



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Performance Audit Division

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Performance Audit

# Arizona Department of Administration

Department Should Complete Personnel Reform Implementation  
and Strengthen Workforce Planning State-wide

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September • 2015  
Report No. 15-108



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Auditor General

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**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

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September 3, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Kevin Donnellan, Acting Director  
Arizona Department of Administration

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Arizona Department of Administration—Personnel Reform Implementation*. This report is in response to an October 3, 2013, resolution of the Joint Legislative Audit Committee and was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Department of Administration agrees with the finding and plans to implement all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Debbie Davenport  
Auditor General

Attachment

**REPORT HIGHLIGHTS**  
PERFORMANCE AUDIT

**Our Conclusion**

The Arizona Department of Administration (Department) is responsible for implementing personnel reform enacted by the Legislature in 2012. As of May 2015, the Department has nearly finished implementing the three key provisions of personnel reform. Specifically, the Department consolidated seven personnel systems into the new State Personnel System (System) and transitioned the majority of state employees to an at-will workforce. The Department has also largely implemented the third key reform provision, to improve the State's workforce management. However, as part of this third provision, it needs to complete updating the classification and compensation system (classification system) that encompasses the System's job classes, pay structure, and job descriptions. Also, although not part of personnel reform, to address future workforce needs, the Department should take additional action to promote and strengthen workforce planning in the State.



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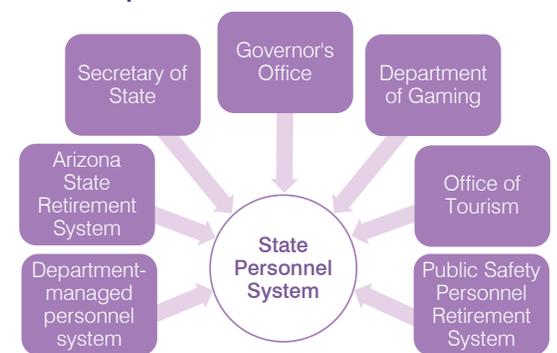
**Department should complete personnel reform implementation and strengthen workforce planning state-wide**

**Personnel reform enacted to strengthen Arizona's state government workforce**—In 2012, the Legislature enacted personnel reform to modernize the outdated state personnel system. As the State's central human resources authority, the Department was responsible for implementing personnel reform.

**Key personnel reform provisions largely implemented**—As of May 2015, the Department had implemented two key personnel reform provisions and nearly finished implementing the third key reform provision. Specifically:

- **Consolidated seven personnel systems**—Personnel reform merged seven separate executive branch entities' personnel systems to create the System and to increase consistency in managing the State's workforce. As of June 2015, the System included approximately 34,000 state employees from 105 state agencies, boards, and commissions.
- **Transitioned to at-will, uncovered service**—Personnel reform shifted a majority of the System's workforce to at-will, uncovered service to increase employee accountability and productivity.

**Separate personnel systems merged into the new State Personnel System As of September 2012**



At-will, uncovered service is an employment relationship where either party may sever the relationship at any time for any reason other than an unlawful reason. Department documents show that prior to personnel reform, 21 percent of the workforce was uncovered as compared to 67 percent of the workforce that was uncovered as of June 2014.

- **Improved workforce management**—The Department has also implemented two of the three areas intended to improve state workforce management. Specifically, the Department implemented a new performance management system, called Managing Accountability and Performance (MAP), to increase employee accountability. Nearly all covered and uncovered employees are required to undergo an annual performance evaluation using MAP. Additionally, the Department took various actions to streamline the State's recruiting and hiring functions, including establishing a standard employment application and process for employment verification and reference checking to be used by all system agencies. The Department also helped 88 system agencies implement onboarding to introduce new hires to their positions quickly.

**Department needs to update classification system to fully implement personnel reform**—To fully implement the third key personnel reform provision, the Department needs to finish updating the state classification system, which includes the System's job

classes, pay structure, and job descriptions. Although the Department has begun taking steps to implement the classification system update, including initiating development of an update plan and revising the System's information technology position classifications, it needs to finalize and implement the classification system update plan. As part of this plan, the Department should identify and incorporate classification system best practices, specify and prioritize the tasks or activities that need to occur to implement the system update, and identify needed resources and the persons assigned who will be responsible for the plan's execution. Finally, the Department should specify who is responsible for monitoring the plan's implementation to ensure the update progresses as expected.

**Workforce planning critical because many state employees will soon be eligible to retire**—Department projections show that several state agencies, including the Department, will have one-third or more of their staff eligible for retirement by fiscal year 2019 (see table). Workforce planning can be used to systematically identify and address an organization's gaps between current and future workforce needs to meet the organization's goals and strategic direction.

**Department needs to develop a workforce plan and continue to encourage state agencies to conduct workforce planning**—Although the Department has developed guidance to assist state agencies' workforce planning, the Department has not developed a comprehensive internal workforce plan, and state agencies are not required to engage in workforce planning. Therefore, the Department should develop a comprehensive internal workforce plan and encourage state agencies to engage in workforce planning by continuing to provide workforce-planning guidance and by providing training. Further, the Department should work with the Legislature to statutorily require state agencies to conduct workforce planning. If statute is amended, the Department should develop and implement policies and procedures that establish the requirements and guidance for workforce plan development, and periodically monitor state agencies' workforce planning efforts.

**Department projections of state employees at selected state agencies eligible for retirement by fiscal year 2019 As of September 2014**

State agency	Percentage of employees
Registrar of Contractors	45%
Department of Gaming	42
Industrial Commission	41
Department of Environmental Quality	41
State Parks	41
Lottery Commission	40
Department of Revenue	39
Department of Agriculture	38
Department of Insurance	38
State Land	38
Nursing	37
Corporation Commission	35
Small agencies	35
Arizona Game and Fish	33
Arizona Health Care Cost Containment System	33
Department of Administration	33

**Recommendations**

- The Department should finalize and implement the classification system update plan. This plan should include:
  - Identifying and incorporating classification system best practices;
  - Specifying and prioritizing the tasks or activities that need to occur; and
  - Identifying needed resources and persons who will be responsible for the plan's execution and monitoring.
- The Department should strengthen workforce planning state-wide by:
  - Developing a comprehensive internal workforce plan;
  - Continuing to provide workforce planning guidance;
  - Working with the Legislature to statutorily require state agencies to conduct workforce planning; and
  - If statute is amended, developing and implementing workforce planning policies and procedures to guide state agency workforce planning efforts and periodically monitoring these efforts.

# TABLE OF CONTENTS

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Introduction	1
Finding 1: Department should complete personnel reform implementation and strengthen workforce planning state-wide	5
Personnel reform enacted to strengthen Arizona's state government workforce	5
Key personnel reform provisions largely implemented	5
Department needs to update the classification and compensation system to fully implement personnel reform	10
Department uses various mechanisms to monitor personnel reform implementation	12
Department should take additional action to strengthen workforce planning	13
Recommendations	17
Appendix A: Methodology	a-1
Agency Response	
Tables	
1 Schedule of revenues, expenditures, and changes in fund balance Fiscal years 2013 through 2015 (In thousands) (Unaudited)	3
2 Department projections of state employees at selected state agencies eligible for retirement by fiscal year 2019 As of September 2014	14

# TABLE OF CONTENTS



## Figures

1	Separate personnel systems merged into the new State Personnel System As of September 2012	6
2	Change in number of covered versus uncovered employees in the System Fiscal years 2010 through 2014	7

## INTRODUCTION

### Scope and Objectives

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Administration (Department)—Personnel Reform Implementation, pursuant to an October 3, 2013, resolution of the Joint Legislative Audit Committee. This performance audit is the third in a series of audits conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq, and focuses on the Department's implementation of personnel reform enacted in 2012.

The first report focused on the Department's administration of the Arizona State Purchasing Cooperative Program (see Report No. 14-108). The second report evaluated the Department's management, support, and oversight of the state-wide procurement system (see Report No. 15-102). The fourth and final report will include responses to the statutory sunset factors specified in A.R.S. §41-2954 (see Report No. 15-109).

## Department responsible for administering State Personnel System

The Department has a statutory responsibility to administer the State Personnel System (System). According to department data, as of June 2015, the System included approximately 34,000 state employees from 105 state agencies, boards, and commissions.<sup>1</sup> These employees work in broad and diverse career fields including, but not limited to, information technology, healthcare, corrections, social services, legal services, administration, engineering, and finance. State employees provide many critical services to Arizona citizens including promoting the safety, well-being, and self-sufficiency of children, adults, and families; maintaining the State's highway infrastructure; and enforcing quality standards for the State's air, land, and water resources.

The Department's primary personnel administration responsibilities are handled by its Human Resources Division (Division). The human resources director manages the Division and its staff. According to department records, as of June 30, 2015, the Division had 83 filled full-time equivalent (FTE) positions and 1 vacancy, for a total of 84 FTE allocated to performing personnel administration responsibilities.<sup>2</sup> The Division's primary responsibilities include:

- **Administering and overseeing the State Personnel System**—Division staff support state agencies in the areas of staffing, performance management, and workforce planning. Division staff also maintain the State's job classification and compensation system (classification system), which is a categorization of state job positions based on duties and responsibilities with an established pay range for each classification. The classification system is used to help attract and retain qualified candidates by providing salaries that reflect external competitiveness and individual performance. In addition, division staff develop compensation strategies, such as sign-on bonuses, that are awarded to certain employees who are hired into critical or hard-to-fill positions. For example, a 2014 department advisory recommendation identified accounting and audit position classifications as critical or hard-to-fill positions because of their high profile, critical importance, distance in the State's salaries from external market salaries, and turnover.<sup>3</sup> Division staff also draft and revise personnel rules, guidance, and policies and procedures applicable

<sup>1</sup> Entities that are not part of the State Personnel System include the legislative and judicial branches of state government, the Arizona Board of Regents, state universities, the Arizona State Schools for the Deaf and the Blind, the Arizona Department of Public Safety, the Arizona Peace Officer Standards and Training Board, the Cotton Research and Protection Council, and public corporations, such as the Arizona Commerce Authority.

<sup>2</sup> As of June 30, 2015, the Division also had another 28 filled and 8 vacant FTE positions assigned to its benefits services function. The Division's benefits unit manages and administers both statutorily required and elective health benefits and insurance programs to state and university employees, retirees, and their dependents, in accordance with A.R.S. §§38-651 through 38-671.

<sup>3</sup> Pursuant to A.R.S. §41-751, the advisory recommendation provides information concerning the compensation of state employees and an objective assessment of the job market to the Governor's Office and Legislature.

to state agencies, such as those requiring background and reference checks prior to any offer of employment to an individual. Finally, the Division operates satellite human resources offices at large state agencies through the assignment and management of chief human resources officers at those agencies.<sup>1</sup>

- **Maintaining a personnel administration infrastructure**—The Division maintains the State’s centralized human resources information technology infrastructure. This infrastructure includes the State’s automated personnel system, named the Human Resources Information Solution (see textbox). The Division also maintains the State’s automated recruiting and hiring application, Talent Acquisition, through which state agencies create and post open positions.
- **Providing various employee services**—The Division provides a number of services to state employees. For example, the Division provides training for all state employees through the Arizona Learning Center and supports a career center that offers services such as resume writing and interviewing techniques to current and former state employees who have been affected by layoffs. The Division also oversees a travel reduction program that provides rideshare and telework opportunities for state employees in Maricopa County. Additionally, the Division manages the Governor’s Office of Equal Opportunity, which processes state employee equal employment opportunity complaints alleging discrimination or harassment.

### Human Resources Information Solution (HRIS)

HRIS is used for several purposes, including:

**Calculating state payroll**—All state agencies, other than the universities, rely on HRIS to calculate employee payroll, which totaled approximately \$2.5 billion in fiscal year 2015.

**Tracking employee-specific information**—State agencies use HRIS to track an employee’s position, salary, leave usage, and performance evaluation rating; while state employees can track their paychecks, leave balances, and W-2 information.

**Analyzing human resources issues**—The Division uses the information captured in HRIS to analyze the State’s workforce, compensation levels, and budget projections.

Source: Auditor General staff summary of department documents.

In addition, as the State’s central human resources authority, the Division had a role in facilitating the implementation of personnel reform legislation enacted in 2012, aimed at modernizing the State’s outdated personnel system (see pages 5 through 13 for additional discussion of the Department’s implementation of personnel reform).

## Budget

As shown in Table 1 on page 3, the Division’s operating budget primarily consists of monies paid by state agencies for division services. Between fiscal years 2013 and 2015, the Division’s total revenues decreased from approximately \$15.9 million to approximately \$13.3 million. The Division’s total expenditures also decreased, from nearly \$14.1 million to approximately \$13.2 million. The decrease in total expenditures was primarily a result of a decrease in other

<sup>1</sup> As of September 2014, the state agencies assigned chief human resources officers were the Arizona Health Care Cost Containment System; and the Arizona Departments of Administration, Agriculture, Child Safety, Corrections, Economic Security, Emergency and Military Affairs, Environmental Quality, Health Services, Juvenile Corrections, Revenue, Transportation, and Veterans’ Services.

**Table 1: Schedule of revenues, expenditures, and changes in fund balance  
Fiscal years 2013 through 2015  
(In thousands)  
(Unaudited)**

	2013	2014	2015
<b>Revenues</b>			
Charges for services	\$ 15,856.8	\$ 13,407.3	\$ 13,298.7
Other	5.0	62.2	18.6
Total revenues	<u>15,861.8</u>	<u>13,469.5</u>	<u>13,317.3</u>
<b>Expenditures and transfers</b>			
Personal services and related benefits	6,722.1	7,089.6	7,656.7
Professional and outside services <sup>1</sup>	767.2	1,054.3	1,576.3
Travel	18.1	4.5	9.5
Other operating <sup>2</sup>	6,224.6	4,142.0	3,659.5
Equipment	122.0	54.1	32.9
Indirect costs <sup>3</sup>	204.5	209.2	305.7
Total expenditures	<u>14,058.5</u>	<u>12,553.7</u>	<u>13,240.6</u>
Transfers <sup>4</sup>	<u>580.3</u>	<u>1,413.5</u>	<u>907.6</u>
Total expenditures and transfers	<u>14,638.8</u>	<u>13,967.2</u>	<u>14,148.2</u>
Excess (deficit) of revenues over expenditures and transfers	1,223.0	(497.7)	(830.9)
Fund balance, beginning of year	<u>1,303.5</u>	<u>2,526.5</u>	<u>2,028.8</u>
Fund balance, end of year	<u>\$ 2,526.5</u>	<u>\$ 2,028.8</u>	<u>\$ 1,197.9</u>

<sup>1</sup> According to the Department, the amount increased between fiscal years 2013 and 2015 because a training program was initiated in accordance with A.R.S. §41-743(B)(5).

<sup>2</sup> Amount decreased substantially in fiscal year 2014 primarily because the State restructured its debt on the building in which the Division is located thereby lowering the Division's building rental charge.

<sup>3</sup> Amount consists of administrative and support services costs that the Department allocates to its various divisions.

<sup>4</sup> Amount includes transfers to other department divisions but primarily comprises transfers to the Personnel Division Fund in accordance with A.R.S. §41-750.

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* and the AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2013 through 2015.

operating expenditures, which are used to cover costs such as building rent, software support and maintenance, and risk management insurance. According to the Department, the State restructured its debt on the building in which the Division is located, substantially lowering the Division's fiscal year 2014 building rental charge. In contrast to the decrease in total expenditures, the Division's spending on personal services and related benefits, its largest expenditure category, increased between fiscal years 2013 and 2015, from more than \$6.7 million to nearly \$7.7 million. The Division's fund balance was \$1.2 million as of fiscal year 2015.



## FINDING 1

Although the three key personnel reform provisions are largely implemented, the Arizona Department of Administration (Department) should take additional steps to finish implementing personnel reform and it also should strengthen workforce planning state-wide. In 2012, the Legislature enacted personnel reform to modernize the State Personnel System (System). The Department implemented two key provisions to consolidate several executive branch personnel systems into the new System and to transition the majority of state employees to at-will service. The Department also has largely implemented the third key provision of personnel reform to improve the State's workforce management. However, as part of this provision, it still needs to complete updating the classification and compensation system that encompasses the System's job classes, pay structure, and job descriptions. In line with best practice, the Department is monitoring the implementation of personnel reform using various mechanisms, including gathering stakeholder feedback. Finally, although not part of personnel reform, to address future workforce needs, the Department should develop a comprehensive internal workforce plan and take additional action to promote and strengthen workforce planning in the State.

# Department should complete personnel reform implementation and strengthen workforce planning state-wide

## Personnel reform enacted to strengthen Arizona's state government workforce

In 2012, the Legislature enacted state personnel reform to support former Governor Janice K. Brewer's objective to modernize the outdated state personnel system. According to Governor Brewer's Office's documents, the prior state personnel system consisted of rules and regulations, adopted many years prior, which served a valuable purpose at the time it was adopted, but subsequently made it difficult to effectively manage the state workforce. Further, the documents indicate that the prior system's emphasis on job security rewarded longevity over performance and potentially resulted in the retention of low-performing employees and the State's best employees leaving the state workforce. Through personnel reform, a new state personnel system was created to support the State's ability to attract, hire, and retain high-performing employees.

## Key personnel reform provisions largely implemented

As the State's central human resources authority, the Department was responsible for implementing personnel reform. As of May 2015, the Department had nearly finished implementing the three key provisions of personnel reform (see textbox). Specifically, the Department has implemented the provisions to consolidate state personnel systems and transition to an at-will workforce. In addition, the Department has largely implemented the provision focused on improving the management of the State's workforce.

### Three key provisions of personnel reform

#### Consolidate personnel systems

(see page 6)

#### Transition to an at-will workforce

(see pages 6 through 8)

#### Improve workforce management

(see pages 8 through 11)

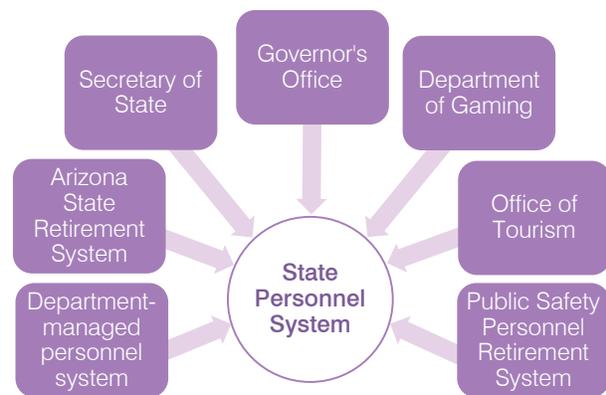
- Implement new performance management system
- Streamline recruiting and hiring
- Update state classification and compensation system

Source: Auditor General staff summary of department documents.

Consolidation of personnel systems and transition to at-will workforce implemented—The Department has implemented two key provisions of personnel reform to strengthen the State’s workforce. Specifically:

- Consolidated personnel systems**—In September 2012, personnel reform legislation merged seven previously separate executive branch entities’ personnel systems, including the department-managed system, to create the State Personnel System (see Figure 1). According to documents published by former Governor Brewer’s Office, consolidation of these separate personnel systems would increase consistency in managing the State’s workforce. For example, as opposed to agencies operating seven

**Figure 1: Separate personnel systems merged into the new State Personnel System As of September 2012**



Source: Auditor General staff review of department documents.

- Transitioned system employees to at-will, uncovered service**—As of September 2012, personnel reform shifted a majority of the System’s workforce to at-will, uncovered service (see textbox).<sup>1</sup> According to legislative, gubernatorial, and department documents, transitioning the state workforce to uncovered service was intended to increase employee accountability and productivity. According to gubernatorial documents, disciplining and terminating poorly performing employees could be difficult and time-consuming under the past personnel system. Pursuant to A.R.S. §41-742, after September 29, 2012, all new hires to state positions, state employees in attorney and information technology positions, supervisors, and employees at a pay grade of 19 or above became uncovered employees. In addition, employees who were not otherwise required to remain covered were able to voluntarily elect to become uncovered. Uncovered employees and employees who volunteered

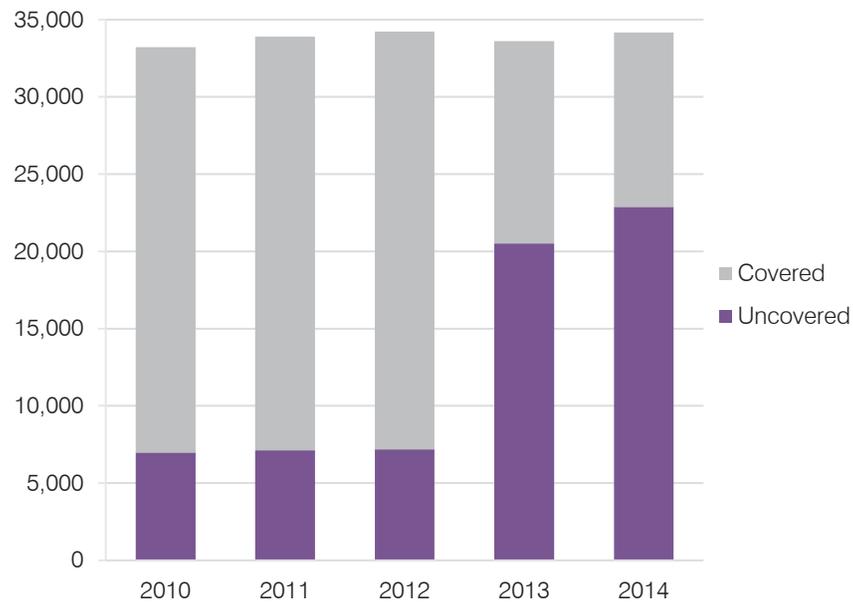
**At-will, uncovered service** is an employment relationship where either party to the relationship may sever the relationship at any time for any reason other than an unlawful reason, such as harassment or discrimination. At-will employees are also referred to as “uncovered” employees.

Source: Arizona Revised Statutes (A.R.S.) §41-741.

<sup>1</sup> Certain state employees, including correctional and law enforcement officers, retained “covered” employment status, meaning they have the right to appeal dismissals, suspensions of more than 80 working hours, or involuntary demotion to the State Personnel Board or the Law Enforcement Merit System Council, respectively. Uncovered employees do not have appeal rights to the State Personnel Board.

to become uncovered prior to the legislation’s effective date were also eligible for one-time retention payments of 5 percent of their base salary starting in October 2012 through June 2013.<sup>1</sup> Department documents showed that prior to personnel reform, 21 percent of the workforce was uncovered. However, as of June 30, 2014, the most recent figures available, the Department reported that the System included approximately 34,000 active employees, 67 percent of which were uncovered (see Figure 2).

**Figure 2: Change in number of covered versus uncovered employees in the System<sup>1</sup>  
Fiscal years 2010 through 2014**



<sup>1</sup> This figure includes all system employees, including law enforcement officers, correctional officers, and community corrections officers, which are required to be covered positions. Employees in positions identified as temporary or working less than .25 full-time equivalent (FTE) have been excluded from this figure.

Source: Auditor General staff summary of information included in Arizona Department of Administration. (2014). *State of Arizona workforce report: 2014*. Phoenix, AZ.

Although these two key provisions were implemented with legislation, the Department took several actions to facilitate the implementation. Consistent with best practice, the Department developed implementation and milestone plans that included the components of reform—major milestones and key dates, tasks, and responsible entities. Throughout implementation, the Department provided frequent e-mail communications to agency officials on what to expect from consolidation and moving to at-will service. In addition, the Department held trainings on managing change at state agencies for employees and supervisors interested in receiving support during the transition. The Department also launched a publicly available personnel reform Web site to inform stakeholders about personnel reform legislation, key dates, implementation and transition activities, and rule-making information. Further, the

<sup>1</sup> Laws 2013, Ch. 1, §131, annualized and made permanent the retention payment for uncovered employees.

Department provided public notice and two opportunities for comment on proposed rules. The Department received comments on the draft rules from agency management, agency human resources representatives, and both supervisory and nonsupervisory employees. Finally, the Department hired a private firm to develop and deliver in-person training for all system agency managers and supervisors on the new State Personnel System. Training topics included the purpose of personnel reform, importance of performance reviews, and the meaning of at-will employment.

### Changes to improve management of state workforce largely implemented—

As of May 2015, the Department has also implemented two of the three areas intended to improve the management of the State's workforce, which is the third key provision of personnel reform. Specifically:

- **Implemented a new performance management process**—The Department implemented a new automated performance management system, called Managing Accountability and Performance (MAP), to meet personnel reform's requirement to increase employee accountability through a new performance management process. Through MAP, state employees are evaluated using a standardized set of behavior-oriented competencies in state-wide and agency/division-specific categories. Each competency is accompanied by standards that exemplify behavior that meets or exceeds expectations, as well as descriptions that represent behavior needing improvement. Nearly all covered and uncovered employees are statutorily required to undergo an annual performance evaluation using MAP.<sup>1</sup> Department data indicated that as of August 11, 2015, 79 percent of system employees who were required to receive an evaluation in fiscal year 2015 had a completed evaluation.<sup>2</sup> Under the previous personnel system, uncovered employees were not required to have an annual performance evaluation. Consistent with best practice, personnel reform documents report that the performance management process is the foundation for recognizing top performers and providing performance-based raises and awards.<sup>3</sup>

In addition to planning for the changes to move to the new performance management system and regularly communicating to system personnel how this change will affect them; e.g., annual evaluation requirement, the Department took several other actions to implement the new performance management process. For example, the Department involved various stakeholders in defining the performance evaluation competencies. The Department also developed a MAP administrative manual with guidance for state employees and supervisors on the performance evaluation process, which facilitates employee-supervisor dialogue about performance requirements, expectations, and results. Additionally, the Department trained state agency supervisors on how to conduct effective performance evaluations, including information about performance management principles, performance planning, setting expectations with employees, monitoring

<sup>1</sup> Employees in political appointment positions, listed in A.R.S. §41-742(F), are excluded from annual performance evaluations guidelines. Although performance appraisals are not required for employees in political appointment positions, appraisals may be required for political appointments at the discretion of the agency head or appointing authority in the case of a board or commission.

<sup>2</sup> Department officials reported that an additional 2,457, or 8 percent, of system employees who should have had completed evaluations in fiscal year 2015 had evaluations in some form of completion status as of August 11, 2015.

<sup>3</sup> United States Government Accountability Office. (n.d.). *Best practices and leading practices in human capital management*. Retrieved from [http://www.gao.gov/key\\_issues/leading\\_practices\\_in\\_human\\_capital\\_management/issue\\_summary](http://www.gao.gov/key_issues/leading_practices_in_human_capital_management/issue_summary). Pulakos, E.D. (2004). *Performance management: A roadmap for developing, implementing, and evaluating performance management systems*. Alexandria, VA: The SHRM Foundation.

performance and providing feedback, and conducting formal performance reviews. Further, the Department established a performance management workgroup comprising department staff and state agency representatives to continuously gather feedback and follow up with state agencies on how the performance evaluation system is working. Finally, as an additional accountability mechanism, the Department revised supervisors' performance evaluations to include an assessment of whether they completed their subordinates' performance evaluations.

- **Streamlined the State's recruiting and hiring**—Consistent with best practice and to meet personnel reform's requirement to simplify and streamline the State's recruiting and hiring functions, the Department established a standard employment application and a process for employment verification and reference checking to be used by all system agencies.<sup>1</sup> Additionally, a department official reported that the Department has helped implement onboarding at 88 agencies as of July 2015. According to best practice, onboarding is the process of introducing new hires to the social and performance aspects of their positions quickly.<sup>2</sup> To bolster recruitment, the Department also developed rules, policies, and procedures for allowing agencies, subject to department approval, to reimburse travel and moving expenses associated with interviewing and relocating out-of-state candidates. For example, the policy states that if a very small number of candidates were available and willing to interview, the agency can reimburse their transportation or other travel expenses.

The Department has also taken other actions to streamline the Department's recruitment and hiring. Although not part of personnel reform legislation, the implementation of the Department's automated recruiting and hiring software application, Talent Acquisition (TA), further supports efforts to simplify and streamline the process by providing the standard employment application online and allowing applicants to complete and submit it to the State online. Additionally, TA facilitates state agency hiring personnel's ability to easily and quickly track an applicant's interviews and references and capture information on his/her education, certifications, and skills. This capability was not available in the prior recruiting and hiring system. The Department also formed a TA workgroup, comprising department staff and state agency representatives, to periodically gather feedback and follow up with state agencies on how the TA system is working. In addition, the Department developed and provided implementation guidance documents to state agencies, including a job offer letter template and job posting language to be used during the personnel reform transition.

In addition to these efforts, the Department established various regulations, policies, and procedures to improve the management of the state workforce. For example, the Department established rule and policy to enhance the oversight of employees placed on paid administrative leave. Under the rule and policy, state agencies must report to the Department if an employee is placed on administrative leave during an investigation of alleged wrongdoing if the administrative leave totals 80 hours or more. State agencies must report to the Department on a weekly basis thereafter until the administrative leave is terminated. These reports should provide information on the reason for, and status of an employee's administrative leave, including the administrative leave start and anticipated end dates. Further, department approval is needed if administrative leave exceeds 30 days. Prior to this change, the Department did not monitor how long an employee

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<sup>1</sup> Victorian Public Sector Commission. (2015). *Best practice recruitment and selection toolkit*. State of Victoria, Australia.

<sup>2</sup> Bauer, T.N. (2010). *Onboarding new employees: Maximizing success*. Alexandria, VA: The SHRM Foundation.

would remain on administrative leave. The Department also developed rule and policy to help ensure that certain disciplinary actions are appropriate by requiring that agencies obtain department review of suspensions over 80 hours, demotions, and dismissals prior to implementing the adverse action.

## Department needs to update the classification and compensation system to fully implement personnel reform

The Department needs to complete its work on the state classification and compensation system (classification system) to fully implement the third key personnel reform provision—improving workforce management. The classification system includes the System’s job classes, pay structure, and job descriptions. According to the Department, at the end of fiscal year 2015, there were approximately 4,100 classifications within the State Personnel System. However, only about 2,300 classifications were being used by state agencies; i.e., had at least one employee assigned to the classification. According to department documents, the state-wide classification system had not undergone a comprehensive update in the 40 years it had been in place. In addition, department staff reported that some state agencies were inappropriately using the classification system to address compensation issues. For example, according to department staff, outdated salary ranges in the classification system have resulted in some state agencies hiring candidates to fill a higher classified position than they are qualified for in order to offer competitive compensation. According to a department official, despite the intent to do so, the Department has been unable to allocate the resources needed to fully update the classification system while implementing the other areas of personnel reform.

The Department has begun taking steps to plan and implement the classification system update. According to a department planning document, as of March 2015, the Department had initiated development of a classification system update plan, which included identifying the objectives of the update effort, analyzing state agencies use of position classifications, reviewing some states’ approaches to structuring their classification systems, and considering options for implementing the update. However, a department official reported in June 2015 that the plan had yet to be finalized and that there were still several outstanding items that needed to be addressed as part of the plan.

In addition to developing an implementation plan, the Department has updated the information technology (IT) position classifications in the system. This classification area was selected because of the importance of IT to the operation of state programs and services. To revise the IT position classifications and salary ranges, department staff reported that they collaborated with the State’s IT community, state agency workgroups, and the state agency Chief Information Officer Council and conducted compensation research. According to a department document and staff, the revisions expanded the IT classifications from 5 broad, general classifications to 75 new, specific IT classifications with updated, market-based salary ranges. A department recruiter reported that having the updated IT classifications has made it easier to attract qualified IT candidates due to the specific position descriptions that make the positions more searchable via internet search engines.

Given the importance of an effective classification system, the Department should complete its classification system update. An effective classification system is an important component of workforce management. Best practices and publications indicate that an effective classification system can help with recruiting and retaining skilled employees and encourage uniformity and equity in the classification of positions by providing a common reference across agencies.<sup>1</sup> Therefore, the Department should finalize and implement a classification system update plan. As part of this plan, the Department should identify and incorporate classification system best practices. For example, the U.S. Government Accountability Office (U.S. GAO) identified eight key attributes of a modern, effective classification system (see textbox). In addition, the plan should specify the tasks or activities that need to occur to implement the system update, prioritize work on the tasks or activities, and establish time frames for the completion of these tasks or activities. The plan should also identify needed resources and the persons assigned who are responsible for the plan's execution. Finally, the Department should specify who is responsible for monitoring the plan's implementation to ensure the update progresses as expected.

### Attributes of a modern, effective classification system

**Internal equity**—Employees with comparable qualifications and responsibilities for their respective positions are assigned the same grade level.

**External equity**—Employees with comparable qualifications and responsibilities are assigned grade levels and pay ranges comparable to the external sector.

**Transparency**—A comprehensible and predictable system that stakeholders can understand.

**Flexibility**—The ability to modify the system to meet agency needs and mission requirements within a uniform framework.

**Adaptability**—The ability to conduct a periodic, fundamental review of the entire classification system that enables it to evolve as the workplace and workforce change.

**Simplicity**—Enables interagency mobility and comparisons, with a rational number of occupations and clear career ladders with meaningful differences in skills and performance, and can be cost-effectively managed and maintained.

**Rank-in-position**—Classifies positions based on mission needs and hires individuals with those qualifications.

**Rank-in-person**—Classifies employees based on their skills and abilities.

Source: Auditor General staff summary of United States Government Accountability Office. (2014). *Federal workforce. Human capital management challenges and the path to reform*. Washington, DC.

<sup>1</sup> United States Office of Personnel Management. (n.d.). *Frequently asked questions: Classifications*. Washington, DC. Treasury Board of Canada Secretariat. (2008). *Classification modernization for the EC group*. Ottawa, Canada. United States Government Accountability Office. (2014). *Federal workforce. Human capital management challenges and the path to reform*. Washington, DC.

## Department uses various mechanisms to monitor personnel reform implementation

The Department uses various mechanisms to monitor the implementation of personnel reform. Best practice indicates that monitoring, review, and evaluation processes are an important component of policy implementation because they allow leadership to assess implementation progress, identify and address problems, and determine the ongoing relevance and priority of the policy initiative.<sup>1</sup> Specifically, by measuring, evaluating, and considering feedback from stakeholders about the new policy or program, organizations can review and make adjustments as needed to ensure their objectives are met. The Department has monitored the implementation of personnel reform using various mechanisms. Specifically:

- **Stakeholder feedback**—The Department solicits and evaluates stakeholder feedback on personnel reform processes through workgroups, individual state agency meetings, and surveys. As previously mentioned, the Department formed workgroups to evaluate the new recruiting and hiring and performance management systems (see page 9). Workgroup feedback led to modifications to simplify and streamline the MAP process. Department management also periodically meets with individual state agencies to discuss their human resources operations and administration, and to offer support and guidance. The Department also administers surveys aimed at gathering feedback on its services and processes, including human resources, from state agencies and the Department's customers. For example, in January 2015, the Department surveyed several state agencies regarding where the Department could improve its agency support processes and legal or regulatory requirements. Based on the responses received, the Department took several actions, including removing the requirement that the Department review appointments of uncovered employees to positions of grades 25 and above and instead delegating it to agencies, thus streamlining the process.
- **Management reports**—The Department developed various management reports to monitor performance management and recruiting and hiring. One report tracks compliance with the annual employee performance evaluation requirement. According to the report, only 66 percent of state employees received a performance evaluation from their supervisor in fiscal year 2014.<sup>2</sup> To help ensure supervisory staff comply with the annual performance evaluation requirement, their performance evaluation plans include an assessment of their efforts to monitor and evaluate their subordinate staff and provide feedback. The Department also granted state agencies the ability to run the tracking reports themselves to facilitate self-monitoring of compliance with the annual performance evaluation requirement. Several management reports are also available to monitor various aspects of the recruiting and hiring process; for example, the length of time to complete the hiring process. A department recruiter reported that she uses these reports to help her identify the most effective sources for connecting qualified information technology candidates with the State; for example, the

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<sup>1</sup> Australian National Audit Office. (2014). *Successful implementation of policy initiatives: Better practice guide*. Commonwealth of Australia. Bhuyan, A., Jorgensen, A., & Sharma, S. (2010). *Taking the pulse of policy: The policy implementation assessment tool*. Washington, DC: United States Agency for International Development.

<sup>2</sup> According to a department official, at least 26 agencies had not completed entering their performance evaluation results into MAP by the date the report was run.

State Job Web page or LinkedIn. The recruiter indicated that she runs a report monthly to track sourcing trends and provides the information to department management.

- **Audits and reviews**—The Department also conducts audits and reviews to assess state agencies' compliance with personnel reform changes. For example, department staff assessed whether state agencies complied with the requirement to obtain department review of disciplinary actions prior to the agencies taking these actions. The Department also reviewed agencies' compliance with the requirement to monitor, and report to the Department, staff who have been on administrative leave, i.e., paid leave, for more than 80 consecutive hours. These reviews allowed the Department to gauge whether state agencies were implementing personnel reform changes appropriately or whether additional action was needed to bring the agencies into compliance. For example, the review of compliance with the requirement that the Department review dismissals, demotions, and suspensions of more than 80 working hours found no instances of noncompliance, but made recommendations regarding documentation and data to increase review efficiencies and provide sufficient monitoring and tracking to ensure these adverse actions are receiving appropriate review and scrutiny.
- **Performance indicators/measures**—The Department tracks several performance indicators/ measures to monitor personnel reform implementation. In November 2012, the Department established a mechanism to track key personnel reform indicators such as the number of disciplinary actions submitted for department review, including dismissals, demotions, and suspensions of more than 80 working hours. Department management uses this mechanism to monitor whether implemented personnel reform provisions are operating as expected. In addition, the Department tracks and publicly reports performance measures focused on personnel reform's objective to attract, hire, and retain a quality workforce, such as the number of state employees in uncovered service. The move to uncovered service was expected to result in a more accountable and productive workforce because low-performing employees could be more easily dismissed from state service. Another measure looks at the difference in average salaries between state employees and the labor market. The Department reported that the difference in average salaries between state employees and the labor market was 18 percent in fiscal year 2014. Reducing the gap between the two improves the State's ability to recruit and retain employees. Finally, the Department measures the percentage of poor-quality hires; i.e., employees who leave state service within the first 6 months. The Department reported that the percentage of poor-quality hires decreased from 15.8 percent in fiscal year 2013 to 13.6 percent in fiscal year 2014. A declining or low rate may indicate that the State's hiring process is effective in attracting and hiring candidates well-suited for the position.

## Department should take additional action to strengthen workforce planning

In addition to completing the implementation of personnel reform, the Department should take steps to develop a workforce plan and strengthen state agencies' workforce planning efforts. Workforce planning supports an organization's efforts to make decisions about how best to structure the organization and deploy the workforce (see textbox on page 14). Strengthening state agencies' workforce planning efforts is critical because the Department projects that several state agencies

will have one-third or more of their staff eligible for retirement by fiscal year 2019. Although the Department provides state agencies with workforce planning resources, it has not developed a comprehensive internal workforce plan and state agencies are not required to undertake workforce planning. Therefore, the Department should take steps to strengthen workforce planning state-wide by developing a comprehensive internal workforce plan, providing guidance and training to state agencies on how to conduct effective workforce planning, and working with the State Legislature to statutorily require state agencies to conduct workforce planning.

**Workforce planning** is a systematic process for identifying and addressing the gaps between current and future workforce needs to meet the organization's goals and strategic direction.

**Succession planning** is an integral part of workforce planning, and helps to ensure an ongoing supply of qualified staff to fill leadership and other key positions.

Source: United States Government Accountability Office. (2013). *Securities and Exchange Commission: Improving personnel management is critical for agency's effectiveness*. Washington, DC.

## Department projects many state employees will soon reach retirement eligibility—

Department data projects that many state employees will be eligible for retirement in the next 5 years. As shown in Table 2, several state agencies will have one-third or more of their staff eligible for retirement by fiscal year 2019, according to department projections. For example, 39 percent of Arizona Department of Revenue (ADOR) employees and 33 percent of Arizona Health Care Cost Containment System (AHCCCS) employees are projected to be eligible for retirement by fiscal year 2019. Similar to other state agencies, both of these state agencies and their workforces provide critical state services. ADOR administers and collects state taxes and other revenue, which totaled more than \$13 billion in fiscal year 2014; and AHCCCS administers the State's Medicaid program, providing medical programs and services to a client population of approximately 1.7 million Arizona residents as of July 1,

**Table 2: Department projections of state employees at selected state agencies eligible for retirement by fiscal year 2019<sup>1</sup> As of September 2014**

State agency	Percentage of employees
Registrar of Contractors	45%
Department of Gaming	42
Industrial Commission	41
Department of Environmental Quality	41
State Parks	41
Lottery Commission	40
Department of Revenue	39
Department of Agriculture	38
Department of Insurance	38
State Land	38
Nursing	37
Corporation Commission	35
Small agencies <sup>2</sup>	35
Arizona Game and Fish	33
AHCCCS	33
Department of Administration	33

<sup>1</sup> The Department's projections include all regular, active State Personnel System employees. Eligibility for retirement is based on years of service and age criteria established by the State's retirement systems.

<sup>2</sup> Small agencies are those with less than 50 active employees.

Source: Auditor General staff summary of information included in Arizona Department of Administration. (2014). *State of Arizona workforce report: 2014*. Phoenix, AZ.

2015.<sup>1,2</sup> Overall, the Department projected that approximately 27 percent of system employees will be eligible for retirement by fiscal year 2019.<sup>3</sup>

Department provides workforce planning resources, but does not have a workforce plan and state agencies are not required to undertake workforce planning—Although the Department has developed guidance and tools to assist state agencies with workforce planning, the Department itself has not developed a comprehensive internal workforce plan and state agencies are not required to engage in workforce planning. Specifically, the Department provides various resources to support state agencies' workforce and succession planning efforts. For example, the Department updated its workforce and succession planning guidance in 2013, which provides planning tools addressing staff recruitment, retention, development, and knowledge transfer, and an example of a succession planning assessment for identifying key positions. The Department is also piloting a new software tool that will provide state agencies with information about their employees' potential to fulfill the roles of higher-level positions within the agency, and identify what further professional development these employees may need to help ensure that the right people are in the right positions in the future. Finally, the Department is implementing a professional development program, Leadership Arizona, to support and develop state employees to become future state agency leaders.

Despite providing these resources and the importance of workforce planning, the Department has not developed a comprehensive internal workforce plan, nor are state agencies required to undertake workforce planning. As shown in Table 2 on page 14, by fiscal year 2019, the Department projects that one-third of its employees will be eligible for retirement. Although the Department has not created a comprehensive internal workforce plan, it has utilized the above-described workforce planning resources, identified its key positions, and determined the short-term and long-term solutions to fill such positions in the future. Additionally, Arizona state agencies are not required to conduct workforce planning and a department official reported that many state agencies have indicated that they do not have the time to dedicate to workforce or succession planning. Auditors interviewed four state agencies that indicated in budget planning documents that they had some level of interest in workforce or succession planning. Although two of these state agencies reported that they were undertaking workforce planning using tools tailored to meet their agencies' needs, the other two state agencies indicated they were not developing workforce plans due to limited time and resources. Finally, although the Department is implementing a professional development program to develop future state agency leadership, the Department does not provide training to state agencies on workforce planning.

Department needs to develop a workforce plan and continue to encourage state agencies to conduct workforce planning—Consistent with best practices and other states, the Department should develop a comprehensive internal workforce plan and continue to promote workforce planning to state agencies, including pursuing legislation to require state agencies to develop workforce plans. According to the U.S. GAO, workforce and succession planning help to mitigate the potential loss of institutional knowledge, skills, and expertise due to

<sup>1</sup> Arizona Department of Revenue. (2014). *2014 Annual Report*. Phoenix, AZ.

<sup>2</sup> Arizona Health Care Cost Containment System. (2015). *AHCCCS population highlights July 2015*. Phoenix, AZ.

<sup>3</sup> Arizona Department of Administration. (2014). *State of Arizona workforce report: 2014*. Phoenix, AZ.

retirements and help ensure leadership continuity.<sup>1</sup> The U.S. GAO reports that management should consider how best to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities. Auditors identified two other states, Georgia and Texas, which require state agencies to conduct workforce planning as part of their strategic planning processes. Specifically, Texas law requires that state agencies conduct a strategic staffing analysis and develop a workforce plan to address these agencies' critical staffing and training needs, including the need for experienced employees to impart knowledge to their potential successors.<sup>2</sup> Georgia law requires that each state agency develop a workforce plan as a component of state agencies' statutorily required strategic plans.<sup>3</sup> The Georgia Governor's Office of Planning and Budget's Web site provides guidelines and a strategic planning worksheet to assist state agencies in completing their strategic plans. A portion of the worksheet is dedicated to workforce planning, and asks state agencies to identify any workforce gaps that may impede their achievement of their mission or strategic goals, and report on the critical positions and job families that they find most difficult to fill, develop, and retain.

Therefore, because of the number of state employees who will become eligible for retirement by fiscal year 2019 and the importance of workforce planning to ensure the continuity of knowledge, skills, expertise, and leadership in the State's workforce, the Department should take action to strengthen workforce planning state-wide. Specifically, the Department should develop a comprehensive internal workforce plan. Additionally, it should encourage state agencies to engage in workforce planning by continuing to provide workforce planning guidance and by also providing training to state agencies on how to conduct workforce planning. Consistent with best practice recommendations for effective workforce planning, this training should cover how to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities. Finally, the Department should work with the Legislature to statutorily require state agencies to conduct workforce planning. In proposing this legislation, the Department should work with the Legislature to determine what workforce planning requirements should be addressed in statute, including how often state agencies should conduct workforce planning and specifying any review responsibilities. If statute is amended to require state agencies to conduct workforce planning, the Department should develop and implement policies and procedures that establish the requirements and guidance for the development of state agencies' workforce plans, including the minimum requirements for what these plans should include and the frequency with which state agencies should update their plans. Workforce planning guidance the Department has already developed may provide helpful information for developing the policies and procedures. Additionally, if statute is amended, the Department should periodically monitor state agencies' workforce planning efforts.

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<sup>1</sup> United States Government Accountability Office. (2013). *Securities and Exchange Commission: Improving personnel management is critical for agency's effectiveness*. Washington, DC. United States Government Accountability Office. (2013). *Social Security Administration: Long-term strategy needed to address key management challenges*. Washington, DC.

<sup>2</sup> Texas Government Code §2056.0021 and §2056.002.

<sup>3</sup> Official Code of Georgia §45-20-1 and §45-12-177.

## Recommendations:

- 1.1. The Department should complete the state-wide classification system update by finalizing and implementing a classification system update plan. This plan should:
  - a. Identify and incorporate classification system best practices;
  - b. Specify the tasks or activities that need to occur to implement the system update, prioritize work on the tasks or activities, and establish time frames for the completion of these tasks or activities;
  - c. Identify needed resources and the persons assigned who are responsible for the plan's execution; and
  - d. Specify who is responsible for monitoring the plan's implementation to ensure the update progresses as expected.
- 1.2. The Department should develop a comprehensive internal workforce plan to mitigate the potential loss of institutional knowledge, skills, and expertise due to retirements.
- 1.3. The Department should encourage state agencies to engage in workforce planning by:
  - a. Continuing to provide workforce planning guidance; and
  - b. Providing training to state agencies on how to conduct workforce planning. This training should cover how to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities.
- 1.4. The Department should work with the State Legislature to statutorily require state agencies to conduct workforce planning. In proposing this legislation, the Department should work with the Legislature to determine what workforce planning requirements should be addressed in statute, including how often state agencies should conduct workforce planning and specifying any review responsibilities.
- 1.5. If statute is amended to require that state agencies conduct workforce planning, the Department should develop and implement policies and procedures that establish the requirements and guidance for the development of state agencies' workforce plans, including the minimum requirements for what these plans should include and the frequency with which state agencies should update their plans.
- 1.6. If statute is amended to require that state agencies conduct workforce planning, the Department should periodically monitor state agencies' workforce planning efforts.

## APPENDIX A

# Methodology

This appendix provides information on the methods auditors used to meet the audit objectives.

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

The Auditor General and staff express appreciation to the Arizona Department of Administration's (Department) acting director and staff for their cooperation and assistance throughout the audit.

Auditors used various methods to study the issues in this report. These methods included reviewing applicable statutes and rules, and department policies and procedures; interviewing department staff; and reviewing information from the Department's Web site. Auditors also reviewed information from the Department's fiscal years 2016 through 2020 strategic plan and the Arizona Governor's Office of Strategic Planning and Budgeting's *Fiscal Years 2014-2016 Master List of State Government Programs*. In addition, auditors observed department meetings with state agencies' chief human resources officers.

Auditors used the following specific methods to meet the audit objectives:

- To assess the Department's implementation of personnel reform, auditors reviewed statutory and administrative rule changes; legislative and gubernatorial summary documents addressing the purposes and objectives of personnel reform; the Department's implementation planning and communication documents; and department performance measures. In addition, auditors reviewed literature and best practices for recruiting and hiring; classification and compensation; performance evaluation; and policy implementation.<sup>1</sup> Auditors also interviewed department human resources staff and staff from state agencies to gather their feedback on the implementation of personnel reform.
- To assess the Department's efforts to undertake workforce planning and its support of state agencies' workforce planning efforts, auditors interviewed department staff and reviewed department documents. Additionally, auditors reviewed statutes and strategic planning documents from two other states.<sup>2</sup> Finally, auditors interviewed four state agencies about the tools, strategies, and resources they use to conduct workforce and succession planning.<sup>3</sup>
- To obtain information for the report introduction, auditors reviewed department-prepared documents relating to its responsibilities, functions, and staffing. Auditors also compiled and analyzed unaudited information from the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for fiscal years 2013 through 2015, and the AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2013 through 2015.

<sup>1</sup> Citations for the literature used by auditors are included throughout the report.

<sup>2</sup> These states were Georgia and Texas.

<sup>3</sup> Auditors selected state agencies based on the information reported in the 2014 and 2015 issues of the *State of Arizona: The Master List of State Government Programs and State Agencies' Five Year Strategic Plans*, which indicated that these state agencies had identified workforce and/or succession planning as a critical issue.

- Auditors' work on internal controls focused on the Department's implementation of personnel reform, including department monitoring and review mechanisms, to ensure personnel reform continues to meet the State's needs. Auditors' conclusions on the sufficiency of internal controls are reported in Finding 1. Computerized system information was not significant to auditors' objective; therefore, auditors did not conduct test work on information system controls.

# AGENCY RESPONSE

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AGENCY RESPONSE



Douglas A. Ducey  
Governor

Kevin Donnellan  
Acting Director

**ARIZONA DEPARTMENT OF ADMINISTRATION**

OFFICE OF THE DIRECTOR

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August 28, 2015

Ms. Debra K. Davenport, CPA  
Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Re: Performance Audit – Personnel Reform Implementation

Dear Ms. Davenport:

The Arizona Department of Administration (Department) has reviewed the draft of the recent performance audit of Personnel Reform Implementation provided by your office. As requested, the Department's written response is detailed below.

**Finding 1 – Although the three key personnel reform provisions are largely implemented, the Arizona Department of Administration (Department) should take additional steps to finish implementing personnel reform and it also should strengthen workforce planning state-wide.**

**Recommendations:**

- 1.1. The Department should complete the state-wide classification system update by finalizing and implementing a classification system update plan. This plan should:
  - a. Identify and incorporate classification system best practices;

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

- b. Specify the tasks or activities that need to occur to implement the system update, prioritize work on the tasks or activities, and establish time frames for the completion of these tasks or activities;

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

- c. Identify needed resources and the persons assigned who are responsible for the plan's execution; and

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

- d. Specify who is responsible for monitoring the plan's implementation to ensure the update progresses as expected.

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

- 1.2. The Department should develop a comprehensive internal workforce plan to mitigate the potential loss of institutional knowledge, skills, and expertise due to retirements.

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

- 1.2. The Department should encourage state agencies to engage in workforce planning by:

- a. Continuing to provide workforce planning guidance; and

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

- b. Providing training to state agencies on how to conduct workforce planning. This training should cover how to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities.

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

Ms. Debra K. Davenport, CPA

August 28, 2015

Page 3

- 1.4. The Department should work with the State Legislature to statutorily require state agencies to conduct workforce planning. In proposing this legislation, the Department should work with the Legislature to determine what workforce planning requirements should be addressed in statute, including how often state agencies should conduct workforce planning and specifying any review responsibilities.

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

- 1.5. If statute is amended to require that state agencies conduct workforce planning, the Department should develop and implement policies and procedures that establish the requirements and guidance for the development of state agencies' workforce plans, including the minimum requirements for what these plans should include and the frequency with which state agencies should update their plans.

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

- 1.6. If statute is amended to require that state agencies conduct workforce planning, the Department should periodically monitor state agencies' workforce planning efforts.

**Agency Response:**

*The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

Thank you for the opportunity to respond to the audit. We will continue to work with your office as we move toward our six month status update.

Sincerely,

Kevin Donnellan  
Acting Director

## Performance Audit Division reports issued within the last 18 months

<b>14-101</b>	Arizona Department of Economic Security—Children Support Services—Transportation Services
<b>14-102</b>	Gila County Transportation Excise Tax
<b>14-103</b>	Arizona State Board of Dental Examiners
<b>14-104</b>	Arizona Office of Administrative Hearings
<b>14-105</b>	Arizona Board of Executive Clemency
<b>14-106</b>	State of Arizona Naturopathic Physicians Medical Board
<b>14-107</b>	Arizona Department of Child Safety—Children Support Services—Emergency and Residential Placements
<b>14-108</b>	Arizona Department of Administration—Arizona State Purchasing Cooperative Program
<b>15-101</b>	Arizona Department of Child Safety—Child Abuse or Neglect Reports, Substantiation Rate, and Office of Child Welfare Investigations
<b>15-102</b>	Arizona Department of Administration—State-wide Procurement
<b>15-103</b>	Arizona Medical Board—Licensing and Registration Processes
<b>15-104</b>	Arizona Department of Transportation—Motor Vehicle Division
<b>15-105</b>	Arizona Department of Revenue—Use of Information Technology
<b>15-CR1</b>	Independent Review—Arizona’s Child Safety System and the Arizona Department of Child Safety
<b>15-CR1SUPP</b>	Supplemental Report to the Independent Review—Arizona’s Child Safety System and the Arizona Department of Child Safety
<b>15-106</b>	Arizona State Retirement System
<b>15-CR2</b>	Independent Operational Review of the Arizona State Retirement System’s Investment Strategies, Alternative Asset Investment Procedures, and Fees Paid to External Investment Managers
<b>15-107</b>	Arizona Sports and Tourism Authority

## Future Performance Audit Division reports

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Arizona Department of Administration—Sunset Factors  
Arizona Foster Care Review Board

