

State of Arizona
Office
of the
Auditor General

PERFORMANCE AUDIT

**DEPARTMENT OF
ADMINISTRATION**

**HUMAN RESOURCES
DIVISION**

**Report to the Arizona Legislature
By Douglas R. Norton
Auditor General**

**February 1999
Report Number 99-1**



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February 5, 1999

Members of the Arizona Legislature

The Honorable Jane Dee Hull, Governor

Mr. J. Elliott Hibbs, Director
Department of Administration

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Department of Administration, Human Resources Division. This report is in response to a May 27, 1997, resolution of the Joint Legislative Audit Committee.

This report addresses the Division's progress in addressing recommendations made in the 1993 Auditor General's review of the Division (Report No. 93-6). For example, despite previous attempts and the expenditure of over \$1 million to implement a new job evaluation system for the State, the Division is just now in the process of implementing a new system. In the meantime, the Division has continued to use the job evaluation system criticized in the 1993 report for being subjective, easy to manipulate, and improperly maintained. While the proposed job evaluation system should address these problems, this system is still subject to manipulation. By implementing a systematic maintenance program and developing guidelines for its analysts, the Division can ensure that the new system better serves state agencies.

We also found that the Division has greatly improved its administration of state employee health benefits. For example, the Division established an employee benefits advisory committee to foster employee input into the benefits process and implemented an employee wellness program. However, the Division can further improve its administration of the benefits program by better monitoring healthcare providers and tracking employee complaints to identify and address trends or correct prevalent problems.

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Finally, despite improving the hiring process through the implementation of an automated resume database, the Division needs to undertake additional activities to attract more candidates to state service and meet state agency hiring needs. First, the Division needs to expand its analyst training and develop policies and procedures to guide the formation of hiring lists that meet state agency needs. Additionally, expanded advertisement of open state agency positions and education about how to apply for state positions will help attract more candidates to state service.

In addition to the findings and recommendations presented in this report, this audit presents other pertinent information on the State's employee grievance process.

As outlined in its response, the agency agrees with all of the findings and recommendations.

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

This report will be released to the public on February 8, 1999.

Sincerely,

Douglas R. Norton
Auditor General



Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Department of Administration, Human Resources Division, pursuant to a May 27, 1997, resolution of the Joint Legislative Audit Committee.

The Department of Administration, Human Resources Division (Division) serves as the State's human resources office and engages in a variety of activities including recruitment and evaluation services, assisting state agencies with hiring and other human resources issues, and administering the State's employee benefits program. While the Division primarily provides its services to the approximately 32,000 state employees located in merit system agencies, such as the Departments of Transportation, Economic Security, and Health Services, employees outside the merit system also take part in the State's employee benefits program.

Division Proposes New Job Evaluation Method (See pages 9 through 15)

Despite the important role that a job evaluation system plays in determining an organization's structure, the State currently lacks an effective method of defining and valuing positions. The current job evaluation system is inherently subjective and easily manipulated, and has not been properly maintained. As a result, the State has many similar or unnecessary job classifications. Further, the Division cannot ensure that job candidates have the appropriate skills to fill vacancies and that state employees are appropriately compensated. These problems have been longstanding (they were also identified during a 1993 Auditor General review, Report No. 93-6) and the Division has spent the past five years and approximately \$1 million attempting to implement a new job evaluation system to address them.

In an effort to improve the State's job evaluation system, the Legislature passed Laws 1998, Chapter 292, requiring the Division to propose a new job evaluation system that would result in fewer and broader job classes, a review of all job classes every three to five years, and fewer classification actions, such as requests to reclassify a job or establish a new job. This law also sets a goal of moving state employee compensation to within 5 percent of market compensation by fiscal year 2002-2003. In response to this mandate, the Division proposed an automated point factor job evaluation system, which could potentially correct many of the current system's problems because point factor systems are generally more objective and not as easily manipulated. However, this type of system may still be subject to manipulation, since state employees can still inappropriately request job description changes in order to increase salaries. In addition, the point factor system cannot easily adapt to changes in market salaries.

Therefore, the Division must take several steps to ensure the success of a new system. First, the Division must ensure that it implements routine maintenance of the new system to regularly update job classifications and reduce the effects of manipulation. Second, the Division should ensure that state compensation rates are brought closer to market compensation rates by establishing new salary schedules based on the results of market surveys and by setting up special pay schedules for positions that may experience significant changes due to fluctuations in market compensation. Finally, the Division should allow state employees read-only access to job evaluation information on a computer intranet and establish a process to allow employees to update or correct job descriptions.

The Division Has Improved Benefits Administration but Further Efforts Are Needed (See pages 17 through 22)

Further efforts are needed to ensure that health insurance carriers perform according to the State's expectations. Since the 1993 Auditor General review, the Division has taken several steps to improve its administration of the state employee benefits program, such as improving communication with employees, involving employees in the benefits decision-making process, and developing a comprehensive wellness program. However, the Division could do more to ensure its health insurance carriers are performing according to contractual performance standards. Specifically, the Division's current contracts with health insurance carriers include provisions for monitoring carrier performance. While the Division conducts employee satisfaction surveys and reviews carrier enrollment, claims, and utilization data, it monitors most contractual performance standards only in response to employee complaints. In order to ensure that health insurance carriers perform according to contractual standards, the Division should conduct monitoring efforts on a routine, ongoing basis.

Further, despite the fact that the Division conducts monitoring efforts in reaction to employee complaints, it does not compile and track employee complaints. Because complaints are critical to the Division's monitoring of carrier performance, the Division should develop and implement a mechanism for capturing and tracking complaint data.

Further Improvements Needed to Increase Effectiveness of Hiring Process (See pages 23 through 28)

Additional efforts are needed if the State is to realize the maximum value from steps the Division has already taken to improve the hiring process. In an effort to improve and expedite the hiring process, the Division implemented Resumix, a database software package that electronically processes resumes and creates a bank of candidates and employee skills that can be matched against the requirements of open positions. As a result, the Division can now

generate candidate hiring lists within approximately three days instead of the eight weeks the former manual process took.

However, despite the more efficient hiring process, some agency hiring supervisors have indicated that hiring lists still do not contain enough qualified candidates. To ensure that hiring lists meet state agencies' needs, the Division should expand its human resource analyst training to include instruction on how to produce more comprehensive candidate lists. The Division should develop training to include basic procedures, such as when to add candidates requested by an agency to a hiring list, as well as maneuvers often used by experienced Resumix users to create comprehensive lists. Further, the Division should develop a set of policies and procedures to guide human resource analysts and state agency hiring supervisors through the hiring process.

In addition to conducting additional training, the Division should take steps to increase the number of qualified candidates interested in state service. Specifically, the Division should consider weekly advertising of frequently open positions and current hard-to-fill positions along with information on how to prepare and submit a scannable resume. Additionally, the Division should continue with or possibly expand its efforts to instruct potential job candidates on how to apply for state positions by participating in job fairs and other forums that attract job seekers.

Other Pertinent Information (See pages 29 through 31)

During the audit, other pertinent information was gathered regarding the State's employee grievance system. According to personnel rules, each state agency covered by the rules shall develop an employee grievance procedure. Agencies typically follow a multi-step process, which consists of the grievance being elevated to different levels within an agency's management structure. The personnel rules also contain special provisions for the Division to conduct final reviews on grievances alleging discrimination or noncompliance with the personnel rules. During the audit, a review of 52 of the 90 grievances the Division received and reviewed in fiscal year 1997-98 found that the Division conducts thorough, timely reviews of these grievances in conformance with the personnel rules.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Administration, Human Resources Division pursuant to a May 27, 1997, resolution of the Joint Legislative Audit Committee.

Division Mission

The Arizona Department of Administration, Human Resources Division (Division) serves as the State's human resources office, with its mission being:

“To provide efficient, timely, customer-driven, professional human resources services to meet our agency, employee and public customers’ needs.”

To fulfill this mission, the Division provides recruitment and evaluation services, assists state agencies with hiring, training, and other human resources issues, and administers the State's employee benefits program. In addition, as part of its role as the State's human resources office, the Division administers the State's merit system. Currently, of the approximately 60,000 state employees, about half are employed in agencies covered by the merit system. The remaining state employees work for uncovered state entities that fall outside of the merit system, such as the state universities, all legislative agencies, the State Supreme Court and Court of Appeals, the Department of Public Safety, and the Schools for the Deaf and Blind. While most of the Division's services are provided primarily to merit system agencies, both merit system and non-merit system employees take part in the State's employee benefits program.

Division Budget

Organization and Staffing

To carry out its mission and provide a variety of human resource services, the Division received approximately \$8.7 million in fiscal year 1997-98 (see Table 1, page 2). Additionally, the Division employs over 140 full-time equivalent positions (FTEs), organized into the following five sections.

- **Employment and Training (34 FTEs)**—The employment unit produces candidate lists for state agencies covered under the merit system rules to use when filling vacant state positions. This unit compiles these lists using a resume database computer program

Table 1

**Arizona Department of Administration
Human Resources Division
Statement of Revenues, Expenses, and Other Changes in Retained Earnings¹
Years Ended June 30, 1996, 1997, and 1998
(Unaudited)**

	1996	1997	
Operating revenues:			
Charges for services ²	\$7,793,808		\$8,692,393
	<u>203</u>	<u>793</u>	<u>2,301</u>
Total operating revenues	<u>7,794,011</u>	<u>8,392,303</u>	<u>8,694,694</u>
Operating expenses:			
Personal services	4,359,080	4,104,203	4,224,537
Professional services ³	445,589	1,343,254	1,190,050
Depreciation	288,987 ⁴	181,718	198,354
Insurance premiums	111,556	102,600	122,296
Other ⁵	<u>1,063,556</u>	<u>934,451</u>	<u>1,270,615</u>
Total operating expenses	<u>6,268,768</u>	<u>6,666,226</u>	<u>7,005,852</u>
Operating income	<u>1,525,243</u>	<u>1,726,077</u>	<u>1,688,842</u>
Nonoperating expenses: ⁶			
Reversion to the federal government		286,736	320,637
Remittance to the State General Fund	<u>1,327,768</u>	<u>1,606,266</u>	<u>911,573</u>
Total nonoperating expenses	<u>1,327,768</u>	<u>1,893,002</u>	<u>1,232,210</u>
Income (loss) before operating transfers	197,475	(166,925)	456,632
Operating transfer out			<u>(500,000) ⁷</u>
Net income (loss)	197,475	(166,925)	(43,368)
Retained earnings, beginning of year	<u>715,347</u>	<u>912,822</u>	<u>745,897</u>
Retained earnings, end of year	<u>\$ 912,822</u>	<u>\$ 745,897</u>	<u>\$ 702,529</u>

¹ Excludes financial activity of the various state employee health and other benefits programs, except for administrative costs. The Division holds the assets of these programs in a trustee capacity and may expend only the principal for the designated purpose of the programs.

² The Division receives a pro rata share of payroll costs from agencies covered under the merit system. For fiscal years 1996 and 1998, the rate charged was 0.9 percent of agency payroll costs. For fiscal year 1997, the rate charged was 0.95 percent for the first half of the fiscal year and 0.8 percent for the second half of the fiscal year.

³ Beginning in fiscal year 1997, Data Center costs for the Human Resource Management System and Benefit Information Tracking System computer run times were charged to the Human Resources Division instead of the Finance and Information Services Divisions. This change resulted in additional contractual service expenses of approximately \$1 million annually.

⁴ Includes depreciation expense attributable to prior years because they had not previously been recorded for the Division.

⁵ Includes approximately \$311,000, \$406,000, and \$446,000 of rental and lease payments on state-owned buildings for fiscal year 1996, 1997, and 1998, respectively. Other significant operating expenses included printing and distributing costs associated with benefit newsletters and open-enrollment information for all state employees, and repair and maintenance costs for data processing equipment. In addition, the Division purchased approximately \$210,000 of data processing equipment during fiscal year 1998 that was not required to be capitalized.

⁶ A.R.S. §41-764 restricts the Division to a \$200,000 cash balance at year-end; consequently, monies in excess of this limit were remitted to the State General Fund. Since state agencies used both federal and state monies to pay their pro rata share of payrolls to the Division, the federal government received a portion of the excess cash balance beginning in fiscal year 1997. The amount reverted was based on a negotiated agreement between the State and the federal government.

⁷ This amount was transferred to the Government Information Technology Agency to address Human Resource Management System Year 2000 compliance issues.

Source: The Arizona Financial Information System (AFIS) *Accounting Extract File, Revenues and Expenditures by Fund, Program, Organization, and Object* and *Trial Balance by Fund* reports for the years ended June 30, 1996, 1997, and 1998.

called Resumix (see Finding III, pages 23 through 28 for further information regarding the Resumix system). Further, the training unit provides training on topics such as ethics, management and supervision, and sexual harassment to state agencies without internal training staff.

- **Classification and Compensation (18 FTEs)**—This section maintains the State’s job evaluation system, which establishes job classifications, job descriptions and requirements, and associated pay structures. Analysts address requests from state agency managers or employees to establish or reclassify positions by reviewing classification documents, interviewing supervisors and incumbent employees, and observing incumbent employees at work. Based on this information, analysts will write a report recommending an appropriate classification and pay range. In addition, this section produces the Joint Government Salary and Benefits Survey as well as the Annual Recommendation to the Joint Legislative Budget Committee for Adjustments to the State Salary Plan.
- **Program Services and Benefits (26 FTEs)**—This section contains three different units. The Employee Benefits unit negotiates for and acquires benefits for approximately 50,000 state employees and their dependents, plus about 7,000 state service retirees. Currently, approximately 120,000 individuals are covered under the State’s employee benefits program. Benefits include medical, dental, short- and long-term disability, and life insurance. In addition, the Benefits unit also operates the Employee Assistance Program, which provides counseling and referrals to state employees with personal or work-related problems.

A second unit operates the State’s Wellness and Occupational Health Programs. The wellness program provides state employees with a variety of classes, such as low-fat cooking; and health screenings or services, such as mammography screenings and flu shots. The Division provides these activities at various worksites throughout the State, at little or no cost to employees. The Occupational Health program reviews specific job classes that historically have had high incidences of workers’ compensation claims and requires candidates for these positions to undergo a medical exam prior to being placed in a job. The exam outcome will determine what accommodations, if any, are needed for the new employee to perform his/her job duties with a reduced risk of injury.

Finally, the third unit provides testing services to ensure the validity and legal defensibility of the State’s selection methods, such as written examinations or panel interviews.

- **Communications and Employee Relations (4.5 FTEs)**—This section reviews employee grievances alleging discrimination or noncompliance with personnel rules that were not resolved to an employee’s satisfaction at the agency level. Further, the section also compiles various performance measurement data from the Division’s other sections, such as the number of employees counseled by the Employee Assistance Program, the number of resumes scanned into the Resumix database, and the number of employee

grievances received. Using this data, the section prepares monthly reports regarding the Division's progress toward meeting its strategic goals.

- **Administrative Services (10 FTEs)**—This section provides accounting, information technology, and other administrative support to the Division.

In addition to the sections described above, the Division maintains offices in the Departments of Health Services, Economic Security, Corrections, Transportation, Revenue, Administration, Juvenile Corrections, and AHCCCS, to more efficiently and effectively provide services such as processing new employee paperwork, answering benefits questions, and providing advice on hiring and firing. Further, an additional human resources office serves the needs of all the small and medium-sized agencies covered under the merit system rules. These human resources offices house an additional 46 Division FTEs.

1993 Report and Follow-up

As part of the current audit, concerns identified in the Auditor General's 1993 performance audit (Report No. 93-6) were reviewed. Specifically, the 1993 audit highlighted five areas for improvement:

- The need to redesign the State's outmoded hiring system;
- The need to address fundamental problems with the State's classification system;
- The need to more proactively manage the employee health care benefits program;
- The need to implement mechanisms to curb escalating health care benefits costs; and
- The need to improve efforts to inform decision-makers about salary issues.

In response to the 1993 report, the Division implemented several recommendations. For example, to manage the health benefits program more actively and reduce its costs, the Division implemented a wellness program, which provides a variety of classes and health screenings to state employees. The Division also developed a policy regarding benefits enrollment fraud to decrease or eliminate the amount of money spent on health care coverage for ineligible dependents, such as persons who are not an employee's legal spouse or children. To better inform the Legislature regarding salary issues, the Division now submits its annual salary recommendation by September 1 of each year instead of December 31, allowing the Legislature more time to consider the report before a legislative session begins. The

Division also expanded the information provided to the Legislature through the annual recommendation.

Some problems identified in the 1993 report were again identified during this audit. Specifically, Finding I (see pages 9 through 15) describes how, after five years of effort and expenditures of approximately \$1 million, the Division is still in the process of developing a new job evaluation system. Finding II (see pages 17 through 22) points out that the Division has made many improvements in its administration of employee health benefits, but needs to make further efforts to ensure that health insurance carriers perform according to contractual standards. Finally, Finding III (see pages 23 through 28) points out that although the Division has improved the efficiency of its hiring process by installing a new resume database system, the Division can still do more to improve the quality of hiring lists used to fill vacant positions and attract more candidates to state service.

Audit Methodology and Scope

This audit is a follow-up to concerns identified in the Auditor General's 1993 performance audit (Auditor General Report No. 93-6), and addresses the Division's efforts to fulfill its responsibilities regarding the State's job evaluation system, hiring process, benefits administration and procurement, and employee grievance review. Several methods were used to study these issues, including:

- Reviewing five consultant reports regarding the State's job evaluation methodology to determine the Division's efforts to develop and implement a new job evaluation system.
- Reviewing two consultant reports comparing the benefits of several other organizations to assess the competitiveness of the State's employee benefits;
- Analyzing a sample of 52 of the 90 employee grievances alleging discrimination or personnel rule violation the Division reviewed in fiscal year 1997-98 to assess the appropriateness and timeliness of the Division's review activities;

- Surveying human resources functions in 21 other states, 4 local governments, and 4 private organizations regarding job evaluation, benefits, and /or hiring;¹
- Observing classification analysts as they evaluated a Psychiatric Technician I position at the Arizona State Hospital to determine the process used by the analysts when evaluating a request to reclassify a position;
- Reviewing various health insurance carrier reports and other documentation to determine the extent of the Division's efforts to monitor carrier performance;
- Reviewing records for the procurement of the current employee health benefits contracts to determine the appropriateness of the process; and
- Interviewing and obtaining information from ten hiring supervisors from various state agencies to assess the quality of hiring lists developed by the Division, and interviewing Resumix Corporation officials to determine the system's capabilities and limitations.

The report presents findings and recommendations in three areas:

- The Division needs to proceed with efforts to develop and implement a new job evaluation system;
- The Division needs to improve its monitoring efforts to ensure that health insurance carriers meet contractual performance standards; and
- The Division needs to improve the effectiveness of its current hiring process.

In addition, the report contains Other Pertinent Information regarding the Division's review of employee grievances alleging discrimination or noncompliance with personnel rules and potential problems with the process used to procure the current employee health benefits contracts.

¹ The following 18 states that use or have used job evaluation methods similar to the one the Division is currently proposing and/or employ a similar number of employees as Arizona does were contacted: Connecticut, Kansas, Kentucky, Louisiana, Maryland, Minnesota, Montana, Nebraska, New Mexico, New York, North Carolina, North Dakota, South Dakota, Tennessee, Utah, Vermont, Washington, and Wyoming. Five states and three corporations using a resume database program were also contacted: Louisiana, Michigan, Minnesota, New Jersey, Utah, American Express, Nike, and Intel Corporation. The state of Colorado was contacted regarding its method for tracking employees' complaints related to employee health benefits. Finally, the following four local governments and one corporation were contacted based on their job advertisements in local newspapers: City of Chandler, City of Glendale, City of Phoenix, City of Gilbert, and the Salt River Project.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Director and staff of the Department of Administration and its Human Resources Division for their cooperation and assistance throughout the audit.

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FINDING I

DIVISION PROPOSES NEW JOB EVALUATION METHOD

For several years, the State has lacked an effective job evaluation system, a system that creates a hierarchy of positions and establishes their relative worth. The State's current system has not been kept up to date and is easily manipulated, resulting in hundreds of unnecessary job classifications and the inability to ensure that candidates have the appropriate skills to fill job vacancies. However, the Division is proposing a new system. If properly maintained the new system should address these past problems, but several actions are needed to ensure its success. These include following through with plans to routinely review all state position descriptions for accuracy and ensure appropriate compensation for these positions, as well as developing ways to ensure that the new system can adjust to salary changes in the outside job market.

Job Evaluation a Critical Human Resources Function

Job evaluation systems provide public sector organizations with a structured approach for categorizing and valuing a large number of positions. Using various criteria, such as the content of work, skills required to perform work, the value of work to an organization, and the culture of the workplace, a job evaluation system groups jobs with similar duties and responsibilities together and establishes appropriate pay ranges for each grouping. A job evaluation system should ultimately create a hierarchy among jobs or groups of jobs, which can aid in establishing pay differentials within an organization. Finally, a well-structured classification system can also serve to guide candidate recruitment or selection for open positions and assist in planning by helping to determine future staffing needs.

Current Job Evaluation Method Ineffective

The State's current job evaluation system remains ineffective. Specifically, the system now in use is inherently subjective and easily manipulated. As a result, the State has many job classifications that are similar or unnecessary, and has difficulty ensuring that candidates have the appropriate skills to fill vacant positions. While the Auditor General's 1993 report identified these same problems, the Division's previous attempts to implement a new system have been unsuccessful.

Current job evaluation method susceptible to manipulation—For almost 30 years, the Division has used the “whole job” method of job evaluation. This method separates jobs into a series of classes by comparing each job and its requirements to a class specification or description. These requirements include the level of responsibility and authority, knowledge, skills, and abilities (KSAs) to satisfactorily perform a job. However, human resource analysts must rely on their own judgment and experience to assign jobs to classes based on a review of the job’s requirements. As a result, these job evaluation analyses can vary from analyst to analyst.

The lack of clear criteria makes the system vulnerable to manipulation. Such manipulation can occur when a manager asks the Division to reclassify an existing position or establish a new position merely to obtain a pay increase for the position, and not because the duties have changed significantly. Without clear criteria, the system lacks controls to prohibit changes that may not be clearly warranted on the basis of changed duties.

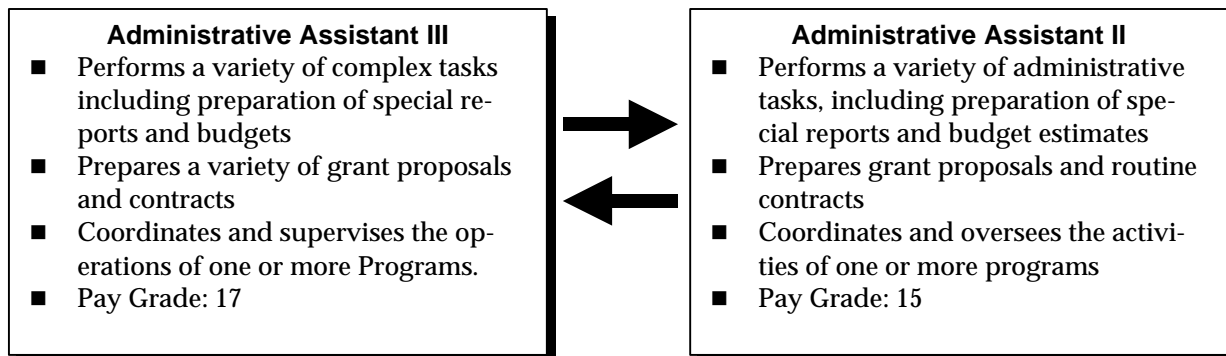
System is not well maintained to compensate for manipulation—Although routine maintenance of the system could help guard against manipulation, it is not being done. Routine maintenance entails a review of each position classification every three to five years to ensure accurate position descriptions and appropriate compensation. However, because it lacks funding to make salary adjustments that typically result from maintenance reviews, the Division has not conducted regular maintenance reviews for several years. Instead, the Division conducts maintenance reviews only for agencies with the money available to fund associated compensation increases or agencies experiencing operating problems as a result of outdated job classifications.

Without proper maintenance, the State has experienced the following problems:

- **Too many similar or unnecessary job classes**—The State’s current job evaluation method contains over 1,400 position classifications, many of which are very similar or unnecessary. For example, as illustrated in Figure 1 (see page 11), the position descriptions for an Administrative Assistant III and II differ by only a few words, but the pay rates for the two positions differ by two grades.
- **Difficulty ensuring candidates have appropriate knowledge, skills, and experience to fill vacant positions**—Absent regular classification maintenance, the State has difficulty ensuring that it can refer appropriate candidates for jobs. Regular maintenance reviews would allow the Division to update the KSAs needed to perform a job, as technology or job duties change. However, without regular reviews, some position specifications no longer accurately reflect the KSAs actually needed to perform a particular job. Therefore, recruitment efforts may not produce candidates who possess the KSAs needed to perform the job. For example, technology improvements have changed the work performed by Duplicating Equipment Operators. However, this position’s KSAs

Figure 1

Arizona Department of Administration
Human Resources Division
Comparison of Duties by Position
As of January 1999



Source: Auditor General staff summary of Department of Administration, Human Resources Division descriptions of various state positions.

have not been updated since 1992 to reflect the technological changes. As a result, the Division might refer inappropriate candidates to agencies that need duplicating equipment operators.

- **Inaccurate, inequitable employee compensation**—The lack of regular reviews also prevents the Division from providing accurate, equitable compensation scales. As mentioned previously, jobs are separated into classes according to their requirements. Because jobs are compensated based on the class they are assigned to, the job's requirements, or KSAs, help determine compensation. Without regular maintenance reviews, compensation may not match the required KSAs of some positions. Further, as illustrated in Figure 1, pay inequities can occur among state employees who perform similar duties but are paid at different levels.

Division has had difficulty making improvements—The problems caused by lack of proper maintenance were identified in the 1993 Auditor General review of the Division, which found that the Division did not properly maintain or manage the State's classification system. That audit found the Division had discontinued regular reviews in 1989 because it lacked the funding to implement the salary upgrades that often resulted. The report recommended that the Division develop a plan to establish the future purpose and direction of the State's classi-

fication system, including goals, strategies, and an approach to gain the legislative support needed to maintain and enhance the system.

In 1995, the Division contracted with a consulting firm to help implement a new job evaluation system. However, after concerns from the Governor's Office and the Legislature prompted two reviews of the proposed system by other consultants, the Division did not implement the new job evaluation system. Consultants who reviewed the proposed system determined that it would produce unreliable job descriptions and make equitable compensation difficult. In the past five years, the State has spent over \$1 million attempting to implement a new job evaluation method.

Division Proposes New Job Evaluation Method

Recognizing the importance of a strong job evaluation plan, the Division is making efforts to implement a system that should address many of the problems associated with the current whole job evaluation system. In response to a legislative mandate, the Division proposed replacing the current whole job method of job evaluation with a "point factor" method. Although the point factor method possesses many advantages, it also has potential limitations that must be addressed.

Division proposes a new job evaluation method—In response to a legislative requirement, the Division is proposing a new job evaluation method. Laws 1998, Chapter 292 required the Division to propose a new job evaluation method that would result in fewer and broader job classes, fewer classification actions, and a review of all classes once every three to five years. In response, the Division proposed switching to an automated point factor job evaluation method.

While there are many different versions of point factor systems, the same basic principles apply. In a point factor system, an organization selects the appropriate job skills or factors that are important to it and essential for its work, such as interpersonal skills or level of education, and determines the extent to which these job factors are required for each position. Next, the organization assigns point values and weights to the various factors, according to the importance the organization has assigned to each factor. For example, the number of points assigned to interpersonal skills will depend on the importance of this skill for a particular job. Further, the weight assigned to interpersonal skills would be greater if the organization values this skill more highly than it values level of education. Using the points and weights, a point total is calculated for each position within the organization. Those positions that are most critical to the organization should receive the highest point totals.

A point factor system would provide the following advantages over the current system:

- **Explicit criteria**—Point factor systems are generally more objective and reliable than whole job systems because they contain specific job factors with associated point values, which form the basis of evaluation for each job in the organization. Individual human resource analysts can use the established factors and points to make informed job evaluation decisions, such as whether to reclassify or establish a position, instead of depending solely on judgment or expertise. Therefore, different analysts should reach the same conclusions when making job evaluation decisions.
- **Internal Equity**—Point factor systems also allow for a higher degree of internal equity than whole job systems allow. Internal equity ensures that similar positions receive equitable compensation. Because positions are evaluated using factors with defined levels and corresponding points, they are more likely to be analyzed in a consistent manner across and within various state agencies.

In addition to proposing a point factor system, the Division plans to establish a regular maintenance schedule and address legislative concerns about employee compensation levels. The Division plans to review approximately 35 percent of all job classifications each year, beginning in the year 2000. At this pace, each classification will be reviewed every three years. Further, because the Legislature also mandated that state employee compensation must be within 5 percent of market compensation by fiscal year 2002-2003, the Division will perform market salary surveys and determine what the State's new pay ranges should be, based on market survey results.

Point factor systems not without potential problems—Although point factor systems can correct many of the State's current job evaluation problems, they are not without potential disadvantages. Specifically:

- **System still subject to manipulation**—Although a point factor system is more objective than a whole job method, system manipulation can still occur. For example, state agency managers and employees who play a part in defining a position's duties could overstate the job duties. In addition, the Division proposes implementing a process for employees to review their job descriptions and duties to ensure accuracy. While the Division plans to take steps to control this process, such as requiring agency management and human resource analyst approval of any changes to job descriptions or duties, manipulation can still occur. Specifically, managers can request job description changes to obtain employee pay increases even though job duties have not changed significantly.
- **System may have difficulty responding to the external market**—While point factor systems generally provide internal equity, a survey of other states that use these systems

showed that the systems can be difficult to adjust in response to increases in market salaries. Salary adjustments are tied to point values and point values only change as job duties change. If the average market compensation rate for a particular position increased but job duties did not change, there would be no justification to increase point totals for the position. As a result, it would be difficult to adjust the salary for the position without upsetting the system's point structure. This can be a problem in keeping the system current with changing market conditions for positions in such areas as information technology, where technological changes can bring about abrupt changes in market demand for qualified persons.

Division Must Take Several Steps to Ensure New Job Evaluation Method's Success

While implementing a new job evaluation method potentially offers improvements, the Division must take steps to ensure its success. Specifically, the Division should diligently pursue its plans to:

- **Conduct routine system maintenance**—The Division should follow through on plans to routinely maintain the new system to ensure that each job class is reviewed at least once every three years. Routine maintenance would allow the Division to regularly update job descriptions and ensure their accuracy. Further, through regular maintenance reviews, the Division could identify positions that may have been manipulated and make the appropriate adjustments to correct the affected job descriptions.
- **Develop a compensation plan**—The Division should assist and support legislative efforts to bring state compensation within 5 percent of the market to prevent the possibility of system manipulation. Manipulation is more likely to occur if state employees' compensation rates are significantly below what comparable positions are worth in the private sector and other public sector entities. Such disparities encourage manipulation because this may be the only means of obtaining a salary increase for a valued employee. Therefore, the Division should follow through with its plans to conduct a salary survey once job evaluation is completed and restructure salary ranges based on the results. Further, the Division should consider establishing special pay schedules for positions, such as information technology jobs, that may experience significant changes due to fluctuations in market pay. Two software companies contacted during the audit that sell automated job evaluation systems indicated that their systems can be altered to include special pay rates for various positions without adversely affecting the job evaluation system.
- **Develop a communications plan**—The Division should carry out its plans to discuss and demonstrate the automated job evaluation system with human resources staff and state agency managers and supervisors to inform them of how the system works and what constitutes appropriate job evaluation actions. In addition, the Division should pre-

pare a comprehensive set of business practices to guide its analysts in making job evaluation decisions that meet both the State's and individual agencies' needs and communicate to agency managers and supervisors the requirements for obtaining a position reclassification or establishment. Finally, to decrease the potential for manipulation of the point factor system, the Division should establish a process to ensure that human resources staff make changes to employees' job descriptions only in cases where job duties have changed.

Recommendations

1. In order to ensure that the new point factor system is properly used and maintained, and assist and support legislative efforts to bring state compensation to within 5 percent of market compensation by fiscal year 2002-2003, the Division should pursue plans to:
 - a. Implement systematic maintenance of its point factor job evaluation system;
 - b. Conduct a salary survey and develop new salary grades based on market salaries;
 - c. Develop special salary schedules for positions that may experience significant fluctuations in market pay to help bring salaries for these positions closer to market without compromising the integrity of the automated point factor system;
 - d. Communicate with human resources staff, state agency managers, and supervisors regarding proper use of the new system; and
 - e. Develop business practices to guide analysts in making proper job evaluation decisions.
2. In order to decrease the potential for system manipulation, the Division should establish a process to ensure that human resources staff make changes to employees' job descriptions only in cases where job duties have changed.

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FINDING II

THE DIVISION HAS IMPROVED BENEFITS ADMINISTRATION BUT FURTHER EFFORTS ARE NEEDED

Although the Division has taken steps to address many of the benefits recommendations made in the Auditor General's 1993 report, further efforts are needed to ensure that health insurance carriers perform according to the State's expectations. Steps the Division has taken to improve its administration of the state employee benefits program include improving communication with employees, involving employees in the benefits decision-making process, and developing a comprehensive wellness program. However, by conducting more routine monitoring efforts, the Division could do more to ensure that its health insurance carriers perform according to contractual standards. The Division can also improve its monitoring of insurance carrier performance by developing a mechanism to capture and track employee complaint data.

Several Improvements Made to Employee Benefits Program

Since 1993, the Division's administration of employee benefits has significantly improved. Changes made since 1993 have positively affected the employee benefits program. Moreover, a recent comparison study involving a total of 30 major Arizona employers found that the State's benefits are highly competitive.

Several improvements implemented since last audit—The Division has implemented several improvements in the administration of the employee benefits program as a result of the 1993 Auditor General report. Specifically, the Division took the following steps:

- **Employee Benefits Advisory Committee**—In 1993, the Division created an advisory committee to allow employees input into the benefits process. This committee consists of active employees from various state agencies in urban and rural areas, in addition to retirees and one member from the public employee's union. With the establishment of this committee, employees now have input into decisions regarding current and future benefits and can discuss topics such as benefits trends and proposals for new benefits coverage with Division officials.

- **Health Plan Design**—Before 1997, the Division relied on insurance carriers to propose their own specifications for health plans. However, for the most recent benefits contract period, beginning on October 1, 1997, the Division developed the design of the health insurance plans and included the specifics of the plan design in the Request for Proposal submitted to insurance carriers. Therefore, insurance carriers had to bid on a plan that the State developed with its employees' best interests in mind, rather than the carriers proposing health plans that may not have met the needs of state employees.
- **Communication with Employees**—The Division improved its communication with employees through a monthly benefits newsletter, an open enrollment newsletter, and open enrollment meetings throughout the State. These methods of communication inform state employees of the benefits available and any changes made to the benefits program. They also help employees choose the best plans/options for themselves and their families. As an additional way of communicating with employees and retirees, the Division established an Internet Web page. It presents information about state benefits, open enrollment, and national quality ratings for medical and dental insurance plans.
- **Wellness Program**—To improve overall employee wellness and lower insurance costs, the Division developed and implemented a comprehensive wellness program. The program provides various classes covering topics such as low-fat cooking, stress management, and walking. It also brings certain health screenings, such as mammography, hearing, and osteoporosis to various worksites throughout the State and it provides state employees with free flu shots.

State's benefits deemed competitive in a comparison study—The State's total benefits package compares favorably to the benefits offered by other major Arizona employers. In 1998, the Division contracted with a consulting firm to perform a benefits comparison study comparing the benefits of 30 Arizona employers, including the State.¹ Table 2 (see page 19), illustrates how the State's total benefits package and specific benefit coverages ranked as compared to the other organizations surveyed. (The table shows only five of the other governmental organizations included in the survey, but the rankings for these organizations are based on all 30 employers.) For example, the State's total benefit package ranked 12th out of the 30 organizations, while life and dental insurance ranked 8th and 23rd, respectively. Life insurance ranked highly because the consulting firm included the death benefit provided by the Arizona State Retirement System in its analysis, and the Division increased the standard amount of life insurance provided at no cost to state employees from \$5,000 to \$10,000. However, dental insurance ranked low because many other organizations provide higher levels of this coverage at lower or no cost to employees, as compared to the State.

¹ State of Arizona, Department of Administration, 1998 Watson Wyatt Comparison Study, performed by Watson Wyatt Worldwide, October 1998.

Table 2
Arizona Department of Administration
Human Resources Division
Comparison of Benefits Offered by the
State of Arizona and Other Local Organizations by Rank Order¹
October 1998

Organization	Total Benefit Package	Life Insurance Coverage	Medical Coverage	Dental Coverage	Short-Term Disability Coverage
State of Arizona	12 ²	8	9	23	23
City of Phoenix	17	11	18	11	17
Maricopa County	12 ²	6	11	15	28
Mesa Public Schools	14	2	29	2	27
Maricopa County Community College District	1	7	2	3	22
U. S. Government	11	26	23	25	15

¹ The source of this information was a study that compared the benefits offered by 30 public and private sector organizations within Arizona and ranked each organization from 1 to 30 in each category according to competitiveness, with 1 being the most competitive.

² The State of Arizona's total benefit package tied for 12th place with Maricopa County.

Source: Watson Wyatt Worldwide, *State of Arizona, Department of Administration 1998 Watson Wyatt Benefits Comparison Study*, September 1998.

Division Should Improve Insurance Carrier Monitoring Efforts

Although the Division has improved its administration of employee benefits, it should increase efforts to monitor health insurance carriers' performance according to contractual standards. The Division's contracts with health insurance carriers contain performance standards and provisions for monitoring whether carriers meet these standards. However, this monitoring activity is not done on a regular basis and should be done routinely.

Health benefits contracts call for monitoring carrier performance—The Division's current contracts with health insurance carriers include provisions for monitoring carrier performance. As illustrated in Table 3 (see page 21), these contracts require carriers to meet several performance standards. For example, health maintenance organizations (HMOs) must pro-

vide routine appointments, such as general health exams, to state employees within five to seven days of request and maintain adequate provider networks to meet the State's needs.

The contracts provide various monitoring tools that the Division can use to determine whether carriers meet these standards. For example, as illustrated in Table 3 (see page 21), the Division can review employee complaint data and perform satisfaction surveys. The Division has taken some monitoring steps by contracting with consulting firms to audit some of its insurance carriers' claims processing and payment activities and conducting employee satisfaction surveys. In addition, the Division collects and reviews various monthly, quarterly, and annual reports provided by insurance carriers covering topics such as claims, enrollment demographics, and utilization. These reports provide the Division with information to understand the type of activities and total costs resulting from state employee enrollment in carrier health plans.

Some of Division's monitoring efforts not performed on regular basis—Although the Division conducts satisfaction surveys and claims audits, it does not routinely monitor carrier performance. Currently, the Division only monitors performance in some standards when it receives an employee complaint in that area. For example, the Division might monitor the "Access to Primary Care Providers" standard if it receives a complaint that an employee had to wait longer than five to seven days before receiving a doctor's appointment. However, the Division performs this activity only after receiving a complaint, not as part of an ongoing monitoring process to assess carrier performance. By not routinely monitoring carrier performance, the Division cannot proactively correct problems, but must instead wait for an employee to complain before taking action. Moreover, the lack of an ongoing monitoring process could hinder the Division's ability to meet legislative requirements. Specifically, Laws 1998, Chapter 212 requires the Division to report at least semiannually to a legislative oversight committee regarding health plan carriers' achievement of performance standards. Therefore, instead of monitoring only in reaction to employee complaints, the Division should regularly monitor health insurance carrier compliance with performance standards. These efforts might include calling various providers to determine how long it takes to schedule an urgent appointment or regularly analyzing current provider lists to ensure state employees have sufficient coverage.

Division Should Track Complaints

The Division should track employee complaints to facilitate their review and enhance their use as a monitoring tool. The Division works to quickly resolve the complaints it receives each month but does not necessarily maintain a record of them. Further, the Division has no means for tracking complaints that state agency benefits liaison or health insurance carriers receive from employees. Only written complaints the Division receives are summarized and reported to Division management. Inadequate employee complaint information limits the

Table 3

Arizona Department of Administration
Human Resources Division
Contracted Health Insurance Carriers
Selected Performance Standards, Monitoring Activities,
and Penalties for Noncompliance
Effective October 1997

Categories of Performance Standards	Monitoring Activity	Penalties for Noncompliance with Standards
Access to Primary Care Providers —HMOs must provide routine appointments within five to seven days of a state employee's request.	Review of complaints logged by the Division; random audits conducted by the Division.	\$100 for every incident when elective access is not met.
Staffing of Member Services Department —Carriers must maintain diverse personnel to serve clinical, language, gender, and geographic preferences of the State's employee population.	Review of complaints logged by the Division; random audits conducted by the Division.	\$150 per incident for inability to meet the State's need for reasonable personnel diversity.
Provider Networks —Carriers must maintain adequate provider networks to meet the Division's access requirements.	Review of complaints logged by the Division; review of vendor network directory as compared to the location of state employees.	\$5,000 per quarter for network problems not brought to the Division's attention in advance.
Customer Satisfaction —Annual state employee satisfaction survey must show no less than 80 percent overall patient satisfaction.	Review and analysis of satisfaction surveys by the Division.	Five percent reduction in retention fees for less than 80 percent overall state employee patient satisfaction.
Appeals and Grievances —All appeals and grievances must be researched and resolved within state and federal time frames.	Random audits conducted by the Division.	\$50 per day for each appeal or grievance not resolved within state or federal time frames.

Source: Auditor General staff summary of the October 1997 state employee health benefits contracts.

Division's ability to thoroughly assess carrier performance for several performance standards and collect any associated financial penalties for noncompliance with these standards.

Because complaints are critical to the Division's monitoring of carrier performance and imposing financial penalties, the Division should develop and implement a mechanism for capturing and tracking complaint data at the state agency, carrier, and Division level. This would enable the Division to analyze this valuable source of data and identify and address trends, correct prevalent problems or issues, and make adjustments to future contracts in order to improve carrier service to the State. For example, Colorado tracks employee complaints regarding health insurance carriers by entering all complaints into a computer database. This allows Colorado benefits staff to periodically sort the database and identify trends or problems, and discuss potential resolutions with the carriers. Further, Colorado benefits staff use the database to assist them in evaluating whether health insurance carriers are meeting contractual performance standards.

Recommendations

1. The Division should conduct ongoing monitoring efforts, such as calling various providers to determine how long it takes to schedule an appointment or regularly analyzing current provider lists on a routine basis to ensure that health insurance carriers meet contractual performance standards and provide adequate service to state employees.
2. The Division should develop and implement a mechanism for capturing and tracking employee complaints to ensure that employee complaint information is considered.

FINDING III

FURTHER IMPROVEMENTS NEEDED TO INCREASE EFFECTIVENESS OF HIRING PROCESS

Additional efforts are needed if the State is to realize the maximum value from steps the Division has already taken to improve the hiring process. The Division has adopted a new approach that drastically reduces the amount of time needed to develop a pool of viable candidates for state service vacancies. At times, however, these lists are incomplete or include candidates who are not qualified for the position. The Division needs to focus on additional activities, such as improved staff training, that will further improve the quality of hiring lists. To increase the number of candidates, the Division also needs to conduct more advertising and continue with and possibly expand its efforts to educate the public.

Deficiencies Remain Despite Overall Improvements in Hiring Process

The Division's major change to the hiring process has been the implementation of an automated resume database. This resume database allows the Division to maintain a large pool of potential candidates for state service, matching candidates with jobs as pertinent openings appear, and improving the efficiency and quality of the overall hiring process. Despite these improvements, some state agencies continue to receive candidate lists from the Division that do not meet their needs.

Implementation of database improves efficiency of the hiring process—In an effort to improve and expedite the hiring process, the Division implemented Resumix, an automated resume database, in 1994. Resumix is a software package that electronically processes resumes and creates a bank of candidates and employee skills that can be matched against the requirements of open positions. An individual interested in employment with the State must now submit a resume to the Division for scanning into the Resumix database, where it will remain active for six months. During that time, a candidate's name can be extracted from the system and placed on hiring lists when the skills listed on the candidate's resume match those requested by a hiring supervisor.

Resumix has significantly decreased the time it takes to produce a hiring list for state agencies' use. Because the Resumix database electronically matches candidate resumes to vacant state positions, Division human resource analysts can now generate candidate hiring lists within approximately three days after receiving a request from a hiring supervisor. Under

the previous approach, it could take up to eight weeks to develop a candidate hiring list because the analyst had to announce the position, collect and process applications, score the applications based upon each applicant's experience and training, and generate a list of the top-scoring candidates.

Implementing Resumix has also allowed the Division to delegate a large part of the hiring process to state agencies. For example, several of the large merit system agencies, such as the Departments of Transportation and Health Services, now have access to the Resumix database and can generate hiring lists immediately upon receiving requisitions from hiring supervisors within the agency. Additionally, decentralization allows human resources analysts to work more closely with their agency's hiring supervisors to determine the skills, knowledge, and abilities needed for a position under consideration and produce higher-quality hiring lists.

Lists do not always contain names of qualified candidates—While the Resumix database has improved the efficiency of the hiring process and has generally helped produce satisfactory lists, state agency hiring supervisors have indicated that some hiring lists have not met their needs. Some hiring supervisors interviewed during the audit explained that these hiring lists contained candidates who did not possess the appropriate skills or minimum qualifications needed for the vacant position. For example, a hiring supervisor from the Arizona Parks Department looking to fill a grant coordinator position received a hiring list from the Division containing two individuals with prior experience as parks and recreation lifeguards, but who did not possess the qualifications necessary for a grant coordinator. In addition, the Department of Insurance found it difficult to fill an insurance analyst position when it received a hiring list containing four individuals who previously worked for insurance companies as accountants, but who did not possess the qualifications necessary to perform as insurance analysts. In both of these examples, the unqualified candidates were extracted from the database because a key word, such as recreation or insurance, matched the key words the Division entered into the system. These candidates were included on hiring lists because the Division's analysts did not manually review the resumes and screen them out.

While some hiring lists contain unqualified candidates, other lists do not contain a sufficient number of viable candidates. Some hiring supervisors maintained that, after eliminating all of the unqualified candidates on lists, they often end up with very few, if any, reasonable applicants from which to choose. For example, a hiring supervisor from the Office of the Attorney General claimed that he rarely receives hiring lists containing any candidates that he would like to interview. As a result, he is often faced with the task of conducting his own recruiting searches in order to establish a pool of applicants.

Lists with inadequate numbers of qualified candidates erode the efficiencies achieved through Resumix, because hiring supervisors must use other means to attract viable applicants, such as subsequently placing advertisements for open positions. One hiring supervisor explained that once he has determined that a hiring list contains no appropriate candidates, he places a newspaper advertisement for the position and sends the resulting resumes to the

Division for inclusion on the hiring list. Two other hiring supervisors stated that they advertise some positions prior to requesting hiring lists since the Division has historically provided inadequate lists for these positions. These additional activities can increase the time it takes to receive an adequate hiring list to approximately three to five weeks.

Increased Emphasis on Internal Activities Can Improve Quality of Hiring Lists

To ensure that lists include all candidates who are qualified for the position an agency is seeking to fill, the Division should enhance its efforts in several areas. First, the Division should expand its human resource analyst training program to include instruction on how to produce more comprehensive candidate lists. Second, the Division should develop a comprehensive set of policies and procedures to guide analysts and hiring supervisors through the hiring process. Finally, the Division should test the ability of its analysts to consistently produce comprehensive hiring lists that meet state agencies' needs.

Additional staff training needed to ensure comprehensive lists—While the Division has conducted limited training sessions for its analysts, training thus far has focused only on how to properly use the Resumix software. The Division has not conducted training sessions to teach analysts some of the maneuvers, often known by more experienced analysts, that can be used in creating appropriate, more user-friendly hiring lists. In addition, it has not developed training sessions to introduce analysts to the basic procedures to be followed in constructing lists, such as when to add candidates requested by an agency, when to eliminate inappropriate candidates from lists, or how to ensure that all qualified candidates have been extracted and included on hiring lists.

Utah, another state that uses Resumix, provides more extensive training by conducting monthly training sessions that demonstrate how to use Resumix software and review the standard procedures to be followed when creating suitable hiring lists. These training sessions include information on special tactics that analysts can use to develop more consistent, higher-quality hiring lists.

The Division has tentatively scheduled analyst training sessions for 1999. To help resolve problems with incomplete or inaccurate lists, these training sessions should not only focus on how to use the Resumix software package, but also on how to build candidate lists that consistently meet state agencies' needs.

Policies and procedures are needed to guide the formation of lists—Currently, the Division does not have a set of policies and procedures to aid in the production of more comprehensive, consistent hiring lists. While the Division does have a manual that outlines how to use the Resumix software, it does not have policies and procedures to guide human resource analysts and state agency hiring supervisors on issues such as when it is appropriate to add more candidates to a hiring list, how to ensure that all qualified candidates have been in-

cluded on a list produced through Resumix, or when an agency should conduct its own advertising. For example, a manual might contain a policy for advertising open positions that explains which newspapers should be used and lists account numbers that should be used for a reduced billing rate.

Utah has developed a manual that provides guidelines for important elements of the hiring process. For instance, the manual describes the role of hiring supervisors in the hiring process, how to advertise open positions, and how to conduct effective recruitment searches using the Resumix database. Developing a similarly comprehensive manual in Arizona would help guide analysts and hiring supervisors through all aspects of the hiring process.

Division should regularly test consistency of analysts—While the Division conducts limited testing to ensure that resumes are accurately read into the database, it performs no testing to ensure that analysts consistently include all appropriate candidates from the Resumix database on hiring lists. To test the consistency of hiring lists produced by its analysts, the Division can have its analysts run applicant searches from the same position’s vacancy requisition and produce a candidate hiring list. This simple test would demonstrate the consistency of hiring lists among analysts and help the Division create training sessions to address any weaknesses found.

Additional Advertising and Education Needed to Attract More Candidates to State Service

In addition to conducting internal activities to ensure that all of the appropriate candidates are being included on hiring lists, the Division should take steps to increase the number of qualified candidates interested in state service. Specifically, the Division should increase its advertising efforts to attract more candidates for state positions. Further, the Division should continue with and possibly expand its efforts to educate the public about how to effectively apply for state positions.

The Division should advertise a larger number of open positions—To increase the number of qualified candidates in the Resumix database and further improve the quality of hiring lists, the Division should expand its advertising efforts. Since the implementation of Resumix, the Division has reduced its advertising of open positions. While the Division advertised many of the State’s open positions on a weekly basis prior to implementing Resumix, it currently advertises only those positions for which it cannot find any candidates within the database. This policy has potentially limited the public’s knowledge of open state positions and contributed to the inadequate hiring lists the Division generated. One hiring supervisor who was dissatisfied with the hiring list he received for an accounting technician position suggested that the Division should place a general advertisement for accounting technicians in the newspaper in order to maintain an adequate pool of candidates for this frequently requested position.

Interviews with officials in other private and public organizations showed that many employ much wider advertising efforts. For example, human resource professionals from Nike and Intel said their companies use automated resume systems only to process and store candidate resumes. To ensure a sufficient number of candidates are available for consideration, these corporations advertise in newspapers, professional journals, and on the Internet. Human resource professionals from the Cities of Phoenix, Glendale, Chandler, and Gilbert indicated that the majority of their applicants identify open positions through advertisements in local newspapers. Most of these local government entities also found extensive use of job hotlines and the Internet to be very beneficial in attracting potential job candidates.

The Division should consider advertising frequently open positions and current hard-to-fill positions on a weekly basis in local newspapers and continue posting job openings on its newly constructed Internet Web page. The Division could also incorporate a statement directing interested job seekers to contact the Division via phone or Internet to obtain information on how to prepare and submit a scannable resume. Recently, the Division implemented an Internet Web page, which offers information on state job opportunities as well as how to prepare a scannable resume.

The Division should continue and expand current efforts to educate the public—The Division should continue with and possibly increase its effort to educate the public regarding state service positions and how to apply for them. Currently, the Division attends job fairs to recruit for various state positions and occasionally conduct educational workshops on how to prepare scannable resumes for the Resumix database. For example, the Division recently participated in a job fair at Arizona State University to discuss state job opportunities and educate interested students on how to apply for state positions. In addition, the Division conducts job fairs in conjunction with other state agencies to recruit for specific positions, such as youth corrections officer or eligibility interviewers. Therefore, the Division should continue with and possibly expand its efforts to instruct potential job candidates on how to apply for state positions and how to prepare and submit a scannable resume by participating in job fairs and other forums that attract job seekers.

Recommendations

1. The Division should ensure that all of the appropriate candidates from the Resumix database are included on hiring lists by:
 - a. Conducting regular training sessions to teach analysts how to use the Resumix database and to teach analysts some of the basic maneuvers or procedures that can be used in producing lists that meet state agencies' needs;
 - b. Developing a set of policies and procedures containing information about standard business practices for analysts and agencies to use in developing adequate candidate lists; and,
 - c. Regularly testing analysts' abilities to search for viable candidates using the Resumix database.
2. The Division should increase the number of viable candidates in the Resumix database by:
 - a. Advertising frequently open positions and current hard-to-fill positions on a weekly basis in local newspapers in addition to continuing its efforts to post job opportunities on the Internet; and,
 - b. Continuing with and possibly expanding its attendance at job fairs.

OTHER PERTINENT INFORMATION

During the audit, other pertinent information was gathered regarding the State's employee grievance system.

Employee Grievance Process

According to the State's personnel rules, employees should have access to a process that allows them to resolve complaints. Each state agency covered by these rules must establish a grievance process. As part of this process, agencies allow employees to refer a grievance alleging discrimination or noncompliance with personnel rules to the Division for independent review, if the employee believes the agency did not satisfactorily address the complaint. Based on a review of 52 grievances referred to the Division for review during fiscal year 1997-98, the Division conducts thorough, timely reviews according to personnel rules. However, the Division's role in this process could be affected by the recommendations of a legislatively appointed committee examining the rules pertaining to grievances.

Agency grievance procedures—According to personnel rules within the Arizona Administrative Code, each state agency covered by the rules shall adopt a grievance procedure which affords each employee a systematic means of resolving complaints concerning discrimination, an agency's noncompliance with these rules, or other work-related matters which directly and personally affect the employee. The personnel rules further establish minimum requirements agencies must follow when developing grievance procedures.

While agencies must incorporate into their grievance procedures the minimum requirements set forth in the personnel rules, these procedures vary somewhat from agency to agency. However, agencies typically follow a traditional form of grievance process, which consists of elevating a grievance through an agency's management structure. Depending on the agency's size, a traditional, multi-step grievance process can take from 25 to 40 working days to complete from the time the grievance is submitted through the time the agency renders its final response. For the larger agencies contacted, this process includes the following four steps.¹

- **Step One**—An employee submits a written grievance to his or her immediate supervisor. The supervisor provides a written response to the grievance and, if the employee is not

¹ The following agencies were contacted as part of this review: Department of Corrections, Department of Transportation, Department of Economic Security, Arizona State Parks, Board of Cosmetology, Board of Podiatry Examiners, and the Residential Utility Consumer Office.

satisfied with this response, the grievance is referred to a manager, division director, or assistant director.

- **Step Two**—A manager, division director, or assistant director reviews and responds in writing to the grievance. Again, if the employee is not satisfied with this response, the grievance is referred to the agency's director or deputy director.
- **Step Three**—The agency's director or deputy director responds in writing to the employee. The director's resolution represents the agency's final response unless the grievance alleges discrimination or noncompliance with the personnel rules. In these instances, the director's response informs the employee that he/she may submit the grievance to the Division for an impartial final review.
- **Step Four**—The Division reviews grievances that employees submit alleging discrimination or noncompliance with personnel rules.

State agencies typically inform employees of the availability of a grievance process through new employee orientation meetings, employee handbooks, policy and procedure manuals, agency newsletters, the presence of a grievance coordinator or employee relations department, and by word-of-mouth, particularly in the smaller agencies.

The Division's role in employee grievances—Once the Division receives a grievance alleging discrimination or noncompliance with personnel rules, it conducts an administrative review of the grievance, including a review of the agency's written responses to the grievance and any other supporting documentation submitted by the employee. In some cases, the Division may contact the employee or others involved in the grievance for additional information. If the facts of the grievance support the agency's final response, the Division must affirm that decision. Otherwise, the Division must conduct an investigation and produce a report of its findings and final decision. The personnel rules allow the Division 20 days to complete its review and issue any necessary reports. During the past three fiscal years, the Division received and reviewed over 270 grievances alleging discrimination and/or noncompliance with personnel rules.

Based on a review of 52 of the 90 grievances received and reviewed by the Division during fiscal year 1997-98, the Division conducts thorough, timely reviews of these grievances in conformance with personnel rules. In all 52 cases, the Division's recommendations were based on the facts presented in the grievances and supporting documentation. The Division found that in all 52 cases, the agency's review and actions appeared appropriate and that none of the grievances contained proof of discrimination or noncompliance with personnel rules. The following examples represent typical grievances the Division reviews:

- An employee violated her agency's grooming policy and was told to take corrective action or go home without pay. Although the employee admitted to not complying with the grooming policy and chose to go home without pay, she felt discriminated against and filed a grievance.
- An employee was suspended for 40 hours without pay due to insubordination. Although the employee admitted to the insubordination, he felt his suspension was an abuse of power and in noncompliance with personnel rules regarding standards of conduct.

Proposed changes to rules pertaining to grievances—The Legislature recently formed a committee to review and revise the current set of personnel rules including the rules pertaining to employee grievances. Specifically, Laws 1997, Chapter 288 designated a committee to study the existing personnel rules, recommend revisions to simplify and standardize the rules, and report its recommendations to the Governor. The committee plans to submit its final report and recommendations to the Governor in January 1999. To facilitate its review, the committee formed a special team to identify problems with current employee grievance rules and practices and generate potential solutions. Based on its research, the grievance team concluded that state employees are dissatisfied with the grievance process. In particular, the grievance team determined that the process inhibits communication and the ability to solve grievances at the lowest level. Further, the team found that employees lack sufficient time and resources to participate in the process.

While the grievance rules review team made several recommendations to improve the grievance process at the state agency level, it made one recommendation that could affect the Division. Specifically, the team recommended to remove the Division's authority to review grievances alleging discrimination. Instead, employees not satisfied with their agency's final response to a discrimination grievance would be referred to the Equal Employment Opportunity Commission.

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Agency Response

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JANE DEE HULL
GOVERNOR



J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

Office of the Director
1700 WEST WASHINGTON - PHOENIX, ARIZONA 85007

February 1, 1999

Douglas R. Norton, Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Mr. Norton:

We have completed our review of the Arizona Department of Administration, Human Resources Division, performance audit. We generally agree with the audit findings and recommendations contained therein and believe that the report provides an accurate picture of the state of the Human Resources Division and its progress and performance since the last audit.

As the audit indicates, we have made significant progress in enhancing existing processes. More responsive customer service approaches are being developed for implementation within our available resources. These are identified in our response to each of the findings and recommendations as appropriate.

Finding I: Division proposes new job evaluation method

Recommendation 1: In order to ensure that the new point factor system is properly used and maintained, and assist and support the legislative efforts to bring state compensation to within 5 percent of market compensation by fiscal year 2002-2003, the Division should pursue plans to:

- a. Implement systematic maintenance of its point factor job evaluation:***
- b. Conduct a salary survey and develop new salary grades based on market salaries;***
- c. Develop special salary schedules for positions that may experience significant fluctuations in market pay to help bring salaries for these positions closer to market without compromising the integrity of the automated point factor system;***
- d. Communicate with human resources staff, state agency managers, and supervisors regarding proper use of the new system; and***
- e. Develop business practices to guide analysts in making proper job evaluation decisions.***

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

The Division's action plan includes conducting routine system maintenance, developing a compensation plan and developing a communication plan. The Division will continue to conduct its annual salary survey and make salary recommendations to the Legislature that will address monies needed to assist the Legislature in meeting its established goal of bringing state employee compensation within 5% of market.

The Request for Proposals for the new job evaluation system includes all of the provisions outlined in recommendation #1.

Recommendation 2: In order to decrease the potential for system manipulation, the Division should establish a process to ensure that human resources staff make changes to employees' job descriptions only in cases where job duties have changed.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Division has begun the planning and training necessary to implement a process to review all job classes once every three to five years as a means of ensuring that the new job evaluation system is current and maintained. In addition, the Division will increase the number of on-site desk audits that it conducts as a means of ensuring that changes to employees' job descriptions are made only in cases where job duties have changed.

Finding II: The Division has improved benefits administration but further efforts are needed

Recommendation 1: The Division should conduct ongoing monitoring efforts, such as calling various providers to determine how long it takes to schedule an appointment or regularly analyzing current provider lists on a routine basis to ensure that health insurance carriers meet contractual performance standards and provide adequate service to state employees.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Division is developing an appropriate audit schedule for each carrier based on contractual criteria, membership volume, revenue volume and complaint data. The implementation of this audit schedule or a derivative thereof will be predicated on funding availability within existing and future appropriations.

Recommendation 2: The Division should develop and implement a mechanism for capturing and tracking employee complaints to ensure that employee complaint information is considered.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Division is in the final stages of implementing an automated complaint tracking system with the final phase scheduled for completion in February 1999.

Finding III: Further improvements needed to increase effectiveness of hiring process

Recommendation 1: The Division should ensure that all of the appropriate candidates from the Resumix database are included on hiring lists by:

- a. Conducting regular training sessions to teach analysts how to use the Resumix database and to teach analysts some of the basic maneuvers or procedures that can be used in producing lists that meet state agencies' needs;***
- b. Developing a set of policies and procedures containing information about standard business practices for analysts and agencies to use in developing adequate candidate lists; and***
- c. Regularly testing analysts' abilities to search for viable candidates using the Resumix database.***

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

The Employment Unit has a training program in place that provides training to all employees assigned to perform recruitment duties. This training has focused on introductory training and system functionality. The training has been expanded to include advanced recruitment training and a monthly assessment of analysts' abilities to search for viable candidates in the Resumix database.

Recommendation 2: The Division should increase the number of viable candidates in the Resumix database by:

- a. Advertising frequently open positions and current hard-to-fill positions on a weekly basis in local newspapers in addition to continuing its efforts to post job opportunities on the Internet; and,***
- b. Continuing with and possibly expanding its attendance at job fairs.***

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

The Division is placing a weekly announcement in the newspaper advising job applicants about State employment and how to submit job applications. It will continue to post hard-to-fill, open continuous and special recruitment needs vacancies on its web page. In addition, it will continue to participate in job fairs and special recruitment events to educate applicants and the public on jobs within the State and on how to submit scannable resumes.

Douglas R. Norton
February 1, 1999
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Your recognition of the improvements that have occurred in the Division since 1993 in the areas of benefits and employment is appreciated. With regard to the planned implementation of a new job evaluation method, I am excited about the potential for process improvements and increased levels of customer satisfaction.

Your comments have provided us with valuable insight. We look forward to your ongoing support and assistance that will enable us to reach the objectives outlined in your review. The Department of Administration and the Human Resources Division continue to strive to understand and anticipate our customers needs and to deliver services that exceeds their expectations. The performance audit identifies opportunities for continuous process improvement projects in the Human Resources Division and establishes priorities for the work of the Division staff. My expectations for the next 6 months include measurable progress in the areas identified in the performance audit.

Sincerely,

J. Elliott Hibbs
Director