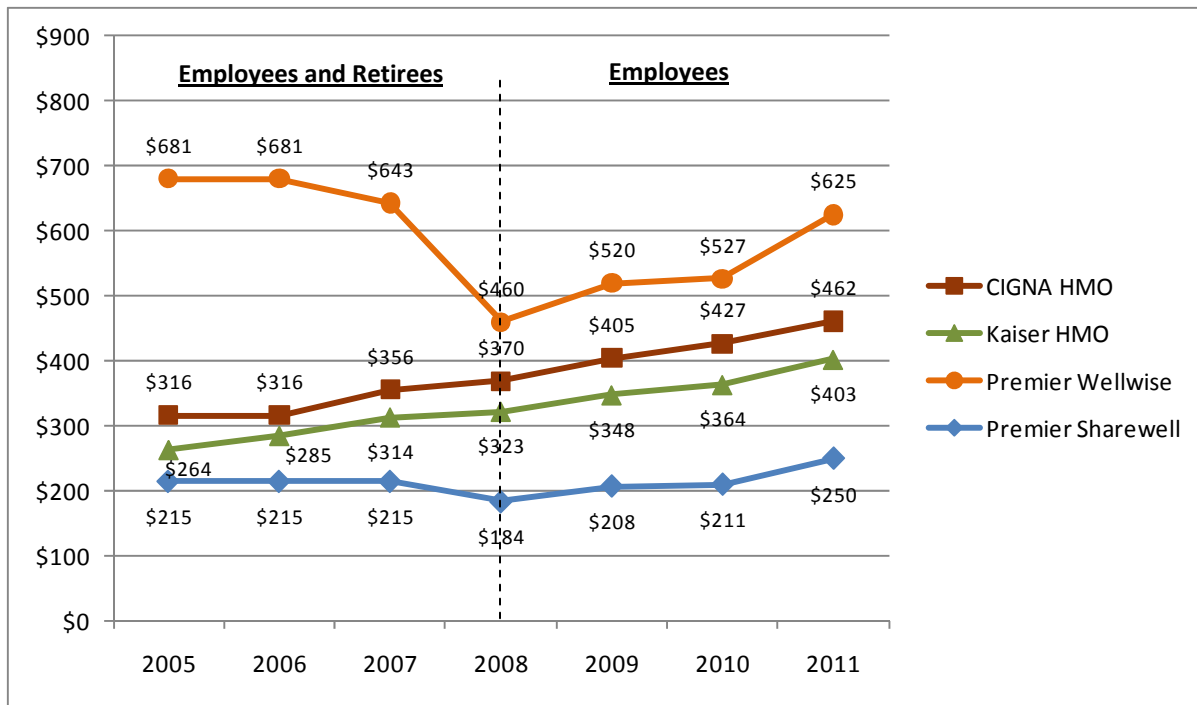
For a comparable six-year period, the cumulative health care rate of inflation in the U.S. was approximately 24%.¹⁷ The percentage increases for the CIGNA (45.8%) and Kaiser (52.8%) HMO plans far exceed this rate of inflation.

In contrast, the Premier Wellwise PPO plan rates decreased for all its tiers between 2005 and 2011 (-8.1% for employee only, -3.4% for employee+1, and -7.4% for employee+2 or more); however, this is due to the fact that in 2005, two former higher cost plans (Indemnity A and Premier Preferred Choice) were eliminated/consolidated into the Premier Wellwise PPO plan, yielding a higher rate for Premier Wellwise. As shown in the chart on the following page, the Premier Wellwise plan rate for single coverage¹⁸ decreased sharply in 2008 and has since increased.

¹⁷ Bureau of Labor Statistics Table 25 CPI Detailed Report, September 2010

¹⁸ Other coverage tiers reflect the same trends.

**Historical Health Plan County Monthly Rates for Employees
(Employee Only Rate)**



The significant decrease in rates for the Premier Wellwise and Premier Sharewell plans from 2006 to 2008 was due to a variety of reasons, the most significant of which was the County changing its third-party administrator (i.e., Delta, PacifiCare, United Healthcare, and Blue Shield) and thereby obtaining greater health care network discounts. Other contributing factors included the splitting of rates between employees and retirees (prior to that time, retirees were included in the rate pool), plan changes (for the Premier Wellwise plan), a partial reduction in the PPO Reserve, and better claims experience. Subsequent to these changes, the County’s PPO rates stabilized, then began to trend upward consistent with health care inflation. In the most recent year, there was a notable spike in rates due to more medical claims being filed.

Finding 9: Although there has been a migration of employees to the lower cost HMO plans over the last five years, there are other opportunities for the County to reduce costs through various cost savings strategies.

The table on the following page shows the 2005 and 2010 enrollment for the four health plans and the percent change in enrollment. Notably, enrollment in all three coverage tiers for the Premier Sharewell plan decreased; enrollment in the Premier Wellwise plan increased for the employee+2 or more coverage tier by 12.1%; and, generally, enrollment in the two HMO plans increased.

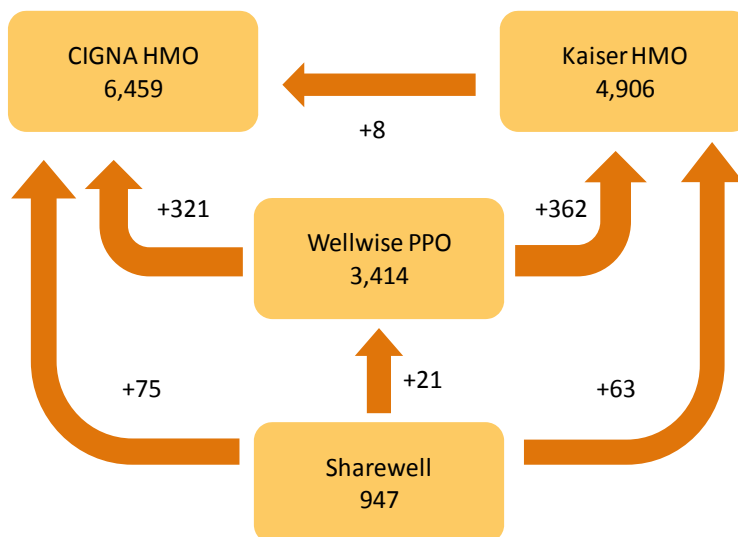
Health Plan Enrollment, 2005 and 2010

Health Plan	Coverage Tier	2005	2010	% Change
CIGNA HMO	Employee Only	2,742	2,768	0.9%
	Employee + 1	1,273	1,317	3.5%
	Employee + 2 or more	2,314	2,374	2.6%
	TOTAL	6,329	6,459	
Kaiser HMO	Employee Only	2,186	2,346	7.3%
	Employee + 1	1,016	1,063	4.6%
	Employee + 2 or more	1,516	1,497	-1.3%
	TOTAL	4,718	4,906	
Premier Wellwise	Employee Only	2,476	2,130	-14.0%
	Employee + 1	671	627	-6.6%
	Employee + 2 or more	586	657	12.1%
	TOTAL	3,733	3,414	
Premier Sharewell	Employee Only	953	827	-13.2%
	Employee + 1	68	50	-26.5%
	Employee + 2 or more	77	70	-9.1%
	TOTAL	1,098	947	

Note: Enrollment Based on July of each calendar year

As shown in the diagram below, between FY 2006/07 and FY 2010/11, there was a net migration of participants from the PPO plans to the HMO plans. 396 net participants migrated from the PPO plans to the CIGNA HMO plan and 425 to the Kaiser HMO plan.

Orange County Health Plans, 2010 Enrollment and Net Migration
FY 2006/07 through FY 2010/11



The exact cause of the migration is not known, as the County has not proactively incentivized employees to select any particular plan. However, the migration could be the result of many factors, including the economic downturn, significant cost increases

in all plans, and the fact that PPOs have higher out-of-pocket costs. Overall, this is a positive trend for the County since the Premier Wellwise PPO plan costs the County more on a per person basis, as shown in the table below.

Orange County Health Plans, 2011 Monthly County Cost

Coverage Tier	CIGNA HMO	Kaiser HMO	Wellwise PPO	Sharewell PPO*
Employee Only	\$ 438.46	\$ 382.77	\$ 597.24	\$ 319.18
Employee w/One Dependent	\$ 684.18	\$ 604.36	\$ 873.35	\$ 496.43
Employee w/Two+ Dependents	\$ 951.96	\$ 855.20	\$ 1,179.48	\$ 625.23

*These rates include the County payment to employees for selecting this plan.

Despite this positive trend from a County cost perspective, in aggregate, the migration to HMOs has only been 16.9% over the course of four years, or an average of 4.1% per year. Also, although the Premier Sharewell plan is the least costly to the County, there has been a net migration out of this plan. As noted earlier, the County, to date, has not pursued a strategy to incentivize employees to move toward lower cost plans. Indeed, in practice, some decisions/incentives work against such a goal. For example, the decision to split rates between employees and retirees and the partial reduction in the PPO Reserve to help reduce rates resulted in lower rates for the Premier Wellwise PPO plan, which may have prompted fewer employees to migrate to lower cost plans. The County also provides an annual \$50 Non-Smoker Incentive for participants in the Premier Wellwise PPO plan. In 2009, there were 3,568 employees and 2,247 retirees eligible for the incentive, which equates to a financial liability for the County of \$290,750¹⁹.

To achieve cost savings, the County should consider the following strategies:

- Increase the payment for choosing the Premier Sharewell plan.** As mentioned previously, the County pays employees to enroll in the Premier Sharewell plan—the plan with the lowest County cost. This incentive has remained relatively flat (approximately \$63 to \$74 per month, depending on the year) for the last ten years, despite the benefit to the County increasing significantly with the rising costs of the other health plan options. To encourage employees to enroll in the Premier Sharewell plan, the County can increase the payment amount, which may make it worthwhile for employees to switch to alternative coverage, such as spouses' employers' health plans. The table on the following page shows the

¹⁹ The actual liability to the County was \$150,150, since only 57.9% of eligible participants returned signatures for the incentive.

maximum monthly amount that the County could choose to pay each employee enrolled in the Premier Sharewell plan and still achieve a cost savings²⁰.

Potential Monthly Incentive for Premier Sharewell PPO Plan²¹

Coverage Tier	Reimbursement
Employee Only	\$ 132.61
Employee w/One Dependent	\$ 166.60
Employee w/Two+ Dependents	\$ 279.84

- **Offer employees a “Health In-Lieu Plan.”** A Health In-Lieu Plan is an optional benefit plan that allows employees to forgo employer-provided medical coverage in exchange for cash, as long as the employees can demonstrate evidence of alternative coverage. The cash payment is a percentage of what the employer would have otherwise paid toward employee medical benefits. For example, if the County had implemented such a plan for 2010 and set the payout at 30% of what the County would have otherwise paid toward employee medical benefits, the County would have saved \$3.8 million, assuming 5% of employees selected the plan²². Among the California public sector employers offering in-lieu plans are the City of San Jose, the City of San Diego, the City and County of San Francisco, the County of Santa Clara, and the State of California.
- **Implement a flat premium.** The County could consider offering employees a flat premium, equal to the lowest cost plan option (for the County, this would be the Kaiser HMO plan²³), which employees would then use to pay for their health plans. Estimated cost savings from implementation of a flat premium is \$14 million (see the Cost Savings Options section of the report).
- **Decrease the County’s share of health premiums.** The County pays 95% of full-time employee only health plan premiums and 75% of the premiums for other tiers (employee+1, employee+2 or more). Based on a 2010 Kaiser/Health Research & Educational Trust survey of employer-sponsored health benefits, the percentage paid by covered workers in Orange County (5% for single coverage) is much lower than the survey average (17% for single coverage in 2009; an estimated 19% for single coverage in 2010). Estimated cost savings from decreasing the County’s share of health premiums for the “employee only” tier from 95% to 90% is \$2.1 million.

²⁰ The reimbursement maximum is the difference between the Sharewell plan monthly cost to the County and the Kaiser HMO plan (the next lowest cost plan) monthly cost.

²¹ Based on 2011 rates

²² Across all four plans

²³ Although the Premier Sharewell plan is the lowest cost plan, it is structured as a supplemental insurance plan.

Recommendation 9: Consider cost savings measures such as increasing reimbursement amounts for the Premier Sharewell plan, offering an “in-lieu” plan, implementing flat premiums, and decreasing the County’s share of premiums.

Benefits Program and Contract Management

Background Information

The County coordinates the provision of a variety of negotiated employee benefits through a complex network of vendors. Some of the larger vendors include:

- Kaiser and CIGNA: these are the County’s two HMO health plans for employees.
- Blue Shield: this company is the third-party administrator for the County’s self-funded PPO health plan and its dental plan for Elected Officials, executive managers, administrative managers, and attorneys, and as such is responsible for adjudicating and processing all claims made by employees that are enrolled in these programs.
- Great West and TIAA-CREF²⁴: these two companies administer the two defined-contribution retirement programs that are offered to County employees. Great West administers the general 457(b) and 401(a) plans, while TIAA-CREF handles the defined-contribution plan specifically associated with the County’s newly-formed “1.62% at 65” retirement tier.
- International City/County Management Association (ICMA) Retirement Services: this organization administers the County’s Health Reimbursement Arrangement (HRAs)²⁵ for AOCDS and ACLEM employees, who have had their retiree medical grant plan frozen and instead receive a defined contribution into an HRA from the County.
- Affiliated Computer Services (ACS): this company provides a number of services related to the administration of Countywide benefits, the most important of

²⁴ Teachers Insurance and Annuity Association - College Retirement Equities Fund

²⁵ A Health Reimbursement Arrangement creates personal accounts that are used to reimburse participants for qualified medical expenses without incurring negative tax consequences. The balance of the account becomes available to the participant upon separation/retirement and can only be used to reimburse eligible medical expenses for Participants and their dependents. Prospectively, this arrangement replaces the retiree medical grant program for AOCDS employees. Other bargaining units are considering this option as well.

which are running the County Benefits Center and conducting the annual Open Enrollment process.

- Mercer: this consultant firm provides two separate services for Employee Benefits: (1) consulting on all benefits-related matters for an hourly fee, and (2) providing investment-related advising to the County for the defined-contribution, HRA, and some smaller invested benefit plans.

Nearly all of the 21 separate vendor contracts and 48 distinct benefits plans/programs (see Appendix C) are managed by four program managers in HRD/Employee Benefits (three full-time, one part-time). The responsibilities of these four program managers are as follows:

- One program manager oversees the management of the Self-Service Benefits Administration contract with ACS and the associated annual Open Enrollment process.
- The day-to-day responsibilities of the other three program managers relate to the administration of multiple benefits contracts. These three managers have Deputy Purchasing Agent (DPA) certification and thus conduct the numerous Requests for Proposal (RFPs) associated with the multiple vendor contracts completely in-house.
- All program managers ensure that vendors are paid for their services, which includes reviewing a plethora of monthly, quarterly, and annual reports from the various vendors, which primarily address claims experience and utilization trends during the period reviewed. Many of these reports also include vendor-reported performance metrics benchmarked against established performance guarantees stipulated in their contracts.
- All program managers coordinate a number of regular review meetings with vendors in the major benefits areas (e.g., health care benefits, defined contribution accounts, benefits administration). The County's benefits consultant, Mercer, plays a critical role in these meetings by identifying areas of concern and bringing specific expertise in benefits best practices.

Accomplishments

Overall, program/contract management in Employee Benefits is an area of strong performance in HRD. This assessment is supported by a number of positive operating procedures and successes, including:

- The establishment of performance guarantees and regular performance reporting, with associated financial penalties, in nearly all the major vendor contracts (e.g., ACS, Kaiser, CIGNA, Blue Shield)
- The implementation of a number of new retiree medical plans necessitated by the County's decision to split insurance pools between employees and retirees (this does not include AOCDS)
- The rebid of the County's Self-Service Benefits Administration contract and implementation of associated process improvements
- Highly detailed project planning and assessment of the County's annual Open Enrollment process
- Frequent, regular meetings/conference calls with all major vendors to identify and respond to burgeoning operational issues, claims experience, and service utilization trends
- Continual leveraging of benefits consultant expertise in order to ensure that the County is aligned with industry standards and well-informed when making benefits-related decisions
- Engaging consultants to audit important components of the County's health plans, including a Dependent Verification Audit to ensure coverage eligibility and a Claims Administration Audit of the County's self-funded PPO plan administrator
- A consistent, impressive level of employee commitment to completing a heavy amount of complex work

Many of these activities require significant, ongoing attention from the program managers. The fact that HRD has been able to achieve these results in the face of an ever-changing benefits environment and with limited staffing (3.75 FTEs) is a testament to the technical skill and work ethic of Employee Benefits staff and management.

Opportunities for Improvement

These praiseworthy efforts notwithstanding, the audit team also identified several important opportunities for improvement.

Finding 10: Many of the procedures associated with monitoring and managing the various Employee Benefits programs are not formally documented in any manual or reference document.

As previously noted, the breadth of programs administered by Employee Benefits is challenging and has become even more so due to several major changes, such as: the creation and administration of several retiree health plans, the implementation of health reimbursement accounts for the largest public safety bargaining units (AOCDS and the Association of County Law Enforcement Managers-ACLEM), the creation of a new hybrid pension model and the associated defined-contribution plans, and the implementation of national health care reform. Despite this growing complexity, there is no central Policies & Procedures Manual for the wide array of employee benefits programs. Rather, each manager coordinates all the necessary reporting and meetings for each program on an individual basis.

Though the audit team has not identified any significant negative consequences of this operating model, over the long term, there is an elevated risk of operational inefficiency and a greater chance that necessary tasks will be missed due to employee oversight. Moreover, when new employees come on staff, a Policies & Procedures Manual can greatly assist in shortening and flattening their learning curve.

In a minor, but telling example, the audit team asked program managers to provide all of the performance metric reports for all the vendors under their purview for the last two fiscal years (FY 2008/09 and FY 2009/10). In the case of one major health plan, there had been a change of program managers five months prior, yet the current manager was unaware of how to locate these metrics. Given that these metrics are reported quarterly, at least one quarter had transpired without the new manager reviewing the metrics, which could have potential financial penalties associated with them. Though no penalty was ultimately incurred, this deficiency speaks to the need for a more robust set of documented policies and procedures. The audit team has confirmed through observation and multiple interviews that much of the knowledge transfer that occurs is informal and typically driven by a pressing need to complete a task. Documentation of important policies and procedures is vital in this area due to the gravity of several of these programs (e.g., health benefits) and the associated costs, and is well worth the investment of staff time needed to assemble such reference material.

In another example, performance metrics related to the numerous vendors are not gathered in one central repository or reprocessed for internal summary reporting. Instead, nearly all metrics (performance and otherwise) pertaining to employee benefits programs are stored only in the ubiquitous individual reports (monthly, quarterly,

annually) that are supplied by the vendors. In this inflexible format, Employee Benefits management is not able to readily view summary issues or trends in a “balanced scorecard” dashboard. Moreover, this scattered approach toward the maintenance of important business analytics hampers strategic planning activity and exacerbates the frequent scrambling to provide higher-level “ad-hoc” data reports to the CEO and the Board.

Recommendation 10: HRD should create important foundational documents for the Employee Benefits operation, including a set of workload/performance metrics and a more formal policies & procedures manual that documents the key operations and processes of employee benefits program management.

Finding 11: Performance metrics and associated penalties that were promised for inclusion are missing from the contract with the County’s primary benefits consultant.

Given the complexity of its employee benefits responsibilities, the County is heavily reliant on the experience of an outside consultant to provide advice on a wide range of benefits issues, including rate setting, health plan design, claims trends, and industry standards. The County has utilized Mercer Human Resources Consulting since 2006 to fulfill this need.²⁶ Prior to the contract with Mercer, the County used a different firm; however, that contract was terminated before its completion, and Mercer was selected as the interim consultant. For this interim contract period, Mercer placed 20% of its fees (or approximately \$65K) “at risk” of being forfeited if its performance was deemed unsatisfactory.

At the conclusion of the interim period in 2006, this contract was put out to bid and Mercer was again selected and subsequently given a five-year contract. Unfortunately, in this new contract, Employee Benefits staff neglected to ensure that performance standards and associated penalties were included in the contract as promised repeatedly in the Agenda Staff Report (ASR) that was put before the Board. This has been a critical omission as Mercer was willing to again place 20% of its fees “at risk,” in order to ensure that the County obtained a satisfactory level of performance. When the audit team raised the issue with Employee Benefits management, they indicated that they had been unaware of this oversight for the past four to five years.

²⁶ HRD staff indicated that they are very satisfied with the consultant’s performance.

The fact that performance penalties were not included in the contract is also important in light of the significant cost differential between Mercer and the lower-cost, alternate firm. Though Mercer scored higher overall, in the “Fee” category, Mercer was approximately 13% more expensive for more junior staff and over 50% more expensive for senior level staff, which typically comprise 1/3 to 1/2 of the total hours billed.²⁷ Yet, in the “Fee” section of the ASR to the Board proposing the selection of Mercer, HRD staff made no mention of the price differential, noted that Mercer offers pricing that is “very competitive,” and reiterated that “Mercer is placing a significant amount of its fees at risk (20%) to guarantee they deliver the most appropriate and valuable consulting advice to the County’s satisfaction.” Furthermore, Employee Benefits staff provided no indication or documentation to the audit team that they had approached Mercer during contract negotiations regarding a reduction in fees—a standard practice—when there was a less costly alternative. In fact, the rates initially proposed by Mercer in their RFP response are exactly the same rates included in the final contract.

Recommendation 11: In future benefits consultant contracts, or in amendments to the current contract, pursue and ensure that performance guarantees and appropriate financial penalties are included, and ensure that the Board is aware of price differentials associated with selecting a primary firm versus an alternate. In addition, the presence of a qualified, lower-cost alternate firm should be utilized to negotiate down the rates proposed by the primary consultant.

Finding 12: HRD does not require its benefits consultant to provide sufficient detail on invoices to track the actual work of its individual staff members.

Mercer is utilized on an “as-needed” basis by Employee Benefits management to help with a variety of tasks. Each month, Mercer sends the County an invoice which lists the total number of hours (for all staff levels) worked by the type of project (e.g., pharmacy audit) and the total number of hours worked by each level of staff, as shown in the snapshot of a recent monthly invoice on the following page.

²⁷ Based on audit team review of invoices from CY 2010

Classification/Title	Hourly Rate	Total Hours	Total
Senior Actuary	\$461.49	26.50	\$ 12,229.49
Senior Consultant	\$440.27	38.75	\$ 17,060.46
Attorney	\$424.36	2.75	\$ 1,166.99
Junior Consultant	\$291.75	75.25	\$ 21,954.19
Retirement Analyst	\$212.18	.25	\$ 53.05
Health & Benefit Analyst	\$196.27	3.25	\$ 637.88
Support Staff	\$95.48	3.86	\$ 368.56
		150.61	\$ 53,470.62

These invoices are reviewed by Employee Benefits management for reasonableness; however, there is no means of checking what work was billed by each individual (e.g., which and how many Junior Consultants comprised the 75.25 hours billed in October). Providing this more detailed information will afford Employee Benefits staff greater insight into this necessary, but costly, consultant resource.

In addition, the vendor does not provide a detailed breakout of each hourly rate into its component parts (employee salary and benefits costs, corporate overhead, profit, etc.) in order to ensure that the County is paying reasonable costs in each of these areas. In other areas where County vendors charge on a per-hour basis (e.g., existing IT contract with ACS), as opposed to a flat fee, the County is able to see at least some degree of granularity in these hourly rates. Moreover, best practice is to request that vendors provide, at the very least, a margin/mark-up for each hourly rate.

Recommendation 12: Modify invoice reporting to require billing detail for each employee of the consultant firm, and request that Mercer provide a detailed breakout of hourly rates, on a confidential basis if necessary, in order to enhance visibility and accountability for this long-term (5 year) contract.

Finding 13: Performance standards are consistent for most major health plans and claims/benefits administration contracts, though there are some differences that warrant attention.

The audit team reviewed the contracts for its HMO health care plans (Kaiser and CIGNA), as well as the contract with the third-party administrator for the County’s Self-Funded PPO plan (Blue Shield) and the contract with the Self-Service Benefits Administrator (ACS), in order to assess consistency in the more common performance metrics. A comparison of these plans is presented in the table on the following page.

Common Performance Metrics in Major Health Plans and County Benefits Center

Performance Variable	Blue Shield (TPA*) Medical	Blue Shield (TPA) Dental	Kaiser	CIGNA	ACS-Benefits Center
Average Speed to Answer	≤ 30 sec.	≤ 30 sec.	None	≤ 30 sec.	None
% More than 30 sec. to Answer	<10%	<20%	<20%	None	<20%
Call Abandonment Rate	None	None	≤ 3.3%	< 3%	< 3%
Quality of Care Metrics	N/A	N/A	Yes	None	N/A
CSA**/Call Quality	≥ 95%	≥ 95%	None	≥ 95%	None
Call Resolution	90% in 2 Days	90% in 2 Days	None	85% resolved on first call	85% same business day, 95% within 20 business days
Website Availability	None	None	95%	None	99%
Member Satisfaction	None	None	≥ State Average	None	85% or higher
County Management Satisfaction	3 out of 4 or better	3 out of 4 or better	3 out of 5 or better	3 out of 5 or better	3 out of 4 or better
Overall Claims Processing Accuracy	≥ 95%	≥ 95%	N/A	N/A	For HCRA/DCRA: 99%

* Third-Party Administrator

** Customer Service Associate

As the table above demonstrates, there is relative consistency in most of the performance metrics across the five contracts; yet, there are opportunities to achieve further alignment. For example, the County has a more stringent performance guarantee with Blue Shield-Medical for the percentage of calls that must be answered in less than 30 seconds (90%), while the other major health plan that has such a metric, Kaiser, is held to a standard of 80% or more calls that must be answered within 30 seconds. Similarly, Kaiser is the only health plan that provides a member satisfaction guarantee of some form, but it is variable based on the “State Average.” In another key performance variable, “County Management Satisfaction” of vendor performance, both Kaiser and CIGNA have more relaxed standards at only 3 or better on a 5-point scale, while the Blue Shield and ACS contracts require a standard of 3 or better on a 4-point scale. Lastly, the Blue Shield contract does not include any call-abandonment requirement, a variable that is common across the other contracts with third-party claims administration contracts generally.

Recommendation 13: Program management staff should work to align performance metrics across similar contracts in order to ensure a consistent level of service to County employees.

Finding 14: The performance of the County's Self-Service Benefits Administrator was highly problematic during the last Open Enrollment process.

As noted in earlier sections of this report, in addition to the Self-Service Benefits Administrator (ACS) managing all the enrollment and eligibility processing for employees, retirees, and their dependents, they also handle the logistics and processing associated with the Annual Open Enrollment process for the County's health and other insurance plans. This process impacts both employees and retirees. This is a highly complicated and challenging task that requires significant time and resources from both ACS and the County to complete. Subsequent to each annual Open Enrollment, County program managers meet internally and with ACS to document and discuss notable problems during the prior years' process.

During Open Enrollment for 2011 (conducted in late 2010), there were a number of new challenges, including the discontinuation of some retiree health plans and the implementation of some elements of national health care reform. Subsequent to the 2011 Open Enrollment, Employee Benefits program management met with ACS to discuss a variety of problems on the part of ACS, including:

- Inadequate allocation of resources to address the volume/complexity of issues raised/calls received. This shortage, in turn, contributed to an average speed to answer of 2 minutes, 55 seconds for calls. This is far in excess of the established performance guarantee of 30 seconds.
- Higher-level issues/requests from employees/retirees not resolved in a timely manner.
- Poor identification of trends/patterns by customer service representatives across employee/retiree calls.
- Multiple system failures (e.g., website failure one day prior to the end of Open Enrollment) that led to gaps in customer service availability.
- Multiple missed deadlines in passing program data files to the County for testing, leading to extreme time pressure on staff to review information prior to the start of Open Enrollment.

Though County staff indicated to the audit team that ACS is committed to making any changes necessary to meet its established performance guarantees, the overall negative impact to employees and retirees and the increased risks associated with such problems were significant. Because performance guarantees (e.g., "average speed to answer") are

measured on a quarterly basis and ACS must be out of compliance for two quarters in a given calendar year to be assessed a financial penalty, it is likely that ACS will not be assessed any financial penalty for this poor performance. Given the importance of the Open Enrollment process on an annual basis, the County would likely benefit from ensuring a higher level of performance during this critical process through more targeted performance goals/metrics.

Recommendation 14:

- a) Exercise existing accountability measures for poor contractor performance.
- b) Work with ACS to determine and implement more specific performance guarantees related to the Open Enrollment process.

Finding 15: The administrative costs of retiree health plans are being paid for by agencies/departments.

Subsequent to the County's decision to split retirees from the health insurance pool for employees in 2008, there was a need to establish multiple retiree health plan options.²⁸ The management/administration of these plans requires a significant amount of additional effort on the part of Employee Benefits staff. Based on discussions with Employee Benefits staff, the audit team estimated that at least \$200-300K of employee staff time and consultant resources are expended to administer these plans on an annual basis. Though the County receives a reimbursement from the federal government for those retirees who are eligible for Medicare, there are many who are not yet eligible. As such, the administrative costs of these programs are effectively being partially covered through the administrative fee charged to agencies/departments on top of employee health and dental plan rates for general employee benefits administration.

Employee Benefits management raised this issue with the County Financial Officer (CFO) and indicated that if agencies/departments were no longer charged these administrative costs, an additional fee would need to be charged to retirees on top of their health care premiums. The CFO decided not to assign these costs to retirees, but rather to continue the existing practice of charging agencies/departments. This issue was not put before the Board for discussion or decision.

²⁸ This does not include AOCDS.

In researching retiree medical plans, the audit team determined that there are other public entities (Los Angeles County, San Diego County, the State of California, and multiple CalPERS contract agencies) who administer retiree health plans via their retirement system. Given that the County's Retirement System, OCERS, is focused specifically on serving the retiree population, there is likely an opportunity to enhance the level of customer service to retirees by making such a change. Similarly, there is a benefit to the Employee Benefits operation from not having to spend significant program management and customer service resources to administer retiree plans. Lastly, covering these administration costs through OCERS more closely ties the costs of the program to the beneficiaries of the service.

Recommendation 15: Work with OCERS to prepare a cost-benefit analysis of transferring the administrative responsibility for retiree medical health plans.

Finding 16: There is no existing procedure/protocol for auditing the performance guarantee results that are self-reported by Employee Benefits vendors.

The audit team confirmed with program managers that although performance results are self-reported by vendors, these results are not periodically audited by Employee Benefits staff or an independent third party. For the HMO health plans (Kaiser and CIGNA), the inclusion of performance guarantees is a relatively new change in their contractual relationship with the County (implemented in 2008), and thus the opportunity to review performance documentation has been limited. However, for the largest single contract utilized by Employee Benefits, (the Self-Service Benefits Administration agreement with ACS), performance metrics were included in both the previous (2003 to 2009) and current contracts. Employee Benefits management indicated that they review the results for reasonableness; however, they have never requested or reviewed detailed documentation that supports the reported results.

In the current contract with ACS, a total of 11% of total fees are at risk, spread across a variety of variables. To provide a sense of scale, the current ACS contract has a fixed, annual cost of \$2,159,000; thus, if ACS missed every performance guarantee in one calendar year, the County would recoup a total of \$237,490 in penalties. Though there are no indications that ACS has reported any performance results in error, logical accountability suggests that some spot checking on the part of Employee Benefits staff for variables that are more accessible would help ensure accuracy in these reports.

It should be noted that several of these performance guarantees would require significant research to substantiate, such as “100% of bills will be postmarked no later than 5 business days prior to the first of the month for which the bills are being issued.” However, other metrics, such as the results of the Participant Satisfaction Survey, could be readily reviewed by Employee Benefits staff.

In addition, the cost of periodic validation by an independent third-party could be scaled to a reasonable amount, while still encouraging vendors to report accurately. Such performance measure validation is frequently conducted by the County’s Internal Audit Department, who may be a valuable resource for Employee Benefits staff in this regard.

Recommendation 16:

- a) Program management staff should establish sampling procedures for ensuring accuracy and accountability in performance self-reporting on the part of third-party vendors in Employee Benefits.**
- b) Consider having the Internal Audit Department conduct periodic performance measure validations.**

Finding 17: There is no Board-approved policy regarding the target account balance for the County’s Self-Funded PPO Reserve.

During 2007, the Board identified a significant amount of excess reserve (\$22 million) in the County’s Self-Funded PPO account. At the time, Mercer recommended that the County retain approximately \$15 million in reserve to provide coverage for incurred-but-not-reported (IBNR) expenses, as well as to provide some level of a premium/rate stabilization reserve.²⁹ Yet, the PPO Reserve was allowed to grow to approximately \$37 million. For the next two years, HRD/Employee Benefits, CEO staff, and Auditor-Controller staff worked with Board offices to determine the appropriate means for bringing down the reserve level to be more in line with the estimate provided by Mercer. Ultimately, the County provided a “rate holiday” for several months in 2009, whereby employees and their agencies/departments were not charged for several months of premiums, with those costs covered by drawing down the reserve. Unfortunately, during this period, the County experienced greater than expected claims costs for the Self-Funded PPO plan. Consequently, the Self-Funded PPO reserve is now below the amount suggested by Mercer. Employee Benefits staff is working to

²⁹ Mercer based this estimate on health insurance industry standards.

determine if and how soon insurance premiums should be raised in order to start building the reserve back up to the recommended level.

Despite this recent scrutiny and series of actions, the Board has never been asked to formally approve an account balance target for the Self-Funded PPO reserve. Such a target, memorialized in a policy, would provide Employee Benefits staff with clear direction about how much they should strive to maintain in the account. Mercer could easily assist staff in developing a policy to present to the Board for discussion.

Recommendation 17: Employee Benefits staff should work with Mercer and CEO/Budget to create a target policy for the Self-Funded PPO reserve for Board approval.

Finding 18: Employee Benefits has not been actively managing the accrued account balances from the deferred compensation administration agreement with Great West. Additionally, Employee Benefits has not notified CEO/Budget of the amount of resources available in these accounts (\$2+ million).

In 2006, the County put out an RFP for the provision and administration of the County's three deferred compensation plans. Great West Life & Annuity Insurance Company, who had been providing these services prior to the RFP, was selected to continue doing so. Under the new contract, Great West provides a variety of services to County employees and retirees who participate in this plan; in exchange, Great West charges a fee equivalent to 22 basis points (i.e., 0.22% of all plan assets) annually. To provide a sense of scale, the current estimated total plan assets across all three plans is approximated at \$800 million; thus the annual fee charged to employee participants by Great West under the current contract would be \$1.76 million.

In addition, as part of the contract, Great West provides the County with two different forms of revenue:

- The first is a flat amount (\$50K/year) to be placed in an Administrative account by Great West that the County can utilize to offset its costs associated with coordinating the provision of the three deferred compensation plans.

- The second mechanism is a revenue sharing arrangement, whereby any revenues accrued by Great West³⁰ in excess of the 22 basis point cap are to be placed in a Revenue Sharing account, which the County, as the fiduciary, can utilize for a variety of purposes, including to offset County staff costs, to pay consultant costs associated with the deferred compensation plans, or to refund money to plan participants.

To date, Employee Benefits has accumulated \$428K in the Administrative account and more than \$1.8 million in the Revenue Sharing account. These accounts have been largely untapped since 2006. When asked, Employee Benefits management had not developed any specific plans for the usage of these monies. Also, the audit team asked and confirmed with County Budget staff that they were unaware of the significant amounts that had been accumulated in these accounts. The audit team also confirmed with Employee Benefits staff that the newly approved contract with Great West will maintain the revenue sharing arrangement and will increase the annual administrative funding amount from \$50K to \$100K. In light of the County's significant budget shortfall, these reserve accounts may provide some additional options for the preservation of County services. Moreover, due to the amount of money involved, the level of oversight and disclosure around this program should be reviewed.

Recommendation 18: Employee Benefits staff should work closely with CEO/Budget staff to determine how much of this money (\$2+ million) can be used to offset Net County Costs. In addition, Employee Benefits should consult with Mercer to determine the cost effectiveness of auditing Great West records to ensure that the County is, in fact, receiving all the excess revenues it is due.

Benefits Finance and Systems

Employee Benefits utilizes a small team of staff to support all the financial and accounting needs of the various benefit programs offered to County employees and retirees. Key assignments include:

- Preparing budgets for the 12 separate funds administered by Employee Benefits
- Working with Mercer to develop health plan rates for the County's Self-Funded PPO

³⁰ Great West collects revenue from its financial relationships with third-parties (e.g., fund managers) "that will be involved, directly or indirectly, in connection with the Plans or the County's account."

- Determining the necessary administrative surcharge that is allocated to agency/departments to support the Employee Benefits function
- Conducting a substantial amount of accounting reconciliations for a number of benefit programs
- Ensuring that all vendors are paid on time and at the appropriate level

The Benefits Finance team is composed of an Accounting Manager (Admin. Mgr. II), an Administrative Manager I, one Accountant-Auditor II, a temporary Accountant-Auditor I, and a portion of one Staff Specialist. In addition, there are two information technology staff (Systems Programmer/Analysts) whose primary functions are (1) to run a series of reconciliation/exception reports that identify inconsistencies in the various data files that are maintained by HR in AHRS and by ACS in the Benefits Center systems, and (2) to facilitate the transfer of requisite benefit information between the County, ACS/Benefits Center, and the numerous benefit vendors. The Finance and Systems unit is overseen by the Finance Manager (Admin. Mgr. II).

Collectively, this unit is able to accomplish an impressive volume of tasks, many of which are critical to ensuring financial accountability and accuracy in significant cost areas of the County (i.e., benefits). It is a highly process-driven environment, although there are frequent ad-hoc requests for idiosyncratic data mining and analysis. Many of the transactions and reconciliations conducted by Benefits Finance staff are technically complex and specific to Employee Benefits. Several years ago, this function was performed by an out-stationed Auditor-Controller unit; however, due to the unique accounting and finance needs of the operation, positions were permanently allocated to Benefits to handle these tasks.

There have been other changes in the unit. In FY 2006/07, the Finance team was overseen by an Administrative Manager II and was composed of one Senior Accounting Office Supervisor, one Administrative Manager I, one Accountant-Auditor II, and one Senior Accounting Assistant. Since FY 2006/07, the Accounting Office Supervisor position was reclassified up to the Administrative Manager II level, the Senior Accounting Assistant position has been partially replaced by a Staff Specialist, and a limited-term Accountant-Auditor I position was added.

The audit team's review of the performance of this unit identified some opportunities for improvement.

Finding 19: The Employee Benefits Finance team has made notable progress in formalizing its Desk Manual; however, there are still several missing procedures, and some sections have a superficial level of instruction.

Based on interviews with multiple Benefits staff, the audit team confirmed that historically, Benefits Finance has maintained individual “desk procedures” for several of their common accounting tasks; however, these procedures had not been updated since 2007 and had never been compiled into a formal Desk Manual. However, in October/November 2010, Benefits Finance compiled its first Desk Manual, which was presented to the audit team at the beginning of audit fieldwork. At that time, management indicated that the Manual was complete. This new Desk Manual has five sections, covering Accounting Procedures, Year End Closing, Comprehensive Annual Financial Report (CAFR), Budget, and Actuarial Studies. The portion of the Manual that covers most of the day-to-day activities of the Benefits Finance staff is the Accounting Procedures section.

The audit team reviewed the Desk Manual and compared it to a detailed listing of accounting tasks that are completed by Benefits Finance staff to determine the Manual’s comprehensiveness. In addition, the audit team reviewed individual procedures to determine whether there was sufficient detail for an employee to follow the procedure to completion without needing multiple consultations with other, more experienced staff. The first portion of the review resulted in the identification of several missing procedures, shown below.

Missing Procedures from the Benefits Finance Desk Manual

FSA Journal Voucher-Daily SHPS Reports, Bank Reports	Weekly Fund 292 Balance	Great West/ICMA Payroll Funds Transfers
County Intents to Retire	Judges Reimbursement Journal Voucher	3.6% RMIP (AOCDS) Journal Voucher
Short-Term Disability Journal Voucher	Fund Balance Report	Payments Tracking Reports
Contract Logs	Track Cost Apply for Employee Benefits for IT	COBRA/Direct Bill Deposit
Medicare Part D Deposits	Fund 300-305 AOCDS Reconciliation	Peace Officer Grant Audit*
Fund 17B Reconciliation	AOCDS Monthly Medical Grant Audit	Deposit Reconciliation
County Retiree Medical Grant Reconciliation	Tracking of Health Plan communication costs to bill providers	Quarterly EDD Payments
Quarterly TALX Payment	ARRA COBRA Reimbursement Tax Reporting	Funding for Postage Account

*This procedure was written-up by Benefits staff and added to the Desk Manual during audit fieldwork.

Some of these procedures are more critical than others, and with some minor staff effort many of these procedures can be easily written up and included in future versions of the Desk Manual. In an environment such as Benefits Finance, where accounting and finance procedures comprise the bulk of the workload, a complete Desk Manual will help ensure consistency in the unit's knowledge base and will assist with smoother succession planning as staff members join or separate from the team.

As noted, the audit team also reviewed individual procedures to determine the clarity and depth of the instructions, with mixed results. Some procedures are highly detailed and give clear, step-by-step instructions for completion of the task, while others are more high-level or presuppose user knowledge. For example, one procedure for reclassifying health and dental administrative fees as either a cost-apply expense or revenue (Procedure 2.4.1) has a very precise set of instructions with screen shots for many steps in the procedure. Yet, in another example, the procedure generically named Monthly Fund Reconciliations is assumed to apply to all funds, but nowhere in the procedure is there any indication which specific funds need to be reconciled. Similarly, the instructions in the procedure for completing a Year-End Closing Journal Voucher related to unemployment costs (Procedure 2.3.3) provides very little detail and is written in a style that assumes familiarity with many of the associated processes.

Recommendation 19: Complete the Benefits Finance Desk Manual in order to bolster HRD's ability to respond to future staff changes and to maximize self-sufficiency of existing staff.

Finding 20: Despite the fact that the County's Extra Help Employee Defined Benefit Program is closed, agencies/departments continue to pay down the accrued liability, a portion of which will likely never be claimed. In addition, plan assets are not being managed to the target rate of return.

In 1992, the County established a defined-benefit program for its extra help³¹ employees. Individuals were allowed to choose between receiving a lump sum payment or an annuity upon reaching retirement age.

In 2003, Employee Benefits and County Counsel staff expended significant energy to close this plan. A key requirement was to attempt to contact all individuals who

³¹ An extra help employee serves at the pleasure of the County and may be removed at any time with or without notice or cause and without a hearing.

separated from the County but are eligible for a benefit and ask them to choose between a lump sum payment and an annuity, as was offered in the plan. Many individuals could not be located. Then, between 2006 and 2008, the plan was finally closed to new participants, no further service accruals were allowed, and employees eligible for a benefit are now given only a lump sum payment of either the account balance plus interest or the present value of the annuity, whichever is higher. However, despite its closure, this plan continues to consume notable Employee Benefits staff time, financial resources from Employee Benefits to pay for an annual actuarial valuation of the outstanding liability associated with this program, and financial resources from agencies/departments, who are each billed for a portion of the annual required contribution to pay down this accrued liability.

Currently, the program has 70 County employees who are participants, 30 County retirees who are participants, 26 retirees who are not yet 65 and eligible to receive their benefit, and 227 individuals who are eligible for some form of benefit, but whom Employee Benefits has been unsuccessful in locating or eliciting a response as to how they would like their benefit. The plan has an actuarially accrued liability (AAL) of \$8.3 million, but plan assets of only \$4.5 million. Consequently, County agencies/departments are billed annually for a portion of the annual required contribution (ARC), based on a formula maintained by Employee Benefits that is based on the historical distribution of eligible Extra Help employees. For FY 2010/11, agencies/departments were collectively billed \$232,263. The audit team also confirmed in the most recent actuarial valuation that approximately \$2.5 million of the \$8.3 million total liability is associated with those individuals who have not been located by or responded to Employee Benefits. Thus, each year agencies/departments lose operating resources to pay for a liability that is in limbo.

To further complicate matters, there is a significant difference between actual investment earnings of the plan and the assumed rate of return utilized in the annual actuarial evaluation. Historically, actuaries utilized an assumed rate of return on the plan's assets of 6.5%, though this rate was modified down to 5% in the most recent valuation. However, the plan's assets have been and continue to be invested in the Orange County's Treasurer's Pool. The rate of return on this fund has fluctuated from a high of 6.5% in July 2001 before steadily declining to a low of 1% in July 2003. The return then stayed at 1% until July 2004 when it began a steady increase before peaking at 5.25% in July 2006. The rate of return stayed at that level until approximately October 2007, at which point the rate steadily decreased, such that it has been below 2.5% since approximately January 2008. In light of these fluctuations and frequent underperformance, the previous (6.5%) and current (5%) assumed rates of return appear unrealistic.

Recommendation 20:

- a) Work with County Counsel and the Treasurer-Tax Collector to determine if there is any mechanism whereby the County can demonstrate its due diligence in locating the 250+ vested participants in order to close out that portion of the Extra Help Defined Benefit Plan liability, or alternatively reconsider full funding of this liability in light of the fact that these individuals have been out of communication with the County for many years.
- b) Determine alternative options for more actively investing the Plan's assets in order to deliver a more consistent rate of return, both in raw terms and relative to the assumed rate of return utilized in the actuarial valuation.

Finding 21: Employee Benefits does not have a procedure for invoicing employees who have outstanding health plan premium contribution debts and have separated from the County.

Under all current health plans, employees pay for some portion of the cost of their health premiums (5% for single coverage, 25% for family coverage). When employees go on some forms of leave (e.g., family medical leave) and have exhausted their Annual Leave balances, they are no longer receiving a paycheck, and thus, their health plan premiums (for those who wish to retain their medical benefits) are not deducted. And although these employees are not paying their premiums, the County continues to provide health insurance.

To address this situation, the County's Self Service Benefits Administrator, ACS, has a subcontract with SHPS for the direct billing of employees to recoup the employee's portion of health care costs. However, frequently, there is a delay in SHPS direct billing, and due to this delay, the County is not collecting all the monies owed by employees.

Employee Benefits Systems staff generates a report every payroll period for review by Benefits Finance staff called the "Missed Deduction" report which identifies employees who owe money in this situation. Benefits Finance staff keeps track of these amounts each pay period, and when the employee returns to active pay status (i.e., comes back to work), staff creates a "Goal" amount in AHRS, which is the total amount that the employee owes the County. The Goal amount is recouped from employees in \$50 increments each pay period. However, if the individual separates from the County

with an outstanding Goal amount, the County is not always able to recoup the full amount owed.

When this issue was raised with the Benefits Finance management, they indicated that they do not currently invoice separated employees for balances owed, and they had not been tracking the total amounts owed to the County over time. In response, Benefits Systems staff spent several weeks creating an ad-hoc report to identify the total amount owed to the County. This report indicated that since 1992, the total amount of outstanding health premiums owed to the County is approximately \$45K.

Recommendation 21: Work with Auditor-Controller to develop a simple mechanism to invoice separated employees for any outstanding health premiums owed to the County.

Finding 22: There is a control weakness in the auditing of retiree medical grants for AOCDS retirees.

One of the responsibilities of Benefits Finance staff is to audit the accuracy of the retiree medical grants for all County retirees. Currently, retirees receive a medical grant each month that is based on their years of service (up to a maximum of 25 years) multiplied by a dollar amount that is adjusted up for inflation each year (the current amount is \$18.77 a month for each year of service to a maximum of 25 years). Thus, an employee who retires with 25 years of service, who receives \$15 for every year of service, will receive \$375/month toward the cost of their medical costs. One of the key considerations of Benefits Finance staff in auditing the accuracy of these grants is the individual's eligibility for Medicare. The County's Retiree Medical Program requires that once the individual is eligible for Medicare that his/her retiree medical grant be reduced by 50%. However, if the individual only has Medicare Part B (which is true of some County employees who have worked for organizations that do not pay into Medicare Part A, which the County did not do until 2003) their retiree medical grant is not reduced. When auditing the accuracy of grants for retirees that are part of the AOCDS Health Benefits Trust, Employee Benefits staff does not require documentation from AOCDS that the individual is only enrolled in Medicare Part B; rather, staff simply takes the word of AOCDS. This information could easily be verified by reviewing an individual's Medicare card, which AOCDS keeps on file for all of its Medicare-eligible retirees.

Recommendation 22: Modify the existing audit procedure to require documentation of Medicare-Part B-only enrollment for AOCDS retirees.

Benefits Organizational Culture

Finding 23: The organizational culture of Employee Benefits has not been a management/leadership priority, despite several risks to employee morale.

As noted earlier in this section, the work environment in Employee Benefits is highly pressurized. This is, in part, due to the nature of the work, which is driven by deadlines and, in part, due to the amount of money involved and the potential negative impact on employees and/or the County if mistakes are made. Through its interviews with all the employees of Employee Benefits, the audit team consistently heard that the operational demands placed on the organization were intense and increasing.

The staff of Employee Benefits has responded to these increased pressures by working harder and longer hours. Indeed, many employees pointed to the last two years (during which many new programs and benefits changes have been implemented) as being highly stressful; multiple employees confirmed that there is a sense of impending “burnout,” both organizationally and personally, if the level of work does not abate. Though there is only so much that HRD management can do to address the external demands placed on Employee Benefits staff, there are many things that management can do to improve its organizational culture. The audit team heard repeatedly in interviews that there is very little attention given to this critical element of management/leadership. Moreover, the audit team identified a disconnect between Employee Benefits management and employees regarding this issue; when asked directly, Benefits management indicated that they did not believe employees are stressed. It is clear in talking to both employees and management that the singular priority of the organization is to complete the multitude of tasks at hand, with little time for ensuring that employee morale is at an adequate level.

Two best practice strategies often employed by management to deal with an inherently pressurized work environment are employee development (training) and team building. Multiple employees of Employee Benefits noted the lack of a formal training program and/or the lack of the opportunity to attend external training, which may help employees complete their work more effectively/efficiently. In terms of team building, the audit team noted that teamwork is happening when necessary to complete tasks,

but many employees noted that the work environment is impersonal and lacks camaraderie.

Failing to recognize and address the noted problems in an organization's culture increases the risk that high-performing employees will self-select out of the organization because it is simply not a healthy interpersonal environment. Moreover, there is a risk, if an employee chooses not to transfer out, that his/her performance will suffer due to these organizational culture deficiencies.

In light of the critical nature of the work done by the Employee Benefits group, it is vital that a greater amount of management/leadership attention be devoted to improving the organization's culture and employee morale.

Recommendations 23: HRD management should conduct a Control Self Assessment (CSA) for all Employee Benefits staff, with the assistance of the Internal Audit Department, to identify organizational risks, including problems in organizational culture, and to develop strategies for improving the culture.

Labor Negotiations

California law (Myers-Miliias-Brown Act) allows public employees to unionize and requires public employers to permit collective bargaining for all unionized employees. At the County of Orange, more than 98% of the workforce is covered by a collective bargaining agreement (Memorandum of Understanding, or MOU). These MOUs govern and contractually obligate the County to provide agreed-upon wages, hours and other terms and conditions of employment.

The County has seven recognized employee organizations that represent 14 different bargaining units, as shown in the table below:

Employee Labor Organizations

Organization	Bargaining Unit(s) Represented	# of Employees Represented	MOU Expiration
Orange County Employees Association (OCEA)	County General Unit Office Services Community Services Health Care Professionals Supervisory Management Sheriff Special Officer/Dep. Coroner Probation Services Probation Supervisory Mgt	12,199	2012
Association of Orange County Deputy's Sheriffs (AOCDS)	Peace Officer/Supervising Peace Officer	1,926	2012
Association of Federal, State, County and Municipal Employees (AFSCME)	Eligibility Workers	1,154	2012
Orange County Managers Association (OCMA)	Administrative Management	1,099	2011
Orange County Attorneys Association (OCAA)	Attorneys	498	2011
Alliance of Orange County Workers (AOCW)	Operations & Service Maintenance	496	2012
International Union of Operating Engineers (IUOE)	Craft & Plant	148	2012

Source: HRD research

*The Association of County Law Enforcement Managers (ACLEM) is a verified but not currently recognized labor organization.

HRD is responsible for the County's labor negotiations/meet-and-confer program. The Board and CEO provide oversight and direction, with agencies/departments involved on an as-needed basis.

Accomplishments

With respect to the last round of labor negotiations, HRD did a number of things well:

- Planning for negotiations was done on a continual basis. HRD staff maintained a log of issues/problems that arose since the previous round of negotiations so that they could be addressed. In addition, well before the expiration of MOUs, HRD solicited input from agencies/departments concerning problems they wanted addressed.
- The quality and quantity of information provided to the CEO and Board was consistent with professional standards. Sufficient time was allotted to the CEO and Board to adequately review and respond to the issues involved.
- The County's bargaining teams were organized to make optimal use of available staff. HRD staff typically served as the Lead Negotiator, with other HRD staff members, County Counsel, CEO/Budget, and agency/department representatives serving in supporting roles. The audit team, however, noted an operational opportunity cost to the HRD organization as a whole from using the HR Director as the Lead Negotiator. Specifically, the negotiation process requires the HR Director to spend considerable time away from day-to-day management and important strategic issues of the department.
- The County negotiators for the largest bargaining units (AOCDS, OCEA) had a good grasp of the issues and used a positive, management-oriented approach in pursuing the County's objectives and dealing with their union counterparts.

Opportunities for Improvement

Alongside the above accomplishments, the audit team identified several areas for improvement, which are presented in the section that follows. Later in the report, the audit team discusses the impact of current roles and responsibilities on labor negotiations (see HRD Organizational Structure).

Negotiating Practices

Finding 24: Some HRD negotiators for the smaller bargaining units do not feel sufficiently trained to effectively fulfill their role.

During interviews with HRD staff, some felt that they had been insufficiently trained in the rules of bargaining and the applicable tools/techniques to effectively fulfill their role as Lead Negotiators. Given the criticality of employment terms and conditions, and the large sums of money at stake, this should not be the case.

Recommendation 24: HRD should only assign Lead Negotiator duties to employees that are confident in filling this role.

Finding 25: The lack of HRD staff participation in professional organizations/events has a negative impact on identifying/utilizing creative approaches to addressing negotiation issues.

Although HRD staff worked diligently, it did not always appear that they sought alternative solutions that other municipalities have adopted during negotiations. For example, the County's discipline system contains only a handful of disciplinary tools (e.g., reprimand, suspension, discharge), some of which can be costly in comparison to viable alternatives such as pay reductions and vacation debits used by other public organizations. Another example is the absence of a health in-lieu medical plan, discussed earlier, which can represent significant cost savings to an employer.

One way for HRD staff to stay current with industry trends/best practices and to identify solutions to common HR problems is to participate in state or regional professional organizations/events. HRD staff reported that there is little involvement in such organizations. The result is a lack of familiarity with many cost-savings alternatives.

Recommendation 25: Ensure key staff have the time and resources to participate in professional organizations to keep up with industry best practices.

Finding 26: There are some "Side Agreements/Letters" with the various labor organizations that should be part of MOUs.

Over the years, the County has negotiated several side agreements with various unions. Side Agreements/Letters are documents separate and apart from MOUs that are typically used by the parties to address negotiation issues such as:

1. The parties' intent to continue discussions on a certain issue
2. Agency/department specific issues
3. Less substantive issues

However, the County has developed several side agreements that address more substantive issues such as the procedure used to select arbitrators for AOCDS disciplinary cases and to define certain types of overtime pay rates. The use of side agreements for such purposes is not consistent with best practices and is problematic because important issues should be part of the MOU, subject to Board scrutiny.

Recommendation 26: Review all side agreements/letters to determine which should be incorporated into an MOU or other official document.

Finding 27: County Counsel is not always consulted on the legal implications of proposed MOU changes or Side Agreements/Letters; in cases where they are consulted, HRD does not always accept their advice.

Three examples illustrate this finding. The first example pertains to Annual Leave Payoff language included in two MOUs. Specifically, current MOU language in the Operations & Service Maintenance MOU (p. 46-47) and the Peace Officer MOU (p. 51) detail the County's agreement with these labor organizations on how employees separating from the County will be paid unused Annual Leave balances. Prior to implementation, County Counsel had identified certain legal risks connected with the current language, but HRD chose to disregard this advice.

In the second example, in July 2010, HRD, in consultation with OCEA, developed "Annual Leave Payoff on Retirement Guidelines for OCEA Bargaining Units." In this instance, County Counsel staff stated that HRD did not seek its input on these guidelines prior to their implementation.

The third example pertains to the selection of arbitrators for AOCDS employee grievances/disciplinary appeals. During the most recent AOCDS negotiations, HRD consulted with County Counsel on the selection of names for the panel, given that County Counsel represents the County in such proceedings. However, the final list of arbitrators was not confirmed by County Counsel, nor was County Counsel made aware prior to the final agreement that some choices directly contradicting their advice were included.

Recommendation 27: Confer with County Counsel on the legal ramifications of all proposed agreements with labor organizations prior to implementation. In those cases where there is disagreement but HRD wishes to move forward, HRD should submit the issue to the CEO for resolution.

Finding 28: The current practice of utilizing the HR Director as the Lead Negotiator for the largest bargaining units: 1) has negatively impacted HRD's capacity to make internal operational improvements, and 2) significantly increases the risk that the County will be insufficiently prepared for the 2012 labor negotiations.

Negotiations are an extremely time and energy consuming process. When negotiations are underway, staff is planning for, involved in, implementing, or interpreting the results from the bargaining table; there is little time for anything else. As such, when the HR Director is the Lead Negotiator for the largest bargaining units (i.e., OCEA, AOCDS), there is insufficient time allocated for the bulk of assignments an HR Director should be involved with, such as:

- Strategic Planning
- Organizational improvement
- Operational efficiency
- Oversight of agency/department HR activities
- Leadership on Countywide HR issues

This finding is consistent with, and a partial explanation for, the deficiencies noted in this report. At the present time, the HR Director is unable to devote sufficient time to the primary aspects of the job which, as this audit demonstrates, is having a significant negative impact to the organization.

In addition, from a Countywide perspective, twelve of the County's fourteen bargaining units (which cover approximately 88% of the workforce) MOUs expire in 2012. Given the County's persistent financial shortfalls and the current public sentiment for austerity in public employee compensation, the opportunity these negotiations present cannot be overstated. Specifically, the County and labor organizations have an opportunity to negotiate MOU changes that address the County's structural budget deficit.

Unfortunately, the County's primary employee relations manager is retiring within the next few months, and there is no plan to replace this individual. In addition, the HR Director, who has expressed his intent to retire within the next year, will be fully burdened with addressing the many findings and recommendations contained in this report. Even absent this significant additional workload, as noted earlier, the practice of using the HR Director as the Lead Negotiator has had negative impacts to HRD. Thus, without a change in practice, the County's preparations for the 2012 negotiations are in jeopardy of being insufficient. Therefore, the County should take immediate steps to begin planning for how it will maximize its effectiveness at the bargaining table. Moreover, the audit team recommends that the County use the services of an outside negotiator for the MOUs that have 2011 salary reopeners and for the 2012 negotiations. Although the services of such a negotiator can be expensive, there are number of reasons to consider this approach:

1. Negotiation strategies and results have long-term impacts; consequently, the return on investment from utilizing a contract negotiator warrants making such an investment.
2. It will take considerable skill to negotiate many of the needed high value changes to salaries and employee benefits. An outside negotiator can bring a breadth and depth of labor relations knowledge and experience that a generalist HRD negotiator may not possess.
3. It will allow the HR Director to concentrate on addressing opportunities for improvement and maintaining positive relationships with employees and their labor organization representatives.

This recommendation is further supported by the fact that the vast majority of County agencies/departments are in favor of this approach.

Recommendation 28:

- a) Engage an outside negotiator for the MOUs which have a 2011 salary reopener and for the larger bargaining units whose contracts expire in 2012 (e.g., AOCDS, OCEA)
- b) Hire a Chief of Employee Relations who will directly manage all of the County's employee relations programs and activities, including negotiations, for the long term.

Memoranda of Understanding (MOUs)

The audit team examined County MOUs in terms of the efficiency/effectiveness of contract language, as well as the helpfulness and clarity of MOU document structure.

MOU Negotiated Language Findings and Recommendations

Overall, County MOUs contain a number of sound financial provisions and requirements. For example:

- The “reverse pick-up” of employer contributions by non-safety employees for the “2.7% @ 55” pension formula is positive and uncommon among California municipalities. A growing number of agencies require employees to pay all or part of their own contribution, but few require the *employee* to pay any part of the *employer* contribution.
- The new “1.62% @ 65” pension formula for new non-safety employees is innovative, although the results will not be known for some time. In addition, newly hired safety employees will be under the lower tier “3% @ 55” formula, in line with an emerging state-wide trend.
- Requiring employees in the AOCDS bargaining unit to pay a portion of their own pension is a step in the right direction, consistent with best practices in California.
- A number of California municipalities have MOU language that *requires* employer pay to be based on that of other agencies. This practice can remove flexibility in making pay decisions from those who are elected to make such decisions. On a positive note, the County has no such language in its MOUs.

Alongside these positive efforts, there are also a number of MOU provisions that are less favorable to the County, some of which were reciprocal to the gains noted above.

Finding 29: There are a number of changes that could be made to current MOU language that would better position the County to manage its employees and resources.

Some of the more significant language changes include:

1. “Zipper” Clause – The AOCDS, Eligibility Worker, and Craft and Plant contracts have a “zipper” clause which precludes the parties from discussing issues when they come up during the term of the MOU, unless the parties mutually agree to enter into discussions. The audit team and County management interviewed on this issue believe that this language (which is not contained in other County MOUs) should be removed from the contracts. The zipper clause is a major obstacle to resolving mutual problems as they arise and has been used quite extensively by AOCDS as a means to defer important issues until the next round of labor negotiations.
2. “County Rights” Language – The current County Rights language in MOUs is sparse and should be supplanted with the more detailed language contained in the County’s Employee Relations Resolution (ERR).³² Without detailed Rights language, it is not always clear who (management, the labor organization, the employee, or a combination thereof) has the authority to make decisions.
3. Workplace Disruptions/Concerted Activity – This language is weak in County MOUs; more detailed language is found in the County’s ERR. In periods of labor unrest, it should be very clear to all parties what types of activity will not be condoned. More detailed language would help reduce the possibility of workplace disruptions by making clear the sanctions.
4. “Special Seniority for OCEA Officer” – The OCEA General Unit MOU has language that provides “special seniority” for OCEA officers in the event of a layoff. Based on the audit team’s research, it is believed that few, if any other municipalities provide this benefit. This language is contrary to the State’s merit system principles which govern the County’s personnel system.
5. Premium Pays – The audit team surveyed the County’s Data Warehouse to determine the total cost of County premium pays. The CAPS database is incomplete, missing several known premium pays; however, it provides an approximate magnitude of what the County annually pays for premium pays (\$21 million). A number of these are addressed in the Cost Savings Options section of this report; however, two of them warrant particular attention.
 - a. Bilingual Pay: There is little evidence that management monitors Bilingual Pay on a periodic basis to ensure that employees who receive this pay

³² See further discussion of the ERR later in this section of the report.

consistently utilize the skill in their positions as required by the MOU. Such reviews would ascertain the need for continuing payments only as necessary and could result in reduced expenses for the County. Bilingual Pay is awarded to more than 3,180 employees at an annual cost of \$7.1 million. Each 5% reduction in the number of recipients would result in \$356K of savings on average.

- b. **Confidential Pay:** Certain employees/positions have been identified that "...are required to develop or present management positions with respect to employer-employee relations, or whose duties normally require access to confidential information contributing significantly to the development of management positions on issues." This premium pay (5.5% of pay for non-management positions and 3% of pay for a 401(a) contribution to management employees) was initially given to certain employees of the County Executive Office, some Countywide HR managers, and some County Counsel employees. Although eligibility for this program has been reduced through negotiations, there are still 24 non-managers and 29 grandfathered management employees who receive this pay at a cost of approximately \$203K in 2010.

Recommendation 29: Pursue the MOU modifications described above (i.e., Zipper Clause, County Rights Language, Workplace Disruptions/Concerted Activity, Special Seniority for OCEA Officer, and Premium Pays).

MOU Structure Findings and Recommendations

Finding 30: There are a number of improvements that could be made to the structure of County MOUs that would increase the effectiveness of the documents.

Though formatting of MOUs is not a pressing issue, more attention to the quality and consistency of the documents themselves will enhance the overall professionalism and precision of the negotiation process. These format changes include:

1. Clear and Precise Language – Most MOUs lack clear and precise language in a number of places. This has been confirmed in interviews with both HRD and County Counsel staff. An example is the absence of clear definitions for the terms "base rate" and "regular rate." These terms have very different meanings for pay purposes, and the failure to make the distinction can have financial

consequences for both parties. Best practice MOUs are written in a manner such that they can be easily understood by a third-party (e.g., field supervisor, payroll technician, or an arbitrator).

2. Reformatting for Consistency and Ease of Use – The subject matter of County MOUs is not always ordered effectively, nor is all the language on a given topic all in one location. This makes it harder for a third party to determine if the underlying policies apply from one bargaining unit to another.

Recommendation 30: Utilize a subject matter expert from outside the County or provide training to an in-house resource to review the existing MOUs in depth, with the goal of better formatting and structuring future MOU documents.

Employee Relations Resolution

As previously noted, the State of California first authorized collective bargaining for local government via the Myers-Milias-Brown (MMB) Act of 1969. Like many public agencies, the County soon thereafter developed an Employee Relations Resolution (ERR) to implement the new law. The County's ERR contains procedures for the establishment of bargaining units, the conduct of negotiations with labor organizations, and resolution of impasses.

Finding 31: The Employee Relations Resolution (ERR) is outdated and in need of revision.

The County's ERR was last revised in 1990, 21 years ago. The audit team's review of the document shows that it contains some outdated language (e.g., the definition of a professional employee and an unrealistic timeline for the submission of union proposals). In addition, some language in the ERR would be helpful to include in the various County MOUs (e.g., employee attendance at union meetings).

Recommendation 31: HRD, in conjunction with County Counsel, should review and update the ERR as needed.

Labor Organization Financial Data

Finding 32: HRD has not requested labor organization financial reports as provided in the MOU.

The County has not requested, nor do the labor organizations offer, the union's Annual Financial Report as provided in the MOUs. When questioned on this, HRD stated that they were only vaguely aware it existed. As a result, the County does not receive financial information about the labor organizations.

Recommendation 32: Per the MOUs, require the labor organizations with financial reporting requirements to submit those reports each year.

Employee Discipline & Appeals

In order to maximize productivity and minimize risk (e.g., lawsuits, returning problem employees to the workplace), public organizations must ensure that they have an effective employee discipline and appeals program. HRD oversees this program Countywide and shares responsibility for its implementation with agencies/departments.

In terms of employee discipline administration, agencies/departments can implement all forms of discipline on their own authority, with the exception of employee discharge; however, they are encouraged to seek the assistance of HRD and/or County Counsel where appropriate. All discharge cases must be reviewed and approved by the HR Director (including discharge cases of elected department heads) prior to implementation. In terms of disciplinary appeals, initial appeals are administered by agencies/departments; however, appeals that go to arbitration are handled by HRD and/or County Counsel.

State Regulations

The State Local Agency Personnel Standards (LAPS) pertaining to employee discipline and appeals are located in Merit Principles 4 and 5. Pertinent parts include:

Merit Principle 4

1. General Requirement: Employees shall be retained on the basis of the adequacy of their performance, and provision shall be made for correcting inadequate performance and separating employees whose inadequate performance cannot be corrected.
2. Separation: Employees who have acquired permanent status shall not be subject to separation except for cause or such reason as curtailment of work or lack of funds. Procedures will be established to provide for the separation of employees whose performance continues to be inadequate after reasonable efforts have been made to correct it.

Merit Principle 5

1. General Requirement: Fair treatment of all applicants and employees in all aspects of personnel administration will be assured, without discrimination and

without regard to political affiliation, and with proper regard to their privacy and constitutional rights as citizens.

2. Employee/Management Relations: There shall be written procedures for resolving employee grievances and discrimination complaints. To the maximum extent possible, the procedures should include steps to resolve discrimination and all other types of employee grievances without recourse to formal appeals procedures.
3. Appeals: in the event of separation for cause or demotion for cause, local agencies shall provide permanent employees in covered programs with the right to appeal through an impartial process that results in timely, enforceable decisions.

Accomplishments

The following are strengths of the County's employee discipline and appeals system:

- The audit team did not find any instances of non-compliance with applicable laws and industry best practices.
- HRD and County Counsel are available to assist agencies/departments in disciplinary issues prior to implementation. In cases of discharge, their involvement is required. This level of review helps ensure thorough consideration of all issues, thus improving the County's success rate in any third-party reviews.
- CEO and HRD have worked diligently over the past few years to reduce the amount of time employees remain on paid Administrative Leave pending the outcome of pre-disciplinary investigations.
- The appeals system, with one important exception (i.e., binding arbitration), facilitates the County's objectives.

Opportunities for Improvement

The audit team identified several significant areas for improvement which are documented below.

Finding 33: HRD does not keep important statistics and metrics regarding the discipline/appeals process.

Although HRD's operational performance in employee discipline/appeals is satisfactory, coming to this conclusion was difficult due to the lack of available documentation. Until pertinent information was requested for this audit, there were few readily available reports with workload indicators or performance measures maintained by HRD. The audit team did receive data on the number and types of grievances filed during FY 2009/10, but there was no corresponding data for earlier years to compare against.

Recommendation 33: Develop performance measures and procedures for the tracking of important employee discipline/appeals information and statistics.

Finding 34: The current MOU requirement of binding arbitration is considered a major obstacle to an effective employee discipline and appeals program by HRD, County Counsel, CEO, and agency/department management.

Currently, many County MOUs stipulate that unresolved disciplinary and contract interpretation appeals be settled in arbitration, with the arbitrator's decision binding on both parties.³³ County management is opposed to binding arbitration because they view the process as time consuming and expensive, and there is a greater likelihood that an arbitrator will "split" the decision and return an employee to work even though an egregious offense may have occurred or rule against the County in a costly contract interpretation issue. The preferred method for the County would be for the administrative appeal process to end within the County organization, subject to judicial review.

Recommendation 34: Pursue the discontinuation of binding arbitration during labor negotiations.

Finding 35: There are frequent delays in getting to arbitration.

LAPS state that employee disputes should be resolved in a timely manner. HRD and labor organization staff (i.e., OCEA) indicated that there were long delays in getting to arbitration, with some of the reasons being the availability of the parties, as well as the

³³ Arbitration decisions related to discharges of OCMA and Executive Management (except at-will releases) are "advisory" and non-binding.

availability of a small number of agreed-upon arbitrators. Untimely resolution of these cases has negative implications for the County: (1) if the County loses the case, the potential substantial cost of any back-pay judgment, and (2) the difficult decision of where to place the returned employee.

Recommendation 35: During the next round of negotiations, pursue alternatives such as limitations on the types of issues that can go to arbitration and the use of additional arbitrators.

Finding 36: There is notable disagreement and frustration between HRD and some agency/department management with respect to the handling of some employee discipline cases.

Specific issues raised by agency/department management include:

1. A perceived lack of HRD staff knowledge of agency/department operations that negatively impacts HRD's ability to adequately judge the appropriate level of discipline that should be administered to an employee.
2. HRD conducting, at times, full investigations without first determining, through a preliminary review/assessment, if there are sufficient facts to warrant such an approach. Agencies/departments noted that conducting full investigations of unsubstantiated issues cause considerable waste of scarce resources, including the opportunity costs of time away from regular duties for a potentially large number of employees, significant negative impacts to morale, and the indirect encouragement of frivolous allegations.
3. The feeling from some agencies/departments that HRD will not support agency/department decisions if discipline actions are not sustained in arbitration.

Recommendation 36: HRD should provide a series of work sessions with agencies/departments to review any issues related to the employee discipline process and the handling of specific employee discipline cases where the two parties disagreed.

Performance Appraisal

Effective performance appraisal systems are key to ensuring that employees perform at a satisfactory level, pursue an organization's goals and objectives, and are fairly rewarded. This section of the report describes and evaluates (1) the County's three major performance appraisal systems, (2) overall County compliance with the requirement to complete performance appraisals for all employees, and (3) HRD's administration of performance evaluations for its own employees.

State Regulations

The State Local Agency Personnel Standards (LAPS) pertaining to employee evaluation are included in Merit Principle 4: "Local agencies should establish a systematic method of evaluating employee performance which should influence such personnel management decisions as merit salary adjustments, need for training, and order of layoff."

County Appraisal Systems

The County of Orange has three major performance appraisal systems³⁴:

1. Performance Incentive Program (PIP) for non-management employees
2. Pay for Performance (P4P) for Administrative Management employees
3. Executive Management Appraisal Program (EMAP)

Performance Incentive Program (PIP) for non-Management Employees

Non-management positions represent approximately 93% of the County's 17,327 authorized positions. PIP was created approximately ten years ago to "...fairly appraise, motivate and reward [non-management] employees throughout the County..." There are two primary components of the PIP appraisal:

1. Core Competencies: An evaluation of an employee's achievement of the position's core competencies (e.g., job knowledge/skills, work habits, productivity, interpersonal skills). The results of this evaluation determine the employee's eligibility for a Merit Increase along a 12-step salary range.

³⁴ There are other appraisal systems for specific bargaining units, such as AOCDS and OCAA.

2. PIP Goals: Each year, employees are required to develop at least one performance goal for accomplishment. That goal can either be an agency/department goal or a personal development goal. PIP provides for a supplemental compensation award (in addition to the Merit Increase) for the achievement of the PIP goal(s). When PIP was initially created, the award for achieving the PIP goal(s) was an employee's choice of either a 2% of base salary cash award or 40 hours of PIP Leave (i.e., time off work). In 2004, the award changed to only include the crediting of 40 hours of PIP Leave to the employee.

The core competency portion of PIP has provided an effective means of overseeing an employee's annual performance and has served as an adequate basis for an employee's movement within his/her salary range (i.e., Merit Increase). However, the second component, PIP goal(s), has proven to be problematic.

Finding 37: The goal element of PIP has not achieved its intended purpose of enhancing non-management employee performance, and instead has resulted in significant cost increases and productivity losses.

The goal portion of PIP has substantial operational and financial deficiencies as acknowledged by HRD and agencies/departments:

- Employees with only "standard" performance in core competencies are eligible to receive an additional performance award (PIP). In CY 2010, approximately 95% of all non-management employees received a PIP award, despite the intent of PIP to reward only top performers.
- There is a "PIP Conciliation Process" available to those employees who are denied a PIP award (in CY 2010, 469 employees were denied PIP awards). In that process, an employee may request internal department mediation, and if unsuccessful, may request a hearing by a neutral third party. This process involves an inordinate amount of administrative time and discourages supervisors from denying a PIP award.
- Given the large number of employees receiving a PIP award, costs have been higher than anticipated in terms of both salary expenses (previously) and productivity loss from the additional use of PIP Leave (currently).
- Employees and supervisors have had difficulty in identifying meaningful PIP goals.

As a result of these deficiencies, the County, from 2004 to 2008, negotiated with labor organizations to reduce the number of employees eligible to receive a PIP award by 2,000+ positions and to discontinue the 2% of base pay cash option (leaving only PIP Leave as the reward). Notwithstanding these changes, PIP Leave awards were given to 9,812 employees in CY 2010. This represents approximately 392,500 hours of PIP Leave granted to employees annually, the equivalent loss of productivity of 189 FTE positions. Thus, it is clear that the original intent of “achieving performance excellence” is not being accomplished by this program.

Recommendation 37: The County should pursue the discontinuation of the PIP Goal award at the next round of negotiations with OCEA.

Pay for Performance (P4P) for Administrative Management Employees

Administrative Managers (AMs) constitute approximately 6% of the workforce. Over the years, AMs have been compensated in one of two ways: (1) merit pay increases, and/or (2) general increases for all managers. Under the first option, the County has implemented a number of different programs (i.e., Salary Pool, Management Appraisal Program (MAP), and now Pay for Performance (P4P)). These programs have all been built around a similar framework. Under these systems, the Board annually approves a pool of funds (i.e., a certain percentage of AM payroll) to be dispersed among AMs based on their performance rating and location along their salary range.

The mechanics of the current P4P are as follows:

- A performance rating evaluation form is used to document and rate employee performance.
- Merit increases are only available to AMs with an above standard or better performance rating.
- The amount of money available for Merit Increases is negotiated between OCMA and the County as a share of AM payroll; in 2010, this amount was 2.5%. Each agency/department is subsequently given 2.5% of its AM payroll as the pool of funds available for distribution.
- Specific employee Merit Increase amounts are determined by agency/department management according to their performance rating (above standard, outstanding) and constrained by the requirement for the agency/department to remain within its pool allocation of funds.

Finding 38: A review of Management P4P results suggests that the program is not being applied consistently across the County.

In order to assess the efficacy of the Management P4P Program, the audit team reviewed a summary, by department, of P4P results. The table below indicates that some agencies/departments are utilizing a higher level of rigor in assessing managers' performance, while others have a more relaxed standard.

Pay for Performance Actions (CY 2010)

Agency	# "Exceptional"	% Exc.	# of "Exceeds Expectations"	% EE	# of "Meets Expectations"	% ME	# of "Needs Improvement"	% NI	Total Managers
Health Care Agency	52	30%	92	53%	26	15%	2	1%	172
Social Services Agency	32	19%	103	62%	31	19%	1	1%	167
Auditor-Controller	31	38%	43	53%	7	9%	0	0%	81
OC Public Works	11	20%	26	48%	17	31%	0	0%	54
OC Community Resources	5	11%	26	57%	15	33%	0	0%	46
Sheriff-Coroner	29	66%	15	34%	0	0%	0	0%	44
Probation	23	59%	16	41%	0	0%	0	0%	39
County Executive Office	11	32%	12	35%	11	32%	0	0%	34
John Wayne Airport	7	22%	20	63%	5	16%	0	0%	32
OC Waste & Recycling	8	28%	15	52%	6	21%	0	0%	29
Child Support Services	5	20%	13	52%	7	28%	0	0%	25
Information Technology ISF	5	21%	10	42%	9	38%	0	0%	24
OC Parks/CSA 26	6	26%	15	65%	2	9%	0	0%	23
Human Resources/Employee Benefits	4	17%	15	65%	4	17%	0	0%	23
OC Flood	1	6%	10	63%	5	31%	0	0%	16
Internal Audit Department	1	7%	14	93%	0	0%	0	0%	15
Treasurer-Tax Collector	5	36%	8	57%	1	7%	0	0%	14
OC Housing	2	14%	9	64%	3	21%	0	0%	14
Assessor	1	9%	10	91%	0	0%	0	0%	11
District Attorney	4	36%	7	64%	0	0%	0	0%	11
OC Road	0	0%	7	64%	4	36%	0	0%	11
County Counsel	5	50%	5	50%	0	0%	0	0%	10
Dept. w/ < 10 managers	19	21%	46	57%	16	18%	1	1%	91
Grand Total	267	27%	537	55%	169	17%	4	0%	977

Note: "Exceptional" is the highest possible rating, followed by "Exceeds Expectations," "Meets Expectations," and "Needs Improvement."

The consequences of these inconsistencies can (1) reduce the incentive of employees to perform because the reward pool is shared among a greater number of people, thus the reward to top performers is diluted, and (2) result in employee confusion/frustration when higher/lower performance standards are applied across different agencies/departments.

While HRD recently established a Calibration Committee to review a percentage of P4P evaluations in an effort to identify weak evaluations, HRD has not taken the initiative to ensure greater consistency in this program.

Recommendation 38:

- a) Consider the efficacy of increased performance evaluation training for management/supervisors
- b) Work with the CEO to implement a stronger accountability structure for evaluators' adherence to established guidelines contained in the P4P program.

Executive Management Appraisal Program (EMAP)

Finding 39: The current EMAP performance evaluation process is loosely defined, and the EMAP evaluation form requires modification.

County executives are to be evaluated annually using the EMAP form. Compensation awards are typically given at the same time and in the same amount as Administrative Management employees, although for the period of July 2009 to December 2010, Executive Manager salaries were reduced by 5% as a temporary cost savings measure. Executive Managers also went two years without a performance increase under EMAP.

After a review of the EMAP process, the audit team identified the following areas for improvement:

- There are no guidelines for the administration of the EMAP process or for the evaluation of Executive Management employees, only a blank evaluation form available on-line.
- Language at the bottom of the EMAP form suggests that a performance-based salary increase should be granted for standard or better performance. This is different from the Administrative Management P4P appraisal program which requires that an employee receive an above standard or better performance rating to be eligible for a Merit Increase.

Recommendation 39: Develop a more formal and robust Executive Management appraisal system that includes guidelines and is consistent with the standards of the Administrative Management P4P Program.

Countywide Performance Appraisal Compliance

A standard HR best practice is for organizations to complete employee performance evaluations on a regular basis. This practice ensures that employee performance goals are in alignment with an organization's strategic objectives, employees are accountable for their work product, and rewards are justified based on documented performance.

In an effort to measure the County's success with preparing annual performance evaluations for its employees, the audit team examined two populations in the OnBase document management system and searched for the presence of recent performance evaluations, as required. The two populations were: (1) a randomly generated sample of 100 non-executive County employees, and (2) all non-elected, non Board-appointed Executive Managers.

For the 100 non-executive random sampling, 91% had evaluations for 2009 and 94% in 2010. Agencies/departments should be commended for their efforts in this area. However, the results for Executive Managers are less consistent.

Finding 40: HRD does not do a thorough job monitoring and ensuring that Executive Managers receive an annual performance evaluation, especially when benchmarked against general employees.

For the approximately 85 non-elected and non-Board appointed Executive Managers, only 38% of performance evaluations were in the system for 2009; for 2010, only 29% of performance evaluations were in the system. When questioned about the lack of completed executive management evaluations, HRD stated that it is the responsibility of each agency/department to ensure compliance. Having no formal accountability structure for completing and filing performance evaluations is troubling given that Executives are generally the highest paid County employees and are responsible for the management of County government operations.

Recommendation 40: The CEO, through HRD, should ensure the completion of annual performance evaluations for all County employees.

HRD's Administration of Performance Appraisals for its own Employees

Performance evaluations for all HRD management employees were reviewed for 2009 and 2010. HRD has done a commendable job in ensuring that these evaluations are

completed annually. The content of the evaluations, however, highlight several issues requiring remediation.

Finding 41: A notable number of comments in HRD management performance evaluations are inconsistent with the associated performance rating score given.

HRD's self-acknowledged role in the County is to be a leader and subject matter expert on HR issues. This includes effectively using the performance appraisal system to document employee performance and identify and discuss areas for development/improvement. However, the audit team's examination of HRD management performance evaluations for both 2009 and 2010 revealed a consistent deficiency.

On the management rating scale, a "1" rating is "Needs Improvement," a "2" rating is "Meets Expectations," a "3" rating is "Exceeds Expectations," and a "4" rating is "Exceptional Performance." Given that HRD employees should be the County's HR subject matter experts and that many of their positions/employees are classified and compensated at levels equivalent to agency/department HR Team Leaders, it is a reasonable goal for all HRD management employees to perform at either the "3" (Exceeds Expectations) or the "4" (Exceptional Performance) level. If this is not the case, then areas for development/improvement should be identified and documented in an individual employee's performance evaluation. Unfortunately, this is consistently not the case.

In many cases, the performance assessment text did not match the rating given in a particular performance category (e.g., Results, Judgment/Decision Making, Effective Communication). In every case where an employee received a "2" (Meets Expectations) rating in a specific performance category, there were only positive comments about the employee's performance, and no identified areas for improvement. In fact, if one were to read the comments without knowing the rating, one would assume that that the employee had received a performance rating of at least "3" (Exceeds Expectations) or higher. When HRD Executive Management was asked about the absence of identified areas for improvement in many evaluations, they pointed to a general reluctance to not include negative comments due to the negative impact it could have on the employee's future.

This approach to performance evaluations is highly problematic because:

- It violates County policy on preparing accurate performance evaluations.

- By failing to identify areas for development/improvement, there is no basis for employee discipline should an employee lapse into deficient performance.
- It erodes HRD's credibility as a role model for those policies it promulgates and expects other agencies/departments to follow.

Recommendation 41: HRD should adhere to State standards and County policies and fulfill its leadership role in performance appraisal by accurately documenting HRD employee performance and including suggestions for employee performance improvement where appropriate.

Recruitment

Attracting top talent is vital to an organization's success. Although in tough economic times organizations may focus more on workforce reduction strategies than hiring, maintaining an active recruitment strategy is critical. Like many organizations, the County is faced with both the impending retirement of baby boomers and those vacancies created by cost saving measures to employee salaries and benefits which incentivize retirement. Currently, 34% of the County's workforce is 50 years old or older, 49% is 45 years old or older, and once the market improves, competition for new employees will be high.

State Regulations

The State Local Agency Personnel Standards (LAPS) pertaining to recruitment are included in Merit Principle 1. The more pertinent parts include:

1. General Requirement: Recruiting, selecting and advancing employees shall be on the basis of their relative ability, knowledge and skills, including open consideration of qualified applicants for initial appointment.
2. Recruitment: Recruitment efforts shall be planned and carried out in a manner that assures equal employment opportunity and open competition for initial career service appointment for all job applicants.
3. Selection:
 - a. Selection procedures, including appropriate ranking for entry to the career service, shall be job related and shall maximize to the extent practicable validity, reliability and objectivity.
 - b. Appointments to permanent career service positions shall be made through selection from appropriately ranked eligible lists.
 - c. Permanent appointment for entry to the career service will be contingent upon satisfactory performance by the employee during a reasonable, time-limited probationary period.
 - d. Non-status appointments shall not be used as a way of defeating the purpose of the career services and shall have a reasonable time limit (i.e., one year).

Accomplishments

HRD's philosophy is that recruitment-related activities should be maintained even during economic downturns. As a result, HRD has accomplished the following in regard to recruitment:

- In early 2010, HRD updated its Selection Procedures in response to a 2008 Grand Jury report entitled "Orange County Human Resources Procedures: Out of Date, Out of Time" which criticized the County for not having revised its procedures since 1978.
- A "Recruitment Task Force," formed in 2005, continues to meet on recruitment topics such as workforce planning, streamlining processes, communications, and social media as a recruiting tool.
- HRD developed a "Recruiter Orientation Program" in 2009 which has trained 99 recruiters, HR managers, and HR analysts Countywide.³⁵

Improvements In-Progress

2010 State Review of County HR Compliance with LAPS

In 2010, the State, through its consultant, CPS Human Resource Services (for the California Personnel Board), performed its periodic review of County HR practices for compliance with LAPS. CPS determined that the County did not meet standards in either its Recruitment or Selection procedures for the following reasons:

1. Some recruitments had been posted for less than the required five working days.
2. Some recruitments did not set reasonable pass points. In some cases, the pass point was set at the lowest score, resulting in every candidate proceeding to the next stage of the recruitment process.
3. Agencies/departments were not following rules for certifying top candidates for final interviews, as outlined in the Merit Selection Rules.
4. There were instances where extra help employees were retained beyond the allowable time limit (i.e., one year).

³⁵ 24 of the 99 have completed the entire 5 part series. The five courses that comprise Recruiter Orientation Training are: Human Resources Professionals Our Foundation, Recruiter Competencies, Job Analysis, Recruitment Training, Competitive Assessments, and Closing the Deal.

CPS's overarching recommendation was that HRD increase its oversight of agency/department recruitment and selection activities. HRD's December 2010 response to the CPS audit outlined its plan of action to address the issues identified above. These actions included 1) increasing HRD's recruitment and selection oversight efforts (completed), 2) developing a pass point setting instruction guide as a resource for County staff (in progress), and 3) submitting new written certification procedures to better guide agency/department staff in the proper implementation of certification rules (in progress).

Opportunities for Improvement

Finding 42: HRD does not track key recruiting and hiring metrics for itself or agencies/departments.

For an organization to ensure that its recruiting efforts are effective and efficient, pertinent performance metrics should be developed and tracked. Currently, HRD does not track any recruitment/hiring metrics, including standard industry measures such as Time-to-Hire and Cost-per-Hire. Also, while agencies/departments may be tracking their own metrics, HRD does not request this information or have formal oversight, which inhibits HRD's ability to identify agencies/departments that may need assistance with improving recruitment processes. In 2004, HRD led a Countywide pilot effort to track Time-to-Hire using a manual process (i.e., agencies/departments input hire data into an Excel spreadsheet); however, that effort has not continued.

One issue that hinders HRD's ability to automate the tracking of key statistics is that the information entered into the NEOGOV³⁶ workforce management system by HR staff across the County is often incomplete. For example, hiring managers will often forget to mark a candidate as "hired" once they are hired into the County. Though the increase in recruitment compliance reviews will help HRD ensure that agency/department HR employees are entering necessary information into NEOGOV, HRD should not rely on these reviews, as they are only conducted on a limited basis (for only 10% of recruitments). Instead, HRD should develop and run regular reports that identify missing information and hold agencies/departments accountable (e.g., running a report that compares Hires by Department in NEOGOV with New Hires in the CAPS data warehouse).

³⁶ NEOGOV automates the entire hiring process for the County, including position requisition approval, automatic minimum qualification screening, test statistics and analysis, and EEO reporting.

As part of its Countywide oversight responsibility, HRD should take a leadership role in the performance measurement of recruiting activity across the County. HRD is currently in the process of developing its Balanced Scorecard, which should help address this gap. In developing its Balanced Scorecard and selecting metrics to track, HRD should be careful of possible undesired consequences of tracking certain metrics. For instance, Cost-Per-Hire, the most common measurement applied to recruiting, only looks at the initial cost of hiring a candidate and not the long-term cost associated with hiring the wrong candidate. According to the publication *HR Management*³⁷, focusing purely on initial cost will drive recruiters to fill a position without regard to the quality of the hire or the long-term production the candidate will or will not deliver. Similarly, the Time-to-Hire/Fill metric does not take into consideration the long-term cost associated with turnover and hiring the wrong candidates. Recruiters may be motivated to fill a position quickly with the wrong candidate. Therefore, in addition to these metrics, HRD should also consider other, sometimes qualitative, metrics such as Quality-of-Hire³⁸, Manager Satisfaction, and Candidate Satisfaction.

A noteworthy point is that tracking these metrics will result in an increase in workload to an already taxed HRD. Currently, there is only one primary person leading recruitment and selection efforts in HRD, with support from service team managers and support staff, all of whom have other responsibilities.

Recommendation 42: Take the following steps to fulfill HRD's oversight role of Countywide recruitment activities:

- a) Run regular reports in NEOGOV and CAPS Data Warehouse to determine whether agencies/departments are accurately and completely entering information into NEOGOV.**
- b) Determine recruiting metrics to be included in HRD's Balanced Scorecard (currently in progress).**
- c) Consider increasing the number of HRD staff assigned to this function.**

³⁷ *Recruiting Metrics – the Rules Have Changed*, HR Management, Issue 8.

³⁸ Quality-of-hire can be assessed through a simple survey that lists each agreed-upon criterion separately and asks the manager how the employee meets each standard on a scale of 1 to 5. New hire quality can also be tracked through formal performance evaluations, production reports, etc.

Training

Training is a human resources activity aimed at improving the performance of individuals and groups within an organization. Organizations provide strong training and development programs to ensure that their employees have the requisite skills to complete their assignments and that they develop new skills to advance into leadership positions in the organization.

State Regulations

The State Local Personnel Standards (LAPS) pertaining to training are included in Merit Principle 3: “Employees will be trained as-needed to assure high-quality performance. In addition to providing training to improve performance, training should also be provided to prepare employees for more responsible assignments and to implement affirmative action plans for equal employment opportunity.”

Countywide Training

Finding 43: The County does not have a strong Countywide training program, and the current decentralized training approach creates inefficiencies.

Organization-wide or “corporate” training programs are typically coordinated through a central HR organization where there are HR professionals who are subject matter experts on employee development. Centralizing training not only increases efficiency, particularly in large organizations such as the County, but also allows the organization to ensure that its employees receive an adequate and consistent level of training. By admission of the CEO and HRD Director, training at the County is currently inadequate and was a victim of budget cuts after the 1994 bankruptcy. From a central standpoint, this core function has not recovered from these cuts. To illustrate, not only are training responsibilities and programs currently dispersed among various agencies/departments, but HRD—the central HR organization in the County—does not hold a primary role in many aspects of Countywide training. The following are examples of HRD’s minimized training role in the County:

- Within HRD, there are no dedicated training resources. Due to resource constraints, there is the equivalent of one FTE working on training issues, spread across several individuals. Without dedicated training resources, there are no HRD professionals who have the capacity to focus on training or have a significant vested interest in developing a strong Countywide training program.

The 2007 study of HRD by consultant Performance Management Partners highlighted the need to increase central training staff, recommending an increase from 1 to 3 FTEs. HRD has been unable to implement this recommendation due to continued resource constraints.

- HRD is a participant in, rather than a key driver of, the County's "Training Consortium," the primary group within the County focused on training issues. This group is composed of representatives from different agencies/departments and serves as a forum for the exchange of ideas and resources and for the communication and delivery of select training programs (e.g., P4P training, PIP training). The consortium is currently chaired by the Social Services Agency (SSA) and Child Support Services Department, both of which have strong departmental training programs.
- While some training programs have a Countywide focus, these programs are often not managed by HRD. The OC Leadership Academy/Leadership Lessons program, the Executive Development Program (currently in development), and the agreement with Brandman University for "Lunch & Learns" and discounted tuition are all directed by the County Executive Office, although HRD does function in a support capacity. HRD does organize training on specific HR topics such as the Employee Assistance Program, Equal Employment Opportunity, New Employee Orientation, and Performance Management (e.g., P4P, PIP), though these sessions are not part of a formal training strategy. One training area where HRD has improved is recruitment training, which was driven by the development of new Countywide Selection Rules (see the Recruitment section of this report).
- Agencies/departments coordinate training among themselves, without the involvement of HRD. While this collaboration among agencies/departments is positive, without HRD's leadership there is no central coordination point to ensure Countywide access and economies of scale. In addition to their own agency/department-specific technical training, some agencies/departments such as the SSA and the Health Care Agency (HCA) provide training courses that are applicable to a Countywide or cross-agency audience. For example, HCA administers a "Supervisor Boot Camp" and "7 Habits of Managers" training. When there is space available, HCA will open such training courses to employees outside its agency. Furthermore, agencies/departments have developed their own leadership development training programs, again, without the involvement of HRD. In January 2007, HCA launched its "Passport to Your Future" program designed to increase current leadership bench strength and to

build a leadership pipeline. This leadership program has extended to OC Waste & Recycling, OC Public Works, SSA, and the Auditor-Controller.

- Many training programs in the County, including Countywide programs such as Leadership Lessons, are managed online via Training Partner,³⁹ the learning management system used most widely in the County. HRD does not administer Training Partner; rather, it is administered by the Auditor-Controller, which was the first agency/department to purchase and utilize the system. HRD does support some smaller agencies/departments with select technical aspects of Training Partner; however, HRD technical support is limited and some issues must be escalated to the Auditor-Controller. In fact, there is currently no report in Training Partner that allows HRD to review all HRD-led training programs; to develop this report would require the assistance of the Auditor-Controller.

As demonstrated above, HRD's role in Countywide training is minimal. While it is understandable that the current level of resources does not permit HRD to increase its training role, there are significant consequences to the County as a whole from the lack of a central coordination point and oversight group. These consequences include the following:

- Training at Orange County is inefficient. Due to the lack of central coordination and oversight of training programs Countywide, training programs have been developed by individuals or coalitions of agencies/departments, some of which is duplicative. This results in increased costs to the County as a whole. For example, as discussed above, there are two major leadership training programs at the County: OC Leadership Academy/Leadership Lessons (CEO-led) and Passport to Your Future (HCA, SSA, OC Public Works, OC Waste & Recycling, Auditor-Controller). Although there are differences between the two⁴⁰, there is likely enough overlap that the programs can be consolidated into one broader program. Similarly, over the past several years, IT project management training contracts have been sought by at least two agencies/departments: CEO/IT and OC Community Resources. The County could reduce costs by coordinating such training through a central group (HRD), which can work to procure more favorable pricing via a volume discount.
- Not all County employees who should be trained are being trained. Large agencies/departments have the increased ability to provide their staff with

³⁹ Administration, documentation, tracking, and reporting of training programs

⁴⁰ OC Leadership Academy/Leadership Lessons, in addition to its training component, is also an affinity group/community for the discussion of leadership issues, whereas "Passport to Your Future" is focused more heavily on training all levels of staff to promote succession planning.

training opportunities. With dedicated training resources and strong training programs in place, these agencies/departments monitor participation in training courses and ensure employees within their organizations are receiving training. However, employees of smaller agencies/departments do not have the same access to training opportunities or the same level of monitoring and tracking of participation in training.

- Opportunities to collaborate are missed. A major issue with the Training Consortium is that there are only four to five agencies represented regularly at Training Consortium meetings. This is because smaller departments are resource-strapped and typically lack dedicated training staff (there may be a small staff of HR professionals that have multiple roles), so they are unable to commit the time to participate regularly. As a result, the messages communicated at the consortium meetings may not be reaching all agencies/departments and the discussions at those meetings may not always consider the needs of the unrepresented agencies/departments.
- There is no easy way to assess training needs and the effectiveness of training programs on a Countywide basis. Currently, there is no central database of who has completed training. Maintaining such a database would allow the County to document and view the skills of all its employees—a particularly useful tool when special projects require certain skill sets. Furthermore, there are no Countywide training reports and statistics tracked, and therefore, no way to assess the effectiveness and cost-benefit of training programs across agencies/departments. When data does exist, it is maintained within individual agencies/departments. As an example, during the 2010 CPS study of HRD, HRD had to gather information about training from each agency/department across the County, an inefficient exercise compared to having the data maintained by a central group.
- The decision not to fund a centralized training program since the 1994 County bankruptcy sends the message that employee development is not a priority.
- Employees seeking training opportunities may be confused about who to contact. Unlike Orange County, training in many organizations is driven through a central HR organization. Logically, when employees are looking for training opportunities, they reach out to their central HR. However, in many cases, because HRD is not the central coordination point for training, contacting HRD does not yield answers. For example, when an employee has a question about the Training Partner learning management system, they are supposed to contact their agency training coordinator, but intuitively, they may call HRD. In

a further illustration, the training webpage on ocgov.com, the County's main web portal, only says "under construction."

As mentioned previously, training is an HR function that is typically managed from a central HR organization. Many of the counties included in the audit team's benchmarking research have highly developed centralized training programs. San Diego County has an Employee Development division within its central HR organization that provides Countywide training, a leadership/management academy, and a customer service program that provides employees with the tools to provide quality customer service to the public. Similarly, Riverside County has a division within its central HR department focused on training. Its Center for Government Excellence offers management training programs, customer service academies and enrichment courses, with the vision to "build a sustainable culture of continuous learning and excellence." Finally, Los Angeles County has a learning academy that provides certificate courses, skill-building workshops, and math/writing programs.

In the survey⁴¹ of agency/department opinions on HRD performance that was conducted as part of this audit, several comments supported the desire to increase HRD's role in training, including the following:

- *I believe that HRD is understaffed to meet the multiple responsibilities they are charged with. I would like to see a formal training and organizational development function added to HRD.*
- *Due to budget constraints, Training has been cutback at the HRD level. When the County's fiscal situation improves, it will benefit the County to dedicate some additional resources to this area.*

Recommendation 43: HRD should

- a) Assign training responsibilities to a dedicated training professional within HRD (rather than partial responsibilities to 2-3 employees), with the mandate to serve as the central coordination point and oversight entity for Countywide training.**
- b) Develop a Training website on ocgov.com, including a Training Calendar that allows employees to view and enroll in upcoming training opportunities.**
- c) Develop a repository for Training Consortium meeting materials.**
- d) Analyze existing training offerings (e.g., leadership, project management) to determine opportunities for consolidation.**
- e) Develop an annual training plan for the County.**
- f) Assume the responsibility for monitoring training opportunities and communicating them to smaller agencies/departments.**

⁴¹ For complete results of the survey, see Appendix D.

Training for HR Professionals

Finding 44: Despite efforts to provide training to HR staff throughout the County, a key area of concern remains the inconsistency of HR skill sets across the County.

HR is a profession that requires specialized knowledge and skills, whether related to the intricacies of employee benefits, the laws and regulations pertaining to labor relations, or the leading practices of effective workforce development. Unfortunately, the HR discipline in many organizations is oftentimes regarded as just another administrative function, and thus, the need to hire and develop employees with valid HR experience and skills is overlooked. This is risky given that the success of an organization is directly correlated with the performance of its employees.

One issue brought up repeatedly in the audit team's interviews with stakeholders is the lack of HR subject matter expertise possessed by some HR staff. (Note: this has also been an on-going deficiency noted by several groups studying HRD over the past ten years). This may be due to filling positions in smaller departments that have many administrative responsibilities, including HR, with individuals who do not have, or have very limited, HR experience; or, filling HR positions (via internal transfers) with individuals who do not have an HR background. Whatever the reason, when this occurs, training HR staff becomes even more critical.

In 2007, HRD contracted with Liebert Cassidy and Whitmore (LCW), a public management employment law firm, to deliver EEO training, as well as training on other HR-related topics such as "Managing Leave Laws and the Discipline Process," "Privacy Issues in Our Technological World," and "Finding the Facts: Disciplinary and Harassment Investigations." However, participation is voluntary and there is no compilation of training attendance (by HRD, LCW, or any other group within the County), and therefore, there is no way to easily assess whether HR personnel are being adequately trained through this particular program. As with positions that require specific training and knowledge (e.g., an attorney, a sheriff's deputy), HR positions should be filled with employees who are proficient in their profession. One way to improve this proficiency is to require current and future HR staff Countywide to complete a prescribed set of training courses, similar to a certification process⁴².

⁴² Some examples of organizations that provide HR certifications include: California Public Employer Labor Relations Association (CALPELRA), Southern California Personnel Management Association, the HR Certification Institute.

Recommendation 44: Conduct a knowledge/skills assessment of current Countywide HR employees and develop a training plan to address any skills gaps. Encourage HR professional staff to obtain certification through an industry organization.

Succession Planning

Succession planning is the ongoing process of identifying future leaders in an organization and developing them so they are ready to move into leadership roles.⁴³ Succession planning is a HR best practice for all organizations. In the County, this activity has become particularly necessary in recent years due to the departure of many employees, including a number of key managers. This has been the result of:

- Reductions in the workforce in response to revenue declines
- Changes in salaries and employee benefits which have incentivized employees to retire:
 - Reductions in the age at which people can retire (i.e., 50 or 55 years old)
 - Increases in pension contributions required from employees
 - Reductions in pay
 - Furloughs
- Restrictions on the use of Annual Leave payouts
- The increased percentage of employees reaching retirement eligibility age at the County

Finding 45: Though some agencies/departments engage in succession planning, there is no formal Countywide process and/or program.

As noted above, the County has implemented and continues to pursue several strategies to reduce its salaries and benefits costs. Many of these necessary actions/strategies result in a reduction in staff, including the retirement of the County's most experienced employees. Though the risk for lost institutional knowledge and missed tasks is significant and has been identified by HRD as requiring attention, there has been no serious attempt to develop a Countywide succession planning process to

⁴³ Christee Gabour Atwood, *Succession Planning Basics*, American Society for Training and Development, 2007

mitigate this risk. Any succession planning/activities taking place are at the agency/department level.

Moreover, there are some existing County policies/practices that work against management's ability to conduct adequate succession planning. For example:

- The existing guideline that calls for deducting annual leave usage from Annual Leave payouts for any employee that has announced his/her retirement encourages some employees to be secretive about their retirement⁴⁴, thus not providing management with adequate notice to prepare for their replacement.
- The current hiring freeze does not allow many positions to be filled once an employee separates from county employment or transfers assignments, and consequently the individual's responsibilities are split up among several remaining employees and no replacement is sufficiently trained.

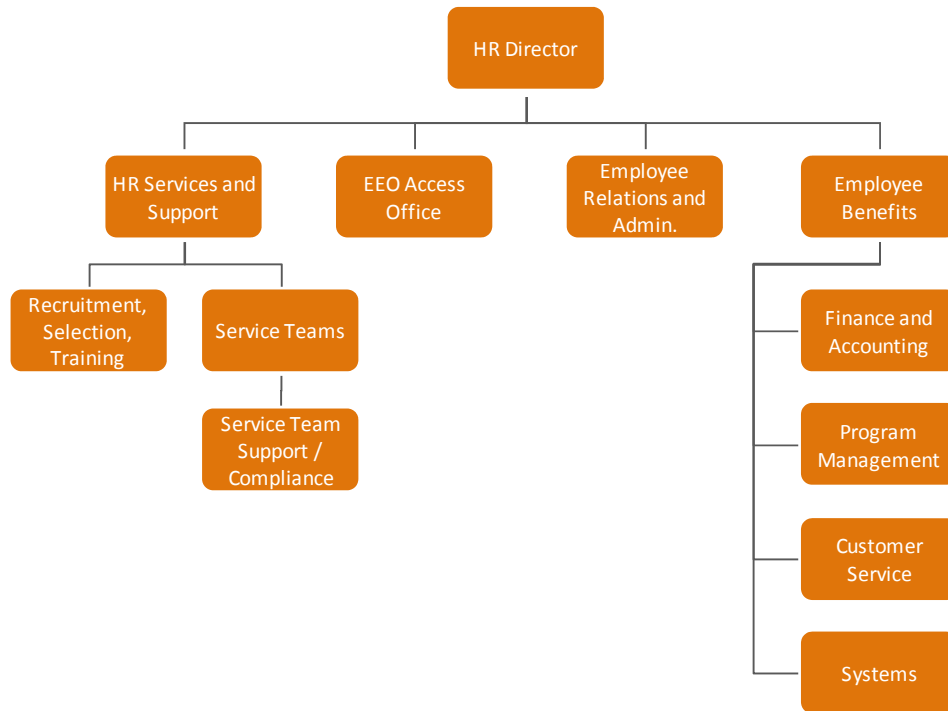
The longer this situation goes unaddressed from a Countywide perspective, the greater the risk becomes that individuals in critical operational roles will separate/retire without adequately capturing the individual's expertise/training for potential replacements and covering the individuals' operational responsibilities.

Recommendation 45: Form a task force to immediately develop a formal succession planning strategy for the County. As part of the planning for all future cost savings proposals, HRD should identify potential impacts to employee reductions and include a discussion about how to mitigate its impact prior to implementation.

⁴⁴ The current guideline calls for the review of annual leave usage up to one month prior to an employee's separation, thus an employee is able to use a significant amount of annual leave, wait one month, then announce an abrupt retirement in order to cash out the maximum amount of annual leave.

HRD Organizational Structure

The audit team has identified opportunities for improving the current organizational structure of HRD, which is depicted below.



Labor Relations

Finding 46: The current separation of labor relations activities between two different HRD functions has diluted the Department's effectiveness in this critical area.

Currently, labor relations activities are divided between the Employee Relations and Administration (ER&A) function and the Services & Support (S&S) function. The ER&A function performs planning activities for upcoming negotiations with all 14 of the County's bargaining units and assists the HR Director at the bargaining table with the largest employee associations (i.e., OCEA, AOCDS); S&S staff serve as lead negotiators for the smaller bargaining units and represent the County in some arbitrations and in meet-and-confer meetings with labor associations/unions on various County issues.

This division of responsibility has diluted HRD's effectiveness in this area. Examples include:

1. Several S&S staff members do not feel sufficiently trained to effectively perform as lead negotiators or in arbitration hearings. A contributing factor to this problem is that these staff members have a very broad set of responsibilities, and subsequently do not have the time or opportunities to develop in-depth negotiating or case presentation skills. This is problematic given the financial and operational issues at stake in these proceedings.
2. Having two different supervisors oversee the labor negotiations process inevitably causes coordination and consistency issues.
3. The County negotiates 14 separate labor contracts, many of which have the same expiration date. Though this arrangement helps ensure greater consistency across different MOUs, these concurrent negotiations (which can take 3 to 4 months) require an immense amount of time on the part of S&S staff. Consequently, during these times, most other S&S work (e.g., Recruitment, Classification, Compensation, and Employee Discipline) is negatively impacted. HRD is expecting the multiple upcoming 2012 negotiations to be particularly time consuming.

Recommendation 46: Consolidate all Labor Relations activities (e.g., labor negotiations) under the ER&A function led by a Chief of Employee Relations. The remaining activities should remain with the S&S function (i.e., recruitment, classification, compensation, employee discipline, and training).

Compliance Team

Finding 47: HRD's compliance staff reports to one of the Service Team Managers, creating the potential for a conflict of interest.

The compliance team currently reports to one of HRD's Service Team Managers, who is charged with supporting agency/department HR staff. As the role of the Compliance Team is to conduct objective reviews of agency/department personnel actions, there is the potential for a conflict of interest.

Recommendation 47: The Compliance Team should report directly to the Assistant HR Director/Services & Support.

Employee Benefits

Finding 48: The Employee Benefits Finance organizational structure contains a redundant level of management that does not match the workload needs of the unit.

As noted in the Employee Benefits section of this report, the Benefits Finance unit reclassified its Accounting Office Supervisor position up to an Administrative Manager II in FY 2006/07. This organizational change is not consistent with the workload demands that have evolved in this unit over time. Specifically, the biggest day-to-day challenge facing the Benefits Finance Unit is the daunting volume of reconciliations and other accounting procedures that need to happen every pay period and/or month. This assessment was confirmed by observation, in-depth interviews with all Benefits Finance staff, and through a review of the primary task list that is followed by staff. Staff interviews clarified that although there are backups for each position in place, workload is so high that individuals cannot effectively fulfill two roles, even on a short-term basis, when one person is absent. In addition, staff confirmed that the Finance Manager, who currently oversees both the Accounting and Systems teams, is heavily involved in allocating the day-to-day assignments of the Accounting staff as well as in the review of their work product.

Collectively, these operational realities suggest that the needs of this unit would be better served by changing to a structure where the existing Accounting Manager position (Admin. Manager II) is deleted, with the resulting savings (\$142K) used to hire at least one, possibly two, lower classified/paid Accountant-Auditor positions to match the level and volume of work that needs to be done. Such a change would also free up the Administrative Manager I, who currently spends a significant amount of time doing basic accounting work, to participate in higher-level analytical tasks that are commensurate with that level in the organization. In addition, the Administrative Manager I position will be able to oversee the three Accountant-Auditor staff, with some assistance from the Finance Manager, who, as noted, is already integrally involved in managing these staff resources.

A situation that illustrates the need for such a change occurred during late 2009 and early 2010, when one of the accounting staff was out on family leave for several months.

This individual had been responsible for preparing journal vouchers (JVs) to bill departments when they missed paying health premium deductions because an employee was out on leave (e.g., family leave). Departments were receiving these JVs from Benefits Finance on a biweekly basis to collect these amounts owed. However, subsequent to the aforementioned staff member going out on family leave, these JVs were neglected for months. Consequently, when Benefits Finance staff caught up on these JVs at the end of the fiscal year agencies/departments received unexpected, sizeable JVs. Benefits/Finance management acknowledged the issue with the audit team, but stated that the problem was a result of the implementation of CAPS+ Finance & Purchasing upgrade. Consequently, the audit team reviewed the process with Benefits accountants who now complete this process. Troublingly, the process was described as not particularly cumbersome. Thus, despite claims by management to the contrary, the issue appears to have stemmed from a simple lack of resources and coverage planning.

Recommendation 48: Modify the existing organizational structure of the Benefits Finance unit by deleting the Accounting Manager (Admin. Mgr. II) position and adding one or two Accountant-Auditor (I or II) positions.

Internal HRD Administrative Activities

The audit team also examined HRD's performance of its internal administrative activities.

Finding 49: HRD administrative activities are inappropriately combined with line HR operations.

Currently, HRD's administrative activities are organizationally located in the Employee Relations & Administration (ER&A) function. The administrative unit should report directly to the HR Director and should not include any line or operational functions, in order to guarantee the independence of administrative decision-making. Resource decisions related to the organization should only be within the Director's purview (e.g., budget, personnel, purchasing, information technology).

Recommendation 49: Have the administrative unit report directly to the HR Director.

Countywide HR System

The scope of work for this audit includes an evaluation of the efficiency and effectiveness of the County's hybrid HR system.

Centralization vs. Decentralization of County HR Activities

As noted earlier, the County utilizes a hybrid system (i.e., combination of centralized and decentralized responsibilities/activities) to provide HR services. Under this system, each agency/department employs its own HR staff which performs day-to-day HR activities, while HRD retains certain centralized Countywide HR responsibilities.

Given the size and complexity of the County, as well as the issues noted throughout this report, the decision regarding the degree of centralization/decentralization of Countywide HR activities is critical. As a result, the audit team thoroughly researched this issue both internally and externally (i.e., benchmarking of comparable public jurisdictions).

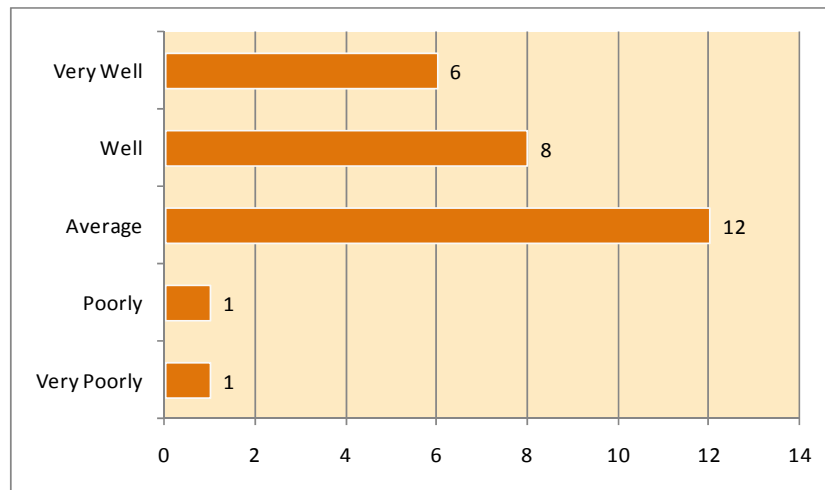
Stakeholder Opinions

The audit team contacted primary stakeholders to ascertain their opinions regarding the centralization or decentralization of the County's HR system. The groups contacted included: County agency/department executives who interact directly with HR issues, County Counsel staff assigned to HR issues, bargaining unit representatives, the Retired Employees Association, and HRD management itself. In addition, benchmarking was conducted with comparable public sector jurisdictions to ascertain whether or not they used a centralized or decentralized model for the provision of HR services; this included reviewing the research on this topic done by consultant Performance Management Partners for HRD in 2007.

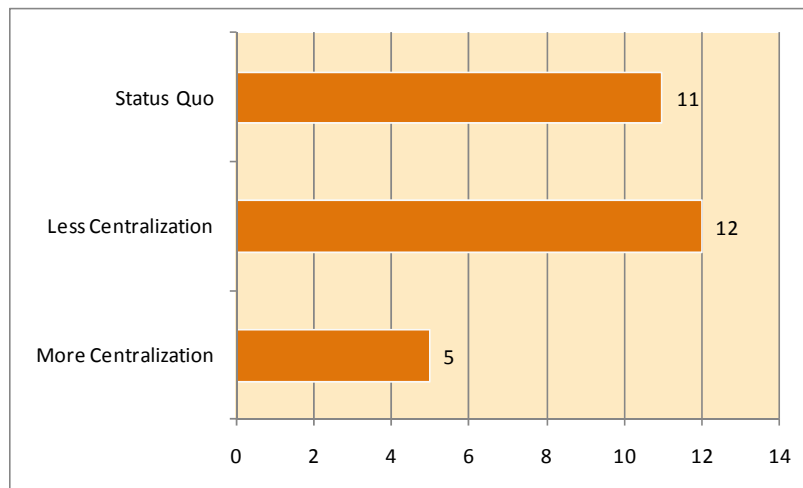
Survey Results from County Agencies/Departments

Agency/department executives and HR managers were asked to respond to an anonymous survey of HRD's performance, which also included an evaluation of the current hybrid HR environment. Specific questions and responses to the questions of centralization/decentralization in the survey included:

Q5: In your opinion, how well does the current decentralized structure for human resources operate at the County of Orange?



Q6: Would you support more centralization, less centralization, or the status quo for human resources functions in the County of Orange?



Q7: Are there any additional comments that you would like to provide regarding the structure of human resources at the County of Orange (i.e., centralized/decentralized)? Representative responses include:

- *The current model could work well if HRD were able to provide the expertise, level of support and leadership that is commensurate with the responsibilities assigned to them.*
- *More centralization in areas that are uniform across all agencies/departments makes sense. It ensures consistent application of policy. However, tangible cost savings should be verified before more centralization occurs.*
- *Decentralization has been a disaster. Expertise and consistency have suffered. There is no uniform review or implementation of classification, compensation or*

disciplinary processes across the county. Staff used to be rotated so as to expand experience. Also, they were subjected to team training and were able to home grow talent. Executives do not have the expertise to objectively evaluate HR professionals as they don't know what to look for.

- *The decentralized model creates a stronger relationship with department leadership which creates faster service and more effective results.*
- *Would not support more centralization at this point under the current structure. The role of HRD needs to be better defined before more centralization occurs.*
- *Overall, there has been a great improvement in the corporate climate and culture in HRD. There has been a strong movement towards customer service and a helpful attitude. We believe the department is moving in a positive direction and would encourage anything that continues this trend.*

The results of the survey demonstrate that agencies/departments are generally satisfied with the current hybrid model, and, in fact, would prefer a greater degree of decentralization. In order to shed more light on this and other issues, the audit team conducted formal interviews with agencies/departments.

Interviews on the Question of Centralization/Decentralization

Interviews with the top management of various groups who either work with or for HRD yielded varying responses. For example:

□ Agency/Department Staff

Interviews were conducted with the executives of the vast majority of the 24 County agencies/departments to further clarify survey results. Staff identified and made good arguments for both centralization and retaining the status quo (hybrid) Countywide HR system. As far as preference, a few were in favor of greater centralization as a result of some negative experiences working through the current hybrid system; but most were either in favor of the status quo or increased decentralization. The desire for maintaining the status quo was based on two primary factors: the first was the simple preference to retain control over HR activities; the second was to avoid what they perceived as negative consequences of human resources being managed by a weak HRD organization.

□ HRD Staff

The vast majority of HRD staff would prefer a more centralized approach. The most common theme discussed was the frustration of having little control over

Countywide HR activities and the resulting lack of consistency and oversight. Other important themes discussed were the current inability to uniformly train all County HR staff or allocate them across all County agencies/departments according to need. In addition, several HRD staff cited a concern about the inconsistent application of HR services throughout the County.

❑ County Counsel Staff

The majority of County Counsel staff assigned to County HR issues also prefer a centralized HR system, citing the following concerns: (1) inconsistent application of HR rules, (2) differing levels of expertise and training among HR staff, (3) the increased administrative efficiency/effectiveness of one organization controlling/coordinating Countywide HR activities in such areas as disability, workers' compensation, unemployment insurance, and return to work policies, and (4) the potential for agencies/departments and HRD to work at cross purposes or pursue different goals.

❑ Bargaining Units

Interviews were held with representatives of three employee associations that represent 73% of the County's workforce: the Orange County Employee's Association (OCEA, 64%), the Orange County Manager's Association (OCMA, 6%), and the Orange County Attorney's Association (OCAA, 3%). The Association of Orange County Deputy Sheriffs (AOCDs) declined to meet. The associations were split in their view of centralization versus the status quo hybrid. One group preferred a centralized HR environment citing the following: (1) improved expertise and subsequent efficiency of HR staff, (2) consistent application of MOU language, (3) anticipated reduction in the number of disciplinary and grievance appeals, and (4) smoother, more productive bargaining sessions. Another group preferred the status quo, citing the following reasons: (1) increased knowledge of issues from agency/department HR teams that they felt would decrease under a centralized system, and (2) an increase in the amount of time that would be required to solve issues under a centralized system.

Benchmarking with Comparable Public Jurisdictions

The audit team also contacted a number of large public jurisdictions to inquire whether or not their HR functions were managed in a centralized or decentralized environment. The jurisdictions surveyed included:

- Los Angeles County, CA
- Harris County, TX
- San Diego County, CA
- Riverside County, CA
- San Bernardino County, CA
- Santa Clara County, CA

Of these six counties, all have more centralized HR systems than Orange County. Riverside County and San Bernardino County are both completely centralized, with all HR employees reporting to a central HR organization. Santa Clara County is nearly completely centralized under its Employee Services Agency; only personnel transaction processing is decentralized. The three remaining counties—Los Angeles, Harris, and San Diego—are similar to Orange County in that their HR systems operate under a hybrid system, with some HR functions centralized and others decentralized. However, all three manage their training/employee development activities centrally, whereas in Orange County, training is—for the most part—driven by individual agencies/departments. Furthermore, with the exception of Los Angeles County⁴⁵, Orange County has the lowest percentage (19.7%) of its HR staff within a central HR organization. (See Appendix E)

The 2007 Performance Management Partners study of HRD highlighted a similar finding. The study found that other large counties⁴⁶ are much more centralized in their HR functions than Orange County, based on the ratio of centralized HR staff to decentralized HR staff.

Evaluation of the County's Hybrid HR System

There are inherent positive and negative aspects of a hybrid system, as summarized below.

Positive Aspects of a Hybrid System

1. Agencies/departments perceive that they are able to get HR tasks processed more expeditiously to respond to their business needs.

⁴⁵ Los Angeles County has 15.2% of its HR staff in its central HR organization.

⁴⁶ Riverside, Sacramento, Santa Clara, San Bernardino, and San Diego

2. Agencies/departments have a greater amount of flexibility in directing their own HR staff.
3. Agencies/departments have control over their level of HR staffing for those areas that are decentralized.
4. All dedicated HR staff develop a highly specialized understanding of their agency/department business needs.

Negative Aspects of a Hybrid System

1. Central HR is unable to allocate HR staff resources based on Countywide priorities/needs.
2. Central HR is less able to:
 - a. Ensure the standardization and uniform application of HR protocols.
 - b. Ensure Countywide collaboration and information sharing on important HR topics.
 - c. Hold agency/department HR staff accountable for violations of County HR policies/procedures.
 - d. Ensure an adequate and consistent level of training/skills for all HR employees.
3. The potential development of a parochial perspective by agency/department HR staff on Countywide HR issues.
4. Some medium and small agencies/departments utilizing individuals who have little or no HR experience/expertise to cover day-to-day HR responsibilities.
5. Increased costs to every agency/department (and the County as a whole) from having to maintain its own HR management and staff.

Finding 50: The County's current hybrid HR system has inherent challenges that are exacerbated by HRD's deficiencies and by certain practices of agencies/departments.

In light of the inherent challenges above and many of the findings presented in this report, the audit team has concluded that the County hybrid HR system requires improvement.

- The many deficiencies of HRD's operation, as noted throughout this report, exacerbate the challenges inherent to a hybrid HR system. For example, HRD is

not fulfilling its oversight responsibilities in the areas of Classification and Compensation, which leads to less accountability for violations of County HR policies/procedures. In another example, HRD is not taking a leadership role in the areas of training and succession planning, which leads to inconsistent skill levels across the County and less coordination in addressing strategic resource issues.

- Certain HRD deficiencies have a negative impact on the County HR system, regardless of the system (i.e., the level of centralization). For example, the lack of Countywide HR strategic planning inhibits the County's ability to identify and achieve long-term goals.
- The audit team identified some instances of agencies/departments disregarding established policies and/or standard practices. For example, there are several instances of agencies/department permanently promoting employees into temporarily classified positions and giving pay raises without sufficient justification.

HR System Options

The level of centralization is a key contributor to many of these challenges and a common point of contention for the County's HR stakeholders. The options recommended for consideration by the audit team for addressing the level of centralization in Countywide HR are as follows:

1. Maintain the current level of HR centralization, but implement a Countywide HR Governance Model that will create a formal structure for collaboration among agencies/departments to tackle Countywide HR issues/challenges.
2. Increase the level of centralization by either: (a) recentralizing some HR functions across all agencies/departments (e.g., move all recruitment and training resources into HRD), or (b) recentralizing all HR functions for small and medium sized agencies/departments.
3. Fully recentralize all HR functions Countywide.

As discussed earlier in this section, there are pros and cons to each level of centralization. Affording greater agency/department control and flexibility with the

current hybrid model comes at a cost, but may be deemed worthwhile. Conversely, greater centralization will afford better consistency and accountability at a lesser cost; however, this cost savings needs to be balanced against agency/department business needs. Management priorities, as established by the CEO and Board, will determine the best option for the County. Although increasing centralization will address the inherent challenges of the County HR system, it should be emphasized that increased centralization alone will not improve HR operations. Alongside centralization or an improvement in the current hybrid model, HRD must have the resources and be held accountable for ensuring compliance with HR rules and regulations Countywide under any system.

Recommendation 50:

- a) Given the volume of challenges facing HRD, the audit team recommends maintaining the current level of centralization, but implementing an HR Governance Model in the near term. Subsequent to the 2012 negotiations, conduct a more thorough review of the costs and benefits associated with recentralizing a portion or all of the Countywide HR functions.**
- b) Regardless of the level of centralization pursued, the audit team recommends that CEO and HRD address the multiple deficiencies noted throughout this audit (e.g., develop an HR Strategic Plan, increase the amount and rigor of HRD oversight of agency/department HR actions, enhance HRD training resources).**

Cost Savings Options

This section summarizes cost savings ideas/options identified both in this audit report and by other sources, such as CEO/Budget and human resources studies/reports addressing state and national issues.

Implementation of all or even some of these options can significantly reduce, and possibly close, Orange County’s structural budget gap. Moreover, none of the options require layoffs or furloughs. Lastly, some of these options can be implemented by the County alone; others require either a change or introduction of new legislation, and most require negotiations with impacted labor organizations.

Estimated potential savings/productivity gains, where available or readily calculable, are included below. In those cases where significant additional research is necessary, the cost savings/productivity gains of the option are currently listed as “unknown.” Even with these “unknown” quantities, the table below provides \$149+ million of potential savings/productivity gains options to consider.

It cannot be overemphasized that the current national interest in reducing the cost of government, alongside the County’s budget pressure, provides the most opportune time to consider the implementation of any one or more of these options.

Option	Estimated Potential Annual Dollar Savings/Productivity Gains	State or Local Control
1. Reduce the percentage amounts of Merit Increases available for non-management employees by half (e.g., from 5.5%, 8.25%, and 11% to 2.25%, 4.125%, and 5.5% respectively).	\$3.8M	Local
2. Cap the number of hardship Annual Leave payout instances to no more than 10% of staff in each agency/department.	\$568K	Local
3. Discontinue the Performance Incentive Pay (PIP) program. Savings/Productivity Gains result from not having to pay employees for non-productive PIP Leave time taken (464,800 hours x \$20/hour*) * A conservative estimate of the average hourly salary of a non-management employee The calculated productivity gain does not include additional cost savings from the avoidance of backfilling post (i.e., 24/7 staffing) positions with overtime when employees take additional time off work.	\$9.3M	Local
4. <u>Premium Pays:</u> Discontinue offering Premium Pay in the following areas:		Local

Option	Estimated Potential Annual Dollar Savings/Productivity Gains	State or Local Control
<ul style="list-style-type: none"> ▪ Night Shift Differential for swing shift (5% of pay capped at \$1.50/hr) ▪ Helicopter Observer Pay (\$355/month) ▪ Training Officer Assignment Pay (\$1/hr in jail; \$2/hr patrol) ▪ Motorcycle Officer Assignment Pay (\$230/month) ▪ Mounted Assignment Pay (\$230/month) ▪ Harbor Patrol Assignment Pay (\$230/month) ▪ Major Accident Reconstruction Team (\$230/month) ▪ Water Craft Differential (\$0.50/hr) ▪ Confidential Pay ▪ Relief Operator (\$1/hr) ▪ Commercial Driver’s License (\$0.60/hr) ▪ Attorney Special Duty Pay (1/3 of hourly pay) ▪ Toxic Pay for Clandestine Lab removal (\$175/month) ▪ Landfill Heavy Equipment Welder/Mechanic (\$0.60/hr) <p>Reduce Premium Pays in the following areas:</p> <ul style="list-style-type: none"> ▪ Peace Officer Standards & Training (POST) Pay <ul style="list-style-type: none"> ○ Intermediate (5% of base pay) to previous \$200/month ○ Advanced (9% of base pay) to previous \$350/month ○ Supervisory (9.5% of base pay) to previous \$390/month ▪ Bilingual Pay <ul style="list-style-type: none"> ○ 20% reduction from bi-annual review of employee eligibility ○ Change from hours-paid to hours-worked basis 	<p>Unknown</p> <p>“</p> <p>“</p> <p>“</p> <p>“</p> <p>\$110K</p> <p>Unknown</p> <p>Unknown</p> <p>\$203K</p> <p>Unknown</p> <p>\$27K</p> <p>Unknown</p> <p>Unknown</p> <p>Unknown</p> <p>\$5.8M</p> <p>\$1.4M</p> <p>Unknown</p>	
<p>5. Increase the vesting period required to: (1) obtain a retiree medical grant or (2) keep the full amount contributed by the County to a Health Reimbursement Arrangement account.</p>	<p>Unknown</p>	<p>Local</p>
<p>6. Increase the percentage paid by “employee-only” for health care insurance premium from the current 5% to 10%.</p>	<p>\$2.1M</p>	<p>Local</p>
<p>7. Increase AOCDS employee pension contribution from 5% to industry standard (9%).</p>	<p>\$6.6M</p>	<p>Local</p>
<p>8. Eliminate all employer pickups of required employee pension contributions (excluding AOCDS, referenced in #7).</p>	<p>\$18.6M</p>	<p>Local</p>
<p>9. Eliminate 2 County holidays (Columbus Day and combine the two President’s Holidays).</p>	<p>\$8.2M</p>	<p>Local</p>
<p>10. 1% salary reduction to all County employees.</p>	<p>\$14.4M</p>	<p>Local</p>
<p>11. Improvements to Arbitration process: non-binding arbitration, limit the number of issues eligible for arbitration, require mediation prior to arbitration.</p>	<p>Unknown</p>	<p>Local</p>
<p>12. Increase pension salary calculation from top three years of pay to top five years of pay (requires change to 1937 Act).</p>	<p>\$15M</p>	<p>State</p>

Option	Estimated Potential Annual Dollar Savings/Productivity Gains	State or Local Control
13. Reduce Annual Leave accrual rates to match private sector norms.	Unknown	Local
14. Reduce the maximum retiree pension COLA from 3% to 2% State minimum.	\$30M	Local
15. Require that retirees cannot receive pension COLA until 12 months after they retire (requires change to 1937 Act).	\$15M	State
16. Increase retirement vesting period from 5 years to 10 years for the 2.7% @ 55 retirement tier.	Unknown	State/Local
17. Transfer retiree health plan administration to OCERS.	\$200K	Local
18. Use lower "base" rate (base hourly rate) instead of "regular" rate (base plus any premium pay) to calculate overtime where permissible.	Unknown	Local
19. Reduce the amount of workers' compensation salary supplemental pay from 80% of salary to 60% or below for the first year on leave.	Unknown	Local
20. Pay off Annual Leave as the pay rate earned, not the pay rate at separation.	Unknown	Local
21. Extend the new employee probationary period and associated Merit Increase for all employees to one year.	Unknown	Local
22. Evaluate uniform allowance programs to determine if it can be done at a lower cost.	Unknown	Local
23. Implement a Health In-Lieu Plan (assuming 5% enrollment and 30% payout).	\$3.8M	Local
24. Implement a Flat Premium approach for health insurance where the County will only pay the cost equivalent of the lowest cost health plan.	\$14M	Local
25. Eliminate the annual "Non-Smoker Incentive" (\$50/eligible employee) in the County's Self-Funded PPO Plan for both retirees and active employees.	\$150-300K	Local
TOTAL	\$149.3M+	

In addition to the savings/productivity gains cited above, the audit team also identified one topic for further study that has the potential to save the County a significant amount of money in the longer term: returning to the use of a traditional Vacation and Sick Leave program and discontinue the current Annual Leave program.

Appendices

Appendix A: Historical Events/Studies of HRD

- June 1996 County Restructuring Plan

In December 1994, the County of Orange declared bankruptcy. As a part of its recovery efforts, the then-County Executive Officer developed a “Restructuring Plan for the County of Orange” that outlined the County’s efforts to organizationally restructure itself for “increased efficiency and effectiveness.” This Plan contained two significant changes related to Countywide HR activities that were approved by the Board: (1) the Personnel Department was transitioned from a standalone department to a function within the County Executive Office and renamed the CEO/Office of Human Resources (CEO/HR), and (2) human resources authority/activities were changed from a centralized to a hybrid operating model. In this hybrid environment, HR personnel reported to their respective County agency/department head rather than CEO/HR and were tasked with performing daily HR activities such as recruitment, classification and some training. Conversely, CEO/HR concentrated on Countywide HR functions such as employee relations, labor negotiations, employee benefits administration, HR policies and procedures, and providing oversight of decentralized HR action to protect County resources.

- 1999/2000 Consultant (Deloitte & Touche) Report on CEO/HR

This study was commissioned by CEO/HR to review Countywide HR operations. The draft report included a litany of deficiencies, such as: the lack of a unified HR organization and a universally accepted vision; a “divided and embattled [Countywide HR] organization” with “tension and animosity” between CEO/HR and agency/department HR organizations; no formal organizational measures; inadequately defined compensation, classification and recruiting roles; an HR staff that lacks the required skill sets to function within a decentralized environment at both the central and agency/department levels; and agencies/departments viewing CEO/HR as a “bottleneck and barrier...in completing key activities around recruitment, classification, and termination.” This report was never completed in final form or formally presented to the Board of Supervisors.

- January 2003 “Overview and Assessment of District Attorney’s FY 2002/03 Budget”

Following the FY 2002/03 Budget Hearings, the Board of Supervisors directed the Criminal Justice Coordinating Council to form a Blue Ribbon Committee to identify the reasons for the significant differences between the District Attorney’s FY 2002/03 budget request and the County Strategic Financial Plan. One key finding presented to the Board pertaining to CEO/HR was that while CEO/Budget initially provides CEO/HR with budgetary parameters for negotiations, it plays no further role in costing out negotiation proposals or in ensuring that proposals offered and agreed to by employee unions/associations are within financial parameters. The study stated: “this process offers limited checks and balances and does not allow for an accountability structure. As a result, many recent negotiated agreements have been approved without a full understanding of their financial impact and have later resulted in significant overruns to the Strategic Financial Plan.”

- 2003 Grand Jury Reports of CEO/HR

In 2003, the Grand Jury released three reports concerning CEO/HR:

1. "Unresolved County Harassment Complaints" – the Grand Jury found that the County Executive Office failed to adequately investigate sexual harassment and workplace complaints against two high profile CEO/HR employees.
2. "Questionable Contract Management" – the Grand Jury reported on contractual management deficiencies surrounding a \$780K contract overrun by CEO/HR.
3. "Who Represents Orange County Taxpayers?" – the Grand Jury criticized the County for negotiating, in their view, excessive salary and benefits to employee associations/unions; for the lack of agency/department input in negotiations; and for offering salary and benefits increases during negotiations without a thorough or accurate costing out of proposals. The County Auditor-Controller's response to this report confirmed the validity of many of these findings. As a result, the Board of Supervisors established an HR Steering Committee and subsequently moved the Labor Negotiations function from CEO/HR to CEO/Finance.

- September 2003 Internal Audit Department Report: "Audit of CEO/HR Reclassification Process for Management Positions"

This audit was highly critical of CEO/HR's management reclassification process noting severe deficiencies, the most significant of which included:

- Limited standards and instructions to initiate classification requests
 - No published, objective criteria for making classification decisions
 - The perception that if classification standards do exist, they are not consistently and fairly applied
 - No standardized forms or guidelines provided for classification study requests
 - No apparent tracking of the status of classification studies
 - Little or no documentation by CEO/HR of classification studies or results
 - No classification training
- 2003: County of Orange managers unionize, forming the "Orange County Manager's Association" (OCMA) to gain formal representation to negotiate their terms and conditions of employment with the County.
 - 2004 Grand Jury Report: "Administrative Leave – The Ultimate Job Security"

In this report, the Grand Jury criticized CEO/HR for the actual costs of paid administrative leave being much greater than the amount originally reported to the Board of Supervisors, and observed that not all County agencies/departments have the same "human resource skill sets."

- May 2004 State Personnel Management Program Review

In this review, conducted by CPS Human Resources on behalf of the State every three to five years, the County was found to be in general compliance with standards stated in LAPS. However, there

was a strong recommendation for improving the County Merit System Selection Rules and Appeal Procedures.

This review was never formally submitted to the Board of Supervisors.

- July 2004 Organizational Review of CEO/HR

The County of Orange engaged CPS Human Resources Services (the same organization that conducts periodic LAPS audits) to evaluate the effectiveness of its human resource organization. The review identified several deficiencies, the more significant of which are outlined below:

- The abrupt decentralization of human resources following the County bankruptcy has led to a disintegration of the focus on responsibility for a collaborative approach to some of the County's critical HR tasks. It is critical that a strong central leadership maintains responsibility and accountability for the efficacy of the HR management systems.
- The Labor Relations function assigned to CEO/Budget should be reassigned to CEO/HR after the problems that led to its separation have been resolved. There is virtually no support for returning to a centralized HR organization due to CEO/HR credibility issues.
- The classification process should be improved by increasing central staffing, requiring central approval of classification studies, and implementing a central tracking system for classification studies.
- With the exception of areas governed by MOU/labor relations processes, current HR rules and policies are obsolete or do not exist.

This review was never formally submitted to the Board of Supervisors.

- 2005 Grand Jury Report: "Another County Crisis: Pensions, Health Care, and Other Benefits"

In this report, the Grand Jury documented significant increases to the County's unfunded pension liability and provided reasons for that increase: recent pension enhancements for County employees, the failure of County government to establish pension reserves in good economic times, and poorer than expected returns on pension fund investments.

- August 2005 – CEO/HR separates from the County Executive Office and becomes a standalone department (HRD) reporting to the County Executive Officer. This includes transferring the Employee/Labor Relations function from CEO/Budget back to HRD.
- October 2005 Internal Audit Department Follow-up of its 2003 report: "Reclassification Process for Management Positions"

The Internal Audit Department performed a follow-up to its 2003 study noting that satisfactory progress has been made on all 13 recommendations. This includes the development of a Classification Handbook to govern the development, review and approval of position classification studies.

- September 2007 Consultant (Performance Management Partners) Review of HRD

In March 20, 2007, the Board approved HRD's request for a contract with Performance Management Partners to conduct a staffing and service level analysis of HRD. The significant findings of this study, which were not formally communicated to the Board, include:

- The County of Orange HRD is the only decentralized HR environment among a survey of large California counties.
 - There is very little time spent by HRD on traditional core HR functions such as classification, recruitment and training.
 - The labor negotiations process has several inefficiencies including: not focusing compensation offers based on an entire compensation package (e.g., considering both salary and benefits), the perception from agency/department HR teams that HRD is poorly organized in its MOU negotiations with unions, and the absence of institutional knowledge about labor relations.
 - HRD should increase its staff by 7-8 positions to adequately address training, develop a Countywide HR policy and procedure manual, and develop a comprehensive classification analysis capability.
- 2008 Grand Jury Report: "Orange County Human Resources Procedures: Out of Date, Out of Time"

In this report, the Grand Jury noted the following deficiencies regarding HRD:

- The County's Selection Procedures, which detail the County's recruitment policies and procedures, are out of date, having not been revised since 1978 (30 years).
 - The background screening of applicants is inconsistent and not verified in most cases.
 - Recruitment, hiring and promotion practices are inconsistent from agency to agency, deviating from state merit principles (LAPS).
- 2009 Grand Jury Report: "The Guardian of Last Resort"

In this report, the Grand Jury studied various management decisions/activities of the Public Administrator/Public Guardian (PA/PG) department, many of which were related to its personnel practices. In this regard, the Grand Jury criticized PA/PG for its use/abuse of temporary and permanent promotions, and cited HRD's concurrence with the Grand Jury's assessment.

- September 2010 State Audit of HRD

In this audit, the State noted that while Orange County operates a comprehensive merit system of personnel administration, many of the County's practices do not follow their own internal rules. As a result, the State determined that the County failed to meet LAPS in the following areas: Recruitment Efforts, Selection Procedures, Appointments from Eligible Lists, Extra Help appointments, and Equal Employment Opportunity (EEO) and Affirmative Action. The County submitted its formal action plan to the State to correct these issues in December 2010. Neither the State audit nor the County's response was formally submitted to the Board.

Appendix B: Examples of Classification/Compensation Oversight Deficiencies

Position	Department	Year	HR Action	HRD Oversight Deficiencies
1	CEO	2009	Reclassification from Administrative Manager III to Executive Manager	<u>Insufficient Justification Provided to Make Decision:</u> documentation states that action was based solely on unsuccessful recruitment attempt for the position. No comps or position analysis provided. The previous incumbent was performing this same job for many years at the AM III level and never reclassified to Executive Management; job duties have not substantially changed.
2	CEO	2010	Reclassification from Administrative Manager III to Executive Manager; Salary Adjustment; 5% Executive Pay Restoration	<u>Insufficient justification provided to make decision:</u> justification provided was that the request was based on the position's comparability to Position #1 cited above. The previous incumbent was performing this same job for several years at the AM III level and the position was never reclassified to Executive Management. At the time this position was reclassified in 1/10, the incumbent did not receive a pay raise as a way to comply with the 5% Executive pay reductions, but was promised the 5% pay restoration when the reductions were terminated (12/10). Subsequently, in 10/10, incumbent was given a 5.5% Salary Adjustment for salary compaction with a subordinate employee that was only temporary in nature and without consideration of the fact that the incumbent would also receive the 5% executive pay restoration in 12/10.
3	CEO	2007	Salary Adjustment; Annual Leave	<u>Multiple Pay Increases in Short Time-Frame:</u> incumbent promoted to Executive Manager in 5/07 with a 17.9% raise, and then subsequently given a 13.1% Salary Adjustment five months later. During annual evaluation review, incumbent given a 40 hour Annual Leave; there is no provision in the Personnel & Salary Resolution authorizing PIP Leave to a current employee.
4	CEO	2007	Salary Adjustment	<u>Multiple Pay Increases in Short Time-Frame; Retroactive Pay:</u> incumbent promoted to Executive Manager in 10/07 with an 18.2% raise, then given a 3.6% Salary Adjustment 9/08 retroactive back to 2/08 because he was promised performance based increase after six months.
5	CEO	2006-2008	Reclassification from Administrative Manager III to Executive Management; Merit	<u>Insufficient Justification Provided to Make Decision:</u> incumbent's position was reclassified on 1/1/06 to Executive Manager with no justification provided and given a 27.4% raise; On same day (1/1/06), incumbent receives a 2% Countywide Merit Increase; six months

Position	Department	Year	HR Action	HRD Oversight Deficiencies
			Increase; Salary Adjustment	later (6/06), incumbent given a 4.5% Salary Adjustment with no justification provided; In 4/08, incumbent receives 8.3% Salary Adjustment.
6	CEO	2006-2011	Salary Adjustment	<u>Documentation not Included in OnBase document management system:</u> incumbent hired as Executive Manager in 2/06. In 4/06, minor CEO functions moved under incumbent's authority for which he/she received 7.5% increase approved for 5 years, until 6/11. Although there is paperwork for these actions, they are not in the OnBase system.
7	CEO	2008	Reclassification from Administrative Manager I to Administrative Manager III	<u>Questionable Justification:</u> after previous incumbent vacates position, CEO requests position reclassification based on the perceived need for a Strategic Focus Manager. The 2/08 Justification states that this position is an immediate business necessity and lists several vague duty statements.
8	CEO	2008	Reclassification from Administrative Manager II to Administrative Manager III	<u>Insufficient Justification Provided to Make Decision:</u> documentation only states that this action will address recruitment and equity issues
9	CEO	2008	Reclassification from Administrative Manager II to Administrative Manager III	<u>Insufficient Justification Provided to Make Decision:</u> documentation only states that this action will address recruitment and equity issues
10	CEO	2008	Reclassification from Administrative Manager II to Administrative Manager III	<u>Insufficient justification provided to make decision:</u> documentation only states that this action will address recruitment and equity issues
11	CEO	2008	Reclassification from Administrative Manager I to Administrative Manager II	<u>Insufficient Documentation Provided to Make Decision:</u> HR analyst reviewing request stated: "While I would not concur with requests based on the accompanying documentation, my experience managing both positions leads me to support them."
12	CEO	2008	Reclassification from Administrative Manager I to Administrative Manager II	<u>Insufficient Documentation Provided to Make Decision:</u> HR analyst stated: "While I would not concur with requests based on the accompanying documentation, my experience managing both positions leads me to support them."
13	CEO	2008	Reclassification from Administrative Manager I to Administrative	<u>Insufficient Justification Provided to Make Decision:</u> no mention of duties of the position; no comps provided.

Position	Department	Year	HR Action	HRD Oversight Deficiencies
			Manager II	
14	CEO	2007	Reclassification from Administrative Manager I to Administrative Manager II	<u>Inappropriate Use of Classification System to Address Pay Issue:</u> justification states that this is really a pay issue and not one related to classification.
15	CEO	2007	Reclassification from Administrative Manager I to Administrative Manager II	<u>Inappropriate Use of Classification System to Address Pay Issue:</u> justification states that this is really a pay issue and not one related to classification.
16	CEO	2007	Reclass from Administrative Manager I to Administrative Manager II	<u>Documentation not Included in OnBase document management system</u>
17	CEO	2009	Reclassification from Staff Specialist to Administrative Manager I	<u>Permanent Change to Temporary Situation:</u> this action was based on a temporary situation that no longer existed when position/incumbent were permanently reclassified/promoted.
18	CEO	2010	Reclassification from Staff Specialist to Administrative Manager I	<u>Classification study done but not in the OnBase system as required by existing HR policy</u>
19	CEO	2010	Salary Adjustment, Equity Increase	<u>Multiple Increases:</u> incumbent given 5.5% Salary Adjustment in 5/2010 and then a 5% Equity Increase four months later in 9/2010
20	CEO	2009	Equity Increase	<u>No documentation in OnBase system</u>
21	HR Dept	2005	Reclassification from Administrative Manager I to Administrative Manager II	<u>Insufficient Justification Provided:</u> documentation only states this position should have been reclassified as part of 2005 HR reorganization
22	HR Dept	2006	Reclassification from Secretary II to Staff Assistant	<u>Documentation not Included in OnBase document management system</u>
23	HR Dept	2008	Reclassification from Administrative Manager I to Administrative Manager II	<u>Insufficient Justification Provided to Make Decision:</u> justification memo only states that this position was inadvertently not reclassified in the 2005 reorganization without any explanation of duties of position. No documentation for 2005 decision provided.

Position	Department	Year	HR Action	HRD Oversight Deficiencies
24	HR Dept	2008	Reclassification from Administrative Manager I to Administrative Manager II	<u>Insufficient Justification Provided to Make Decision:</u> justification memo only states that this position was inadvertently not reclassified in the 2005 HRD reorganization without any explanation of duties of position. Conflict of Interest: the recipient of the reclass wrote the memo recommending the reclass of his/her own position.
25	HR Dept	2008	Reclassification from Staff Specialist to Administrative Manager I	<u>Insufficient Justification Provided to Make Decision:</u> justification memo only states that this position was inadvertently not reclassified in the 2005 HRD reorganization without any explanation of the duties of the position.
26	HR Dept	2007	Reclassification from Staff Assistant to Staff Specialist	<u>Insufficient Justification Provided to Make Decision:</u> justification memo only states that this position was inadvertently not reclassified in the 2005 HRD reorganization without any explanation of the duties of the position.
27	HR Dept	2007	Reclassification from Staff Assistant to Staff Specialist	<u>Insufficient Justification Provided to Make Decision:</u> justification memo only states that this position was inadvertently not reclassified in the 2005 HRD reorganization without any explanation of the duties of the position.
28	HR Dept	2008	Reclassification from Staff Assistant to Administrative Manager I	<u>No justification provided to make decision</u>
29	HR Dept	2010	Reclassification from Office Specialist to Systems Programmer/Analyst I	<u>Documentation not Included in OnBase document management system</u>
30	HR Dept	2010	Reclassification from Office Supervisor A to Office Specialist	<u>Insufficient Justification Provided to Make Decision:</u> only justification provided was that this position should have been reclassified in the 2005 HRD reorganization study
31	HR Dept	2010	Reclassification from Administrative Manager I to Administrative Manager II	<u>Insufficient Justification Provided to Make Decision:</u> only justification provided was this position should have been reclassified in the 2005 HRD reorganization study
32	HR Dept	2010	Reclassification from Administrative Manager I to Administrative Manager II	<u>Insufficient Justification Provided to Make Decision:</u> only justification provided was this position should have been reclassified in the 2005 HRD reorganization study

Position	Department	Year	HR Action	HRD Oversight Deficiencies
33	HR Dept	2007-2008	Multiple Equity Increases	<u>Insufficient Information Provided for Multiple Equity Increases:</u> two Equity Increases given to incumbent in less than 12 months (12.24% in 8/07, 1.99% in 5/08). Neither one was in the OnBase system, and there was no mention in 5/08 that this was the second Equity Increase in as many years.
34	HR Dept	2007-2008	Multiple Equity Increases	<u>Insufficient Information Provided for Multiple Equity Increases:</u> two Equity Increases given to same incumbent in less than 12 months (12.2% in 8/07, 1.99% in 5/08). Neither one was documented in OnBase system and no mention in 5/08 that this was second Equity Increase.
35	HR Dept	2006-2008	Multiple Equity Increases	<u>Insufficient Information Provided for Multiple Equity Increases:</u> three Equity Increases given to same incumbent in 24 months (7% in 5/06, 4.18% in 8/07, and 2.99% in 5/08). None of these increases were in OnBase system and there was no mention in either the 2007 or 2008 equity requests that previous increases had been given.
36	HR Dept	2006-20087	Multiple Equity Increases	<u>Insufficient Information Provided for Multiple Equity Increases:</u> four Equity Increase given to same incumbent over 24 months (6.98% in 5/06, 8% in 3/07, 7.6% in 8/07, and 2.99% in 5/08). None of these increases were in the OnBase system and there was no mention of each subsequent request (2nd/3rd/4th Equity Increases).
37	OC Comm Res	2008	Reclassification from Administrative Manager II to Administrative Manager III	<u>Insufficient Justification Provided to Make Decision:</u> there was no classification study done; only justification provided is that request is part of departmental reorganization approved by the CEO Office.
38	OC Comm Res	2009	Reclassification from Office Technician to Administrative Manager I	<u>Insufficient Justification Provided to Make Decision:</u> no list of job duties provided.
39	OC Comm Res	2009	Reclassification from Planner III to Administrative Manager I	<u>Insufficient Justification Provided to Make Decision:</u> no list of job duties provided.
40	OC Comm Res	2009	Reclassification from Administrative Manager I to Administrative Manager II	<u>Insufficient Justification Provided to Make Decision:</u> no list of job duties provided.
41	OC Comm Res	2009	Reclassification from Project Manager I to Project Manager III	<u>Insufficient Justification Provided to Make Decision:</u> no list of job duties provided.

Position	Department	Year	HR Action	HRD Oversight Deficiencies
42	OC Comm Res	2009	Reclassification from Project Manager I to Project Manager III	<u>Insufficient Justification Provided to Make Decision:</u> no list of job duties provided.
43	OC Comm Res	2009	Reclassification from Librarian to Senior Project Manager	<u>Insufficient Justification Provided to Make Decision:</u> no list of job duties provided.
44	OC Comm Res	2008	Major County Reorganization: formation of the new OC Community Resources Department (OCCR)	<u>No Classification Review for Major Reorganization Proposal:</u> HRD was not asked to perform a classification review for any of the 1,000+ positions transferred from other County agencies/departments into the proposed OCCR Dept nor was it included as a point of analysis/information to the Board for their consideration. Following the formation of OCCR, there were many subsequent reclassification and Salary Adjustment requests made and approved by HRD from OCCR. This is a violation of County policy.
45	HCA	2003-2010	Hire of Extra Help Retiree	<u>Violation of County EH Retiree Policy:</u> employee retained extra help for 7 years; employee worked more than the 960 hour annual limit in three years (06, 08, 09). This situation resolved 12/10.
46	HCA	2006	Reclassification from Administrative Manager II to Administrative Manager III	<u>Insufficient Justification Provided to Make Decision:</u> what documentation that did exist was not filed in the OnBase system
47	HCA	2010	Reclassification from Lab Assistant to Administrative Manager I	<u>Insufficient Justification Given to Make Decision</u>
48	HCA	2010	Reclassification from Office Specialist to HCA Service Chief I	<u>Insufficient Justification Given to Make Decision</u>
49	HCA	2010	Reclassification from Data Entry Technician to Clinical Social Worker	<u>Insufficient Justification Given to Make Decision</u>
50	HCA	2010	Reclassification from Physician Assistant II to Comprehensive Nurse Practitioner	<u>Insufficient Justification Given to Make Decision</u>
51	HCA	2010	Reclassification from Office Assistant to Staff Assistant	<u>Insufficient Justification Given to Make Decision</u>
52	HCA	2010	Salary Adjustment	<u>Salary Increase Inappropriately Given for Adding Lower Level Responsibilities</u>

Position	Department	Year	HR Action	HRD Oversight Deficiencies
53	HCA	2009	Equity Increase	<u>No documentation in OnBase system</u>
54	Tax Collector	2007	Reclassification from Senior Accounting Office Supervisor II to Administrative Manager I	<u>Insufficient Justification Given to Make Decision</u>
55	Tax Collector	2007	Reclassification from Administrative Manager I to Administrative Manager II	<u>Insufficient Justification Given to Make Decision</u>
56	Tax Collector	2009	Salary Adjustment	<u>No documentation in OnBase system</u>
57	Registrar of Voters	2006 & 2008	Salary Adjustments (2)	<u>No documentation in OnBase system</u>
58	Registrar of Voters	2007	Reclassification from Administrative Manager I to Administrative Manager II	<u>No Justification Provided to Make Decision</u>
59	Auditor-Controller	2007	Reclassification from Administrative Manager II to Administrative Manager III	<u>No Justification Provided to Make Decision</u>
60	Auditor-Controller	2008	Reclassification from Administrative Manager I to Administrative Manager II	<u>No Documentation of Classification study in OnBase document management system</u>
61	OC Dana Point Harbor	2007	Equity Increase	<u>Equity Increase Given Based on Performance for Administrative Management Position:</u> Equity Increases are not allowed for performance related reasons for Administrative Managers.
62	OC Dana Point Harbor	2007	Multiple Salary Adjustments	<u>Multiple Salary Adjustments:</u> multiple Salary Adjustments given less than one year on the job: Incumbent hired by County in 9/07; received Countywide merit pay increase of 2% in 1/08; received Salary Adjustment of 7.5% in 5/08; received 3% Countywide salary increase in 6/08.
63	Probation	2007	Reclassification from Administrative Manager I to Administrative Manager III	<u>Inappropriate Use of Classification System to Address Pay Issue:</u> justification states that this is really a pay issue and not one related to classification.

Position	Department	Year	HR Action	HRD Oversight Deficiencies
64	OC Waste & Recycling	2007	Reclassification from Administrative Manager I to Administrative Manager II	<u>No Justification Provided to Make Decision</u>
65	John Wayne Airport	2010	Salary Adjustment	<u>No Justification Provided to Make Decision</u>
66	John Wayne Airport	2009	Salary Adjustment	<u>No documentation in OnBase system</u>
67	District Attorney	2007	Reclassification from Public Affairs Counsel to Executive Manager	<u>No Documentation of Classification study in OnBase document management system</u>
68	OC Public Works	2008	Reclassification from Administrative Manager I to Senior Systems Programmer/Analyst	<u>Insufficient Information/Justification Provided to Make Decision</u> : no list of position duties provided
69	OC Public Works	2010	Promotion to Executive Manager	<u>Insufficient Information/Justification Provided to Make Classification/Recruitment Decisions; Use of Permanent Promotion to Address Temporary Situation</u> : a lack of follow-up by HRD on important issues with significant financial and operational impacts; and permanent promotion of incumbent into temporary situation.
70	OC Public Works	2010	Equity Increase	<u>No documentation in OnBase system</u>
71	OC Public Works	2010	Salary Adjustment, Equity Increase	<u>Multiple Increases with the Salary Adjustment not in OnBase system as required</u> : incumbent was given 5.47% Salary Adjustment in 3/2010 and then a 9% Equity Increase six months later in 9/2010.
72	Sheriff-Coroner	2010	Salary Adjustment	<u>No justification provided to make decision</u>
73	Social Services Agency	2009	Equity Increase	<u>No documentation in OnBase system</u>
74	Assessor	2009	Equity Increase	<u>No documentation in OnBase system</u>
75	All County Departments	all years	Denials of Classification/Pay Increase Requests	<u>No Documentation of Classification study in OnBase document management system</u>

Appendix C: Employee Benefits Programs and Contracts

BENEFITS PROGRAMS	CONTRACTS
<p>EMPLOYEE PLANS</p> <ul style="list-style-type: none"> 1 Premier Wellwise Plan 2 Premier Sharewell Plan 3 CIGNA 4 CIGNA - Craft & Plant Unit 5 Kaiser 6 Kaiser - Craft & Plant Unit 7 Walgreens/WHI 8 AOCDS Health Ins. Prem. 	<ul style="list-style-type: none"> 1 Blue Shield-Self-Funded PPO Claims Admin. 2 Blue Shield-Mgmt. & Atty. Dental Claims Admin 3 Walgreens-Prescription Drug/Mail Order Program 4 CIGNA-Employee HMO 5 Kaiser-Employee HMO 6 Kaiser-Retiree HMO 7 Anthem Blue Cross- 5 Retiree Plans, HMO & PPO 8 SCAN-Retiree HMO 9 Standard Insurance-Self Funded Short Term Disability Admin. 10 Horizon Health-Employee Assistance Program
<p>RETIREE PRE-65 PLANS</p> <ul style="list-style-type: none"> 9 Premier Wellwise Plan 10 Premier Sharewell Plan 11 Kaiser 12 Anthem Blue Cross - Traditional HMO 13 Anthem Blue Cross - Standard HMO 14 Walgreens/WHI 15 AOCDS Health Ins. Prem. 	<ul style="list-style-type: none"> 11 UC Talx-Unemployment Admin. 12 Standard Insurance-Life Insurance/Long-term Disability 13 Great West Retirement Services-457 Plan, 401(a) Exec. Def. Comp. Plan & 3121 Extra-Help Plan 14 ACS-Benefits Outsourcing/Benefits Center 15 ICMA-Health Reimbursement Arrangement Admin. 16 TIAA-CREF-Admin. For 1.62 @ 65 DC Plans 17 Mercer Investment Consultants 18 Mercer Health & Benefits Consultants 19 Oliver Wyman
<p>RETIREE POST-65 PLANS</p> <ul style="list-style-type: none"> 16 Premier Wellwise Plan 17 Premier Sharewell Plan 18 SCAN 19 Kaiser Senior Advantage 20 Anthem Blue Cross -Senior Secure HMO 21 Anthem Blue Cross - Custom PPO 22 Anthem Blue Cross - Standard PPO 23 Walgreens/WHI 24 AOCDS Health Ins. Prem. 	<ul style="list-style-type: none"> 20 Hartford Insurance 21 Lindquist
<p>SUPPLEMENTAL BENEFIT PROGRAMS</p> <ul style="list-style-type: none"> 25 Mgmt. & Atty. Dental Plan 26 Health Care Reimbursement Acct 27 Short Term Disability 28 Life Insurance 29 Long Term Disability 30 6 Accidental Death & Dismemberment Policies 31 Dependent Care Reimbursement Acct 32 Retiree Medical Insurance Prog. 33 Optional Benefit Plan 34 Judges Medical Reim Prog. 35 COBRA Prog. 36 Leave of Absence & FMLA Prog. 37 HIPAA 38 Employee Assistance Prog. 39 Unemployment Program 40 457 Defined Contribution Plan for County Employees 41 401(a) Exec. Mgmt. Deferred Compensation Plan 42 3121 Extra Help Employees Defined Contribution Plan 43 1.62 457 Defined Contribution Program Plan 44 1.62 401(a) Deferred Compensation Plan (Employer Match) 45 1992 Extra Help Defined Benefit Plan 46 Ex. Mgt. Transport. Allow. Program 47 Wellwise Wellness Incentive Program 48 Health Reimbursement Arrangement (HRA) 	

Appendix D: Survey Results

1. Please provide your overall satisfaction with the level of service/support provided by the Human Resources Department in the following key functional areas:						
Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	Completely Dissatisfied	Dissatisfied	Half Satisfied/Half Dissatisfied	Satisfied	Completely Satisfied	N/A
Classification/Compensation Issues	1 4%	2 7%	4 14%	14 50%	6 21%	1 4%
Recruitment/Hiring	1 4%	4 14%	6 21%	10 36%	5 18%	2 7%
Employee Discipline & Grievance Administration	1 4%	1 4%	8 29%	15 54%	3 11%	0 0%
Labor Relations & Negotiations	1 4%	1 4%	8 29%	13 46%	3 11%	2 7%
Employee Benefits Administration	0 0%	1 4%	5 18%	12 43%	7 25%	3 11%
Employee Training	2 7%	3 11%	12 43%	5 18%	3 11%	3 11%

2. Are the divisions of responsibility and authority clear between your agency/department and the Human Resources Department in the following areas:			
Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	Yes	No	N/A
Classification/Compensation Issues	22 79%	5 18%	1 4%
Recruitment/Hiring	22 79%	6 21%	0 0%
Employee Discipline & Grievance Administration	25 89%	3 11%	0 0%
Labor Relations & Negotiations	25 89%	3 11%	0 0%
Employee Benefits Administration	25 89%	0 0%	3 11%
Employee Training	17 61%	5 18%	6 21%

3. Please assess how timely the Human Resources Department provides adjudication and feedback on your department's/agency's requests in the following areas:

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	Poor Response Time	Response Time Needs Improvement	Satisfactory Response Time	Good Response Times	Excellent Response Times	N/A
Classification/Compensation Issues	2 7%	5 18%	7 25%	7 25%	5 18%	2 7%
Recruitment/Hiring	0 0%	2 7%	7 25%	8 29%	7 25%	4 14%
Employee Discipline & Grievance Administration	2 7%	4 14%	6 21%	10 36%	5 18%	1 4%
Labor Relations & Negotiations	0 0%	3 11%	12 43%	8 29%	4 14%	1 4%
Employee Benefits Administration	0 0%	2 7%	7 25%	10 36%	7 25%	2 7%
Employee Training	2 7%	1 4%	7 25%	3 11%	3 11%	12 43%

4. To your knowledge, are the County rules/policies pertaining to the following HR functions administered consistently across all agencies/departments:

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	Yes	No	N/A
Classification/Compensation Issues	16 57%	8 29%	4 14%
Labor & Employee Relations	15 54%	5 18%	8 29%
Recruitment	16 57%	8 29%	4 14%

5. In your opinion, how well does the current decentralized structure for human resources operate at the County of Orange?

Very Poorly	1	4%
Poorly	1	4%
Average	12	43%
Well	8	29%
Very Well	6	21%

6. Would you support more centralization, less centralization, or the status quo for human resources functions in the County of Orange?

More Centralization	5	18%
Less Centralization	12	43%
Status Quo	11	39%

7. Are there any additional comments that you would like to provide regarding the structure of human resources at the County of Orange (i.e. centralized/decentralized)?

Decentralization has been a disaster. Expertise and consistency have suffered. There is no uniform review or implementation of classification, compensation or disciplinary processes across the county. Staff used to be rotated so as to expand experience. Also, they were subjected to team training and were able to home grow talent. Executives do not have the expertise to objectively evaluate HR professionals as they don't know what to look for.

Please don't centralize! We treasure our in-house, always available experts.

The current model could work well if HRD were able to provide the expertise, level of support and leadership that is commensurate with the responsibilities assigned to them.

If you are looking for countywide consistencies then we need to be much more centralized. If you want the departments to continue to do what they want then keep it at status quo.

Due to budget constraints, Training has been cutback at the HRD level. When the County's fiscal situation improves, it will benefit the County to dedicate some additional resources to this area.

As we are a very small department, sometimes we are unsure as how to handle certain situations or problems. We rely on our HR analyst for guidance.

Our department is supportive of decentralized HR. We are able to accomplish our goals more efficiently and timely. During the years of centralized HR recruitments were not completed timely.

The limited staffing at County HR creates competitive priorities amongst county agencies. The ability to manage HR issues in a decentralized manner would allow for each agency to address its own unique needs without having to balance County HR's interests as well as other agencies. The current system is antiquated and deprives agencies of local control.

Small depts., with typically 1 person serving as HR Mgr along with other duties, need additional support.

I support guidelines and audits to ensure that the County "stays out of trouble" and that the individual Agencies/Departments support and adhere to the overall vision and goals of the County. But each Agency business is unique. Because of this, decentralization really works better; we need flexibility, we need to be able to respond quickly to our agency's needs. I'm a bit dismayed because I see it going back in the other direction.

More centralization in areas that are uniform across all agencies/departments makes sense. It ensures consistent application of policy. However, tangible cost savings should be verified before more centralization occurs.

I believe that HRD is understaffed to meet the multiple responsibilities they are charged with. I would like to see a formal training and organizational development function added to HRD.

The decentralized model creates a stronger relationship with department leadership which creates faster service and more effective results.

Would not support more centralization at this point under the current structure. The role of HRD needs to be better defined before more centralization occurs.

Overall consistency in the establishment and enforcement of policies and guidelines needs to be enhanced.

Overall, there has been a great improvement in the corporate climate and culture in HRD. There has been a strong movement towards customer service and a helpful attitude. We believe the department is moving in a positive direction and would encourage anything that continues this trend.

8. Are there any additional comments you would like to provide regarding the performance of the Human Resources Department?

I think the county should look at how the HR Department operated prior to the bankruptcy and immediately implement that structure.

Considering the size, scope, and diversity of the OC departments I feel that HRD does a good job.

In general, the leadership ability of mid and lower level HRD management is lacking in experience and job skills.

HRD is supposed to be a support role and that sometimes is not clear. I believe they are so short staffed that they have a difficult time not showing their frustration.

The Human Resource team members are very responsive to our department's needs. They are a pleasure to work with.

If a completely decentralized HR program isn't feasible then I believe it is imperative that the county bolster its current HR staffing to accommodate the voluminous case load they are currently dealing with.

[The HR Director] has done a tremendous job in restoring the trust between the Agency/Department HR teams and HRD. He is great to work with.








HRD staff are professional and provide a corporate view on issues that is helpful at the agency/department level.

More thought and planning should be put into HR Forum agenda items to make the meetings more meaningful.

HRD has been very responsive in their assistance with our department.

We are pleased with the service provided by our Service Team representative and are generally pleased with the service provided by all levels and functions of HRD.

Appendix E: Benchmarking Matrix

	Los Angeles County, CA	Harris County, TX	San Diego County, CA	Orange County, CA	Riverside County, CA	San Bernardino County, CA	Santa Clara County, CA
Population ¹	9,848,011	4,070,989	3,053,793	3,026,786	2,125,440	2,017,673	1,784,642
Total Budget ² (\$B)	\$26.4	\$1.6	\$4.5	\$5.5	\$4.7	\$3.8	\$2.2
Total No. of Employees	109,500	16,687 ³	16,415 ⁴	17,327 ⁵	19,000	18,291 ⁶	15,481 ⁷
No. of HR Employees Countywide	1909	Unknown	278	198	350	121	Unknown
Ratio of Total Employees: HR Employees	57.3	Unknown	59.0	87.5	54.3	151.2	Unknown
Level of Centralization							
Central HR Budget ⁹ (\$M)	\$18.1	\$7.2 ¹⁰	\$22.7	\$9.8 ¹¹	\$7.6	\$15.8	\$35.9
No. of HR Employees in Central HR	290	44	105	39	350 ¹²	121 ¹³	Unknown
% Central HR Employees	15.2%	Unknown	37.8%	19.7%	100.0%	100.0%	Unknown
Location of Employee Relations	CEO	Central HR	Central HR	Central HR	Central HR	Central HR	Central HR
Use of Consultants for Negotiations	No	N/A ¹⁴	No	No	No	No	No

¹ 2009 estimated population (source: U.S. Census Bureau)

² FY 2010/11 Adopted Budget

³ Harris County Popular Annual Report, February 28, 2010

⁴ Based on adopted budget for 2010 fiscal year

⁵ 2nd QBAR – 2/11

⁶ San Bernardino Chamber of Commerce

⁷ 2010 Silicon Valley Business Journal

⁸ Only personnel transaction processing is not centralized

⁹ FY 2010/11 Adopted Budget

¹⁰ Includes Risk Management

¹¹ Countywide HR costs total \$25.5M

¹² All HR employees report to a central HR organization

¹³ All HR employees report to a central HR organization

¹⁴ There is no collective bargaining/meet and confer in the State of Texas

- = No Centralization: No central HR department; each agency/department has its own HR staff that conducts all HR activities.
- = Limited Centralization: Some HR staff report to a central HR department; other HR staff report to their respective agencies; however, compared to "Semi-Centralized," these counties have fewer HR functions managed centrally.
- = Semi-Centralized: Some HR staff report to a central HR department; other HR staff report to their respective agencies.
- = Mostly Centralized: Most HR staff report to a central HR department; may have very few HR employees or one HR function that is decentralized.
- = Complete Centralization: All HR employees in the County report to a central HR department