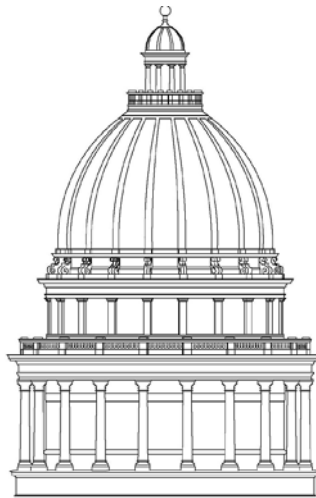


REPORT TO THE  
**UTAH LEGISLATURE**  
Number 2013-13



**A Performance Audit of the  
Department of Workforce Services  
Work Environment**

November 2013

Office of the  
LEGISLATIVE AUDITOR GENERAL  
State of Utah



STATE OF UTAH

# Office of the Legislative Auditor General

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## Audit Subcommittee of the Legislative Management Committee

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Senator Gene Davis • Representative Jennifer M. Seelig



JOHN M. SCHAFF, CIA  
AUDITOR GENERAL

November 19, 2013

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of the Department of Workforce Services Work Environment** (Report #2013-13). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

A handwritten signature in black ink that reads "John M. Schaff" with a stylized flourish at the end.

John M. Schaff, CIA  
Auditor General

JMS/lm



# Digest of a Performance Audit of the Department of Workforce Services Work Environment

Utah's Department of Workforce Services (DWS or department) is charged with developing the state's workforce, determining eligibility for public assistance, and encouraging housing and community development. DWS has undertaken changes over the last five years that contributed to an atmosphere of frustration and unrest among past and present employees who voiced concerns to various legislators.

We interviewed 72 of these complainants. These interviews included a significant portion of those coming forward, but did not include all who expressed concerns directly to legislators. Complainant interviews were followed with interviews of a statistically valid, random sample of 100 current department employees regarding concerns raised by the complainants. The random sample interviews were conducted to determine whether concerns are agencywide or localized to the complainants. The complainants and random interviewees expressed concerns at similar rates. In the course of examining these concerns, we narrowed our focus to the Eligibility Services Division (ESD or division).

## Chapter II PFP Has Design and Implementation Flaws

**Rapid Organizational Changes Hindered Design and Implementation of Pay for Performance (PFP).** An external climate of economic hardship and political uncertainty characterized the environment into which DWS introduced significant changes. While it is apparent that, altogether, the structural and process changes led to improved department efficiency, the changes were introduced in such quick succession that management could not track the specific effects of each. This includes monitoring the efficiency of the PFP program (a monetary employee incentive program).

**Lack of Baseline Data Resulted in Significant Incentive Reductions.** ESD management has significantly reduced the amount of PFP incentives paid to individual eligibility workers, in part because of their lack of baseline determination data to establish what levels would be both motivational and sustainable. Incentives dropped from \$25 to \$10 to \$5 per determination. These incentive reductions are detrimental to the morale of high-performing employees, who receive a reduction in total compensation as management addresses the budget constraints for the program.

**PFP Resulted in Inequitable Opportunities to Earn Incentives.** ESD's PFP system is driven by the final outcome measure of "determinations." This single piece of data, while important, does not adequately address system variability or employee contributions. While

the PFP program assumes all eligibility specialists have similar workloads, the workloads for some employees are skewed with additional opportunities to make determinations, which results in higher incentive payments.

**PFP's Implementation Does Not Fully Recognize the Collaborative Nature of ESD Work.** Additional time given to some employees to make determinations requires that other employees complete additional work that does not generate determinations, specifically phone time. In addition, the PFP program does not take into account the collaborative nature of making a determination. As supervisors adjust eligibility specialists' workloads to align with employee strengths to maintain high-performance levels, the PFP program has not been amended to control for the resulting inequitable opportunities.

### **Chapter III**

## **Manager and Supervisor Inclusion in PFP Is Concerning**

**PFP Overcompensates Supervisors and Managers.** Supervisors and managers receive a disproportionate share of PFP incentive payments. While supervisors and management compensation accounts for 10 percent of all DWS compensation, their incentive payments account for 17 percent. On average, managers and supervisors receive \$391 in incentives, while eligibility specialists receive \$152. Supervisors and management participated in PFP at a higher rate than staff. In addition, supervisors and managers also satisfy requirements for incentive payments more frequently than staff and receive larger incentives.

**PFP for Management and Supervisors Cannot Demonstrate Greater Efficiency.** The stated purpose of PFP on the whole is to drive efficiency. A review of the incentive structure for ESD supervisors and management revealed that their efficiency levels actually appear to be regressing. This assessment is based on two measurements, total compensation costs and span of control ratios (the number of employees a supervisor oversees). Compensation and employee numbers have increased for supervisors and management, while simultaneously decreasing for eligibility specialists.

**Management Incentives Are Based on Staff Output.** Along with decreasing efficiency, the incentive structure for supervisors and managers has rewarded oversight that has not proven its effectiveness through departmentally established metrics. Monthly incentives were paid to supervisors whose team produced below average determinations relative to other teams in the same hierarchy. This situation is possible because supervisor and management incentives are calculated from the individual outputs of their subordinates rather than comparing the collective team's performance against other teams.

**PFP's Inability to Isolate Supervisor and Manager Contribution Is a Concern.** ESD has not isolated the contribution of supervisors and managers to team efficiency. Because determinations are the metric used by the division to determine productivity, and neither

supervisors nor management make determinations, the division has no clear metric to determine supervisor and management contribution.

**Management Disregarded Their Own Internal Audit Findings.** In December 2012, the internal audit division of DWS produced a report outlining findings from its review of the PFP program. Part of that audit addressed management's participation in PFP. The auditor's main concern with providing incentives for these positions is that compensation is based on "others' work performance." In its response to the internal audit report, ESD management disagreed with the auditor's conclusion and stated that their observation and recommendation "lacks merit and is subjective."

## **Chapter IV**

### **Accuracy Assessments Are Inconsistent and Inequitable**

**Inconsistent Rates of Noncompliance Illustrate Inequitable Accuracy Expectations.** Eligibility specialists working in more complex hierarchies are, by the nature of their work, less likely to meet accuracy requirements. This increased complexity affects their eligibility for incentives and the likelihood of corrective actions. The percent of employees who miss accuracy requirements varies by hierarchy but parallels the hierarchy's overall error rate. Differences between hierarchy error rates are attributable to the complexity of cases associated with each hierarchy. Since ESD management has already established a procedure that results in differing productivity requirements for each hierarchy, similar adjustments should be implemented for accuracy requirements.

**Case Selection for Accuracy Reviews Needs to Be Random and Unbiased.** Eligibility specialists raised concerns about Performance Review Team (PRT) case reviewers' tendency to review multiple-determination cases, which is being addressed by PRT management. Data from calendar year 2012 confirmed the selection bias, but also showed that eligibility specialists appear to be nullifying the effect of that bias by better preparing cases more likely to be selected. While samples may be stratified to accomplish specific purposes, the selection of cases within specified strata should be random.

**Management Needs to Ensure Consistent Error Rates among PRT Reviewers.** Management's system of evaluating consistency among PRT case reviewers is inadequate and requires better tracking of overturned errors. The rate at which individual PRT case reviewers identify errors is inconsistent when compared against other reviewers evaluating similar cases. Eligibility specialists raised concerns about this lack of consistency among PRT case reviewers because it may affect their ability to meet accuracy requirements. Manager evaluations of PRT case reviews verify the existence of problems with accurate case reviews. PRT management has not tracked the details of overturned errors at a case reviewer level.

**Accuracy Requirements Need Reliability and Consistent Enforcement.** The sample size used to determine eligibility specialists' compliance with accuracy requirements is too small to provide adequate assurance of validity. One solution to this problem is increasing the number of months on which that assessment is based. This problem is compounded when formal employee actions, such as written warnings and performance improvement plans, are inconsistently imposed for poor accuracy. After multiple consecutive months of missing accuracy requirements, some eligibility specialists receive formal corrective actions while others do not.

## **Chapter V**

### **Structural and Management Changes Have Caused Staff Unrest**

**Continual Change at DWS Contributed to Staff Unrest.** Changes within DWS, including budget reductions, caseload increases, and the creation of new management processes, operating divisions, incentive programs, and disciplinary actions have led to staff unrest. Individually, change is difficult for employees to adjust to; concurrently, changes have contributed to significant, negative employee responses. The recession, beginning in 2007, set the stage for continual change, initiated from both outside the department and within it. Increasing demand for services and decreasing budgets necessitated considerable changes and improvements. While DWS management attempted to alleviate the negative impacts of these compounding changes, the number, extent, and frequency of the changes were likely ill-advised.

**Applying a Zero Tolerance Policy Raises Concerns.** DWS management should reconsider their policy regarding employee access to information to allow more flexibility in determining appropriate discipline. The current policy, known as zero tolerance, requires immediate termination of employees for any client data access outside of "legitimate business purposes." While some employees have been terminated, at least two employees have not been terminated for infractions that could fall under this policy, even though the policy expressly prohibits flexibility. Other state agencies with sensitive customer information have chosen not to implement a zero tolerance policy but rather allow disciplinary action to be considered on a case-by-case basis.

**Transitioning Employees to Alternate Career Service Status Became Indefensible.** DWS leadership expected to realize savings in litigation costs by instituting a new career status schedule among employees, but an apparent disconnect between the concept and the development of this idea negated potential savings. Employees often expressed distrust of management motives in requiring the new schedule. Recognizing a lack of savings and growing employee unrest, DWS leadership reversed the schedule requirement.



# REPORT TO THE UTAH LEGISLATURE

Report No. 2013-13

## **A Performance Audit of the Department of Workforce Services Work Environment**

November 2013

### Audit Performed By:

Audit Manager	Tim Osterstock
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# Chapter I

## Introduction

Utah's Department of Workforce Services (DWS or department) is charged with developing the state's workforce, determining eligibility for public assistance, and encouraging housing and community development. DWS has undertaken changes over the last five years that contributed to an atmosphere of frustration and unrest among past and present employees who voiced concerns to various legislators. We interviewed 72 of these complainants. These interviews included a significant portion of those coming forward, but did not include all who expressed concerns directly to legislators. Complainant interviews were followed with interviews of a statistically valid, random sample of 100 current department employees regarding concerns raised by the complainants. The random sample interviews were conducted to determine whether concerns are agencywide or localized to the complainants. The complainants and random interviewees expressed concerns at similar rates.

DWS changes that have resulted in staff concerns include:

- Pay for Performance (PFP)
- Performance Review Team (PRT)
- Structural and management issues
- Other issues not addressed in this report

In the course of examining these concerns, we narrowed our focus to the Eligibility Services Division (ESD).

### **Employee Interviews Expressed Negative Perceptions of the DWS Work Environment**

A significant number of DWS employees expressed concerns to legislators and auditors about a working environment of frustration and unrest. After the Audit Subcommittee prioritized the audit in response to these concerns, our initial methodology included two major interview rounds:

- First, interviews with 72 current and former DWS employees, many of whom contacted legislators to express concerns (complainants). The primary purpose

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**100 randomly selected employees shared concerns at a similar rate as the 72 complainants.**

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of these interviews was to identify the areas of concern to be examined in subsequent phases of the audit. As we had yet to identify these specific areas of concern, complainants were given the opportunity to communicate any and all thoughts and issues related to the agency. The names and any potentially identifying information from these interviews are confidential, and were conducted off DWS work sites because of expressed employee concerns of potential retribution.

- Second, interviews of 100 randomly selected employees employed from all divisions and organizational levels of DWS. This group represents a statistically valid stratified random sample from an organization of close to 2,000 people. Each interviewee was asked the same series of questions, which were developed based on the issues identified during the complainant interviews. The purpose of these interviews was to determine if complainant concerns extended to the agency as a whole. The content of these interviews is also confidential at the request of most employees.

While an agencywide electronic survey was considered, we agreed with department management to limit the audit to interviewing a random sample. This limit was due to the department's concern over the use of employee time.

The extent of these interviews in total is outside the usual practice of this office, but was necessitated by the number of employees coming forward with concerns. Because of the volume of required interviews, the audit was correspondingly longer in duration. Also adding to the duration of the audit was the requirement that complainant interviews be performed away from worksites so employees could remain anonymous. Interviews, both random and complainant, were conducted across the state, further increasing the duration of the audit.

The results of these interviews led us to identify three generalized areas of concern that were frequently expressed by both complainant and random interviewees. Each subsequent chapter will expand on these issue areas:

- Chapters II and III — Pay for Performance (PFP)

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**The volume and the difficulty of the interviews lengthened the duration of the audit.**

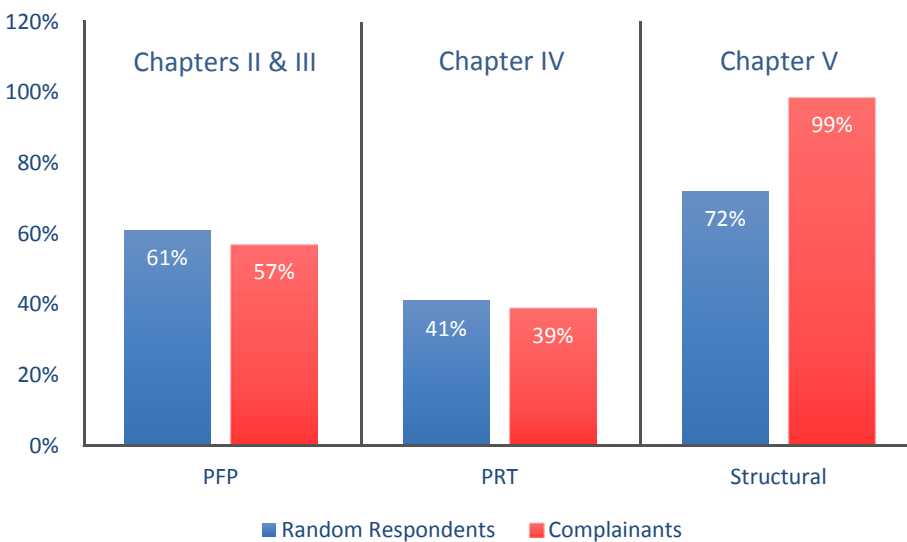
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- Chapter IV — Performance Review Team (PRT) and review process
- Chapter V — Structure and management

Figure 1.1 displays the percentage of both complainant and random interviewees who expressed a concern about one of these three main areas.

**In the areas of PFP and PRT, more random respondents expressed concerns than complainants.**

**Figure 1.1 Randomly Selected DWS Employees and Complainants Expressed Similar Concerns in Comparable Percentages.** The majority of employee concerns fell into three categories.



Source: OLAG interviews of DWS employees

As shown in Figure 1.1, over half of both complainant and randomly selected interviewees expressed concerns with the PFP program. Additionally, when focusing exclusively on interviewees from ESD (32 complainant and 40 random respondents) 63 percent of complainants and 70 percent of random interviewees expressed at least one concern with the PFP program. Over a third of the total interviewees raised issues regarding the PRT. Looking exclusively at interviewed members of ESD, 69 percent of complainants and 68 percent of random interviewees expressed at least one concern with the PRT. The majority of both complainant and total random interviewees reported concerns with some aspect of the structure and/or management of DWS. When considering only ESD, the effect

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**In response to several recurring employee concerns, DWS reports exploring and making changes in those areas.**

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is tempered a bit, with 97 percent of complainants and 75 percent of random interviewees expressing at least one concern.<sup>1</sup>

Additional areas of concern were identified during this process. However, these concerns were specific to individuals, small subsets of the agency, or a specific geographic area. This audit focuses on structural issues affecting the department as a whole. We believe that addressing agencywide issues can have a positive impact on the more localized problems. Without compromising the confidentiality of interviewees, we informed DWS management of many of the local concerns that were outside the scope of our audit. As a result, DWS reports having examined those areas and making some corrections.

### **DWS Has Experienced Significant Shifts Due to the Recession**

DWS is the state agency responsible for supporting jobseekers and determining eligibility for various types of temporary public assistance. The agency is currently comprised of four divisions:

- **Eligibility Services Division (ESD or division)** — Determines eligibility for initial public assistance applicants and conducts ongoing reviews of cases involving financial, nutritional, medical, and child care assistance
- **Workforce Development Division (WDD)** — Provides counseling and job training to individuals seeking employment
- **Unemployment Insurance (UI)** — Handles unemployment contributions from employers and determines unemployment insurance eligibility for unemployed workers
- **Housing and Community Development (HCD)** — Works with city and county governments, community

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<sup>1</sup> **Appendix A** contains a summary of these interviews. Specific responses were not included due to employee concerns of anonymity.



organizations, and individuals with issues concerning housing and local infrastructure<sup>2</sup>

DWS has experienced several significant shifts within its divisions, workforce, and budget over the past five years. The recent economic recession simultaneously increased the demand for services while decreasing the agency's budget. While DWS was already restructuring and working toward increased automation at the time of the recession, it was further compelled to seek opportunities to increase efficiency in response to the increase in caseloads. Furthermore, the passage of the Affordable Care Act placed additional requirements and constraints on the agency. Some of the more substantial changes made within the department include:

- The creation of ESD
- The replacement of an archaic eligibility program management system with an internally developed eligibility rules-based computer system, known as eREP
- An online client portal called myCase
- The department-wide application of the Theory of Constraints (TOC), a management theory focused on identifying and eliminating constraints that prevent the realization of agency goals

Prior to the creation of ESD, eligibility staff were managed separately across five geographic regions. The result of this fragmentation was the application of inconsistent policies and procedures and workload disparities among eligibility staff located in different offices throughout the state. In 2009, the department moved to increase both efficiency and consistency by centralizing the eligibility function and reorganizing the majority of eligibility workers into virtual call centers that can receive calls from customers located anywhere in the state. This change allowed for a more even workload distribution.

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<sup>2</sup> A definitional index clarifying the role of these divisions and other key terms used in the report can be found in **Appendix B**.

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**The recession caused increases in caseloads and decreased departmental resources.**

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**To increase efficiency and consistency between workers, DWS centralized eligibility operations in 2009.**

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**Changes in structure and technology aided a reduction in eligibility staff by 181 FTEs, through planned attrition.**

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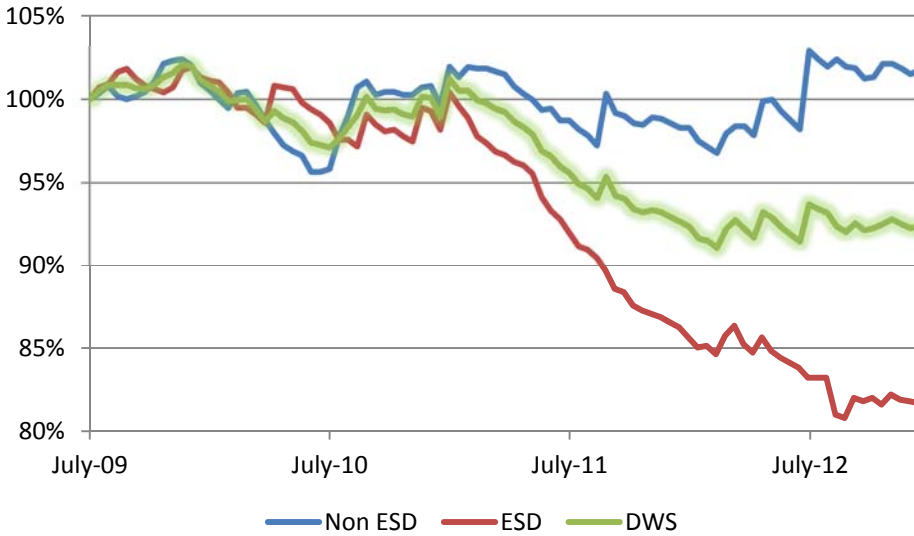
In 2010, DWS implemented a new, rules-based IT system known as eREP. eREP was designed to streamline the eligibility process, using automation to decrease the time needed to make eligibility decisions, thereby making it possible for eligibility specialists to complete more cases.

Combined, the changes to the structure of eligibility and new IT system significantly altered how eligibility specialists worked and defined their jobs. These added efficiencies were used to support full-time equivalent (FTE) employee reductions through planned attrition. In total, DWS reduced its eligibility staff by 181 FTEs (18 percent) between July 2009 and December 2012. This reduction in eligibility caseworkers reportedly resulted in caseload increases for remaining staff. More changes ensued, adding stress to some employees and increasing their concerns with the work environment. The timeline of these changes and the effect on staff are covered in greater detail in Chapter V.

### **ESD Is the Focal Point of Department Changes and Employee Concerns**

ESD is the focus of this audit for several reasons. First, eligibility specialists sustained the majority of DWS's FTE reductions. Second, the division went through the most significant structural changes. And third, DWS has often used ESD as a pilot area to implement new programs and procedures before taking them agency-wide. As a result, ESD has the largest amount of longitudinal data to assess the outcomes of the department's changes. Figure 1.2 demonstrates historical staffing changes of the department and ESD in particular.

**Figure 1.2 DWS Reductions in FTEs Occurred in the ESD. ESD operates at 82 percent of its original 2009 staffing level. Non-ESD divisions have slightly increased staffing.**

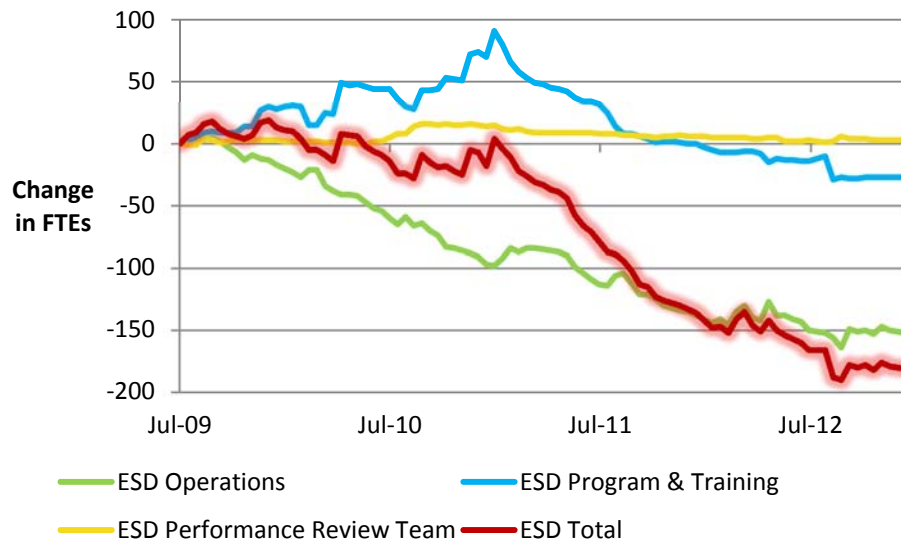


Source: Auditor analysis of State Datawarehouse information

Figure 1.2 demonstrates the dramatic reduction in ESD staff and its effect on the department as a whole. From the creation of ESD in July 2009, ESD staffing was reduced by 181 FTEs (18 percent). The remaining 651 eligibility workers were responsible for the additional cases transferred to them because of the employee reductions and the new growth of cases caused by the economic downturn. Figure 1.3 shows changes in FTE levels for the three main ESD units, compared to the total FTE reductions that occurred in the division.

**ESD operates at 82% of its mid-2009 staffing level.**

**Figure 1.3 Reductions in ESD Operations Account for the Majority of Reductions in ESD. The 19 percent reduction in operations staff accounts for 152 of the 181 FTE reductions in ESD.**



Source: Auditor analysis of State Datawarehouse information

As shown in Figure 1.3, the majority of budget reductions occurred in ESD operations (case workers). The other sections within ESD demonstrated some fluctuations and, ultimately, also had some staff reductions.

## Audit Scope and Objectives

We were asked to address allegations of a negative work environment within DWS. The audit request was prompted, in part, by complaints from current and former DWS employees to members of the Legislature. Specifically, the audit requestors expressed concerns that “the unintended consequence of tighter budgets is a less hospitable workplace that may well be damaging employee morale and productivity.”

The audit team consulted with experts in the fields of organizational behavior, design, and employee management and statistics. An organizational behavior expert from the University of Utah helped us design and conduct unbiased interviews for both complainant interviews and randomly selected respondents. He also assisted in defining a negative work environment, and determining the magnitude of results necessary to proceed with the audit. This

consultant was initially referred to us by the Utah State Department of Human Resource Management.

Over the course of the audit, we collected and analyzed data, much of which were generated by the eREP system. In a few instances, we observed anomalies in the data. However, the anomalies occurred infrequently enough to make the impact on our findings negligible. We utilized the expertise of a statistician during the latter part of the audit to review our data analysis methods and findings.

The report consists of the following:

- Chapter II — Pay for Performance Has Design and Implementation Flaws
- Chapter III — Manager and Supervisor Inclusion in PFP is Concerning
- Chapter IV— Accuracy Assessments Need Consistent Evaluation and Enforcement
- Chapter V— Structural and Management Changes Have Caused Staff Unrest

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## Chapter II PFP Has Design and Implementation Flaws

Pay for Performance (PFP) is, in principle, an appealing mechanism to reward high-performing employees working in specific types of production industries. Implementation of PFP within the team-based structure of the Eligibility Services Division (ESD or division) of the Department of Workforce Services (DWS or department) has, however, raised concerns among employees.

Implementation and operation of the PFP program have demonstrated distinct flaws, including:

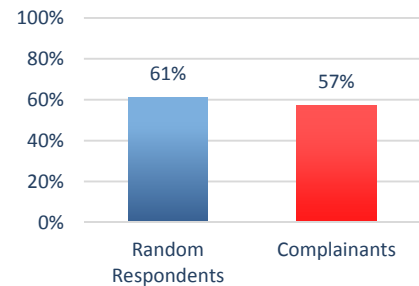
- Introduction of PFP during a time of significant change to division work processes, making tracking the effectiveness of individual changes (including PFP) difficult
- Periodic reduction of incentive payments for eligibility workers due to a lack of clear baseline data
- Failure to adjust for clearly inequitable opportunities made available for some employees to generate incentivized outputs
- Failure to fully recognize and document the collaborative nature of ESD work

These PFP implementation flaws are counterproductive to PFP's program goal, which is to create a link between employee performance and compensation. These flaws also diminish employee perceptions about the program's fairness, which we believe contributes to the morale problem observed during interviews with current and former employees.

### Rapid Organizational Changes Hindered Design and Implementation of PFP

An external climate of economic hardship and political uncertainty characterized the environment into which DWS introduced significant

**Percent of Employees  
Identifying Concerns in  
Chapters II and III.**



changes. While it is apparent that, altogether, the structural and process changes led to improved department efficiency, the changes were introduced in such quick succession that management could not track the specific effects of each. This includes monitoring the efficiency of the PFP program (a monetary employee incentive program).<sup>3</sup>

### **Management Was Forced to React to Difficult Economic and Political Challenges**

DWS, along with the entire nation, experienced significant economic challenges from 2008 to 2013. Coupled with those challenges were fears expressed by management that political currents were carrying the department toward privatization. Those challenges and fears provided impetus for rapid changes within the department and ESD.

Economic and budgetary concerns<sup>4</sup> caused caseloads to increase as management worked to find ways to reduce costs. Reduced costs were, in many instances, made possible by employee attrition, which further intensified caseload sizes for the remaining employees.

DWS leadership reports that at the same time, legislators were beginning to talk about privatizing at least a portion of the department's functions. According to one former legislator, the DWS director at the time was tireless in working with legislators and the agency to find ways to avoid privatization and the layoffs that would likely follow.

Into this climate, DWS leadership introduced multiple changes, including:

- eREP (a case management system)
- ESD (uniform and centralized division)
- Theory of Constraints (a process improvement system)
- myCase (an online client portal)
- PFP (Pay For Performance incentive program)

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<sup>3</sup> A definitional index clarifying this and other key terms used in the report can be found in **Appendix B**.

<sup>4</sup> Detailed further in **Chapter V**.

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**Caseloads increased due to economic and budgetary pressures.**

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All of these changes had a significant impact on employees and the nature of their work. The changes also set the tone for future initiatives.

### **Simultaneous Changes Made Tracking PFP Effectiveness Difficult**

Since the consolidation of ESD in July 2009, the division has undergone many significant changes to improve its efficiency.<sup>5</sup> First, the actual consolidation brought all eligibility services together in an effort to promote consistent direction. Second, the division replaced its 20-year-old data management system with the new eREP system, which went statewide in July 2010. In addition, DWS leadership reports that other changes such as myCase (an online portal through which customers can access information about their cases) helped reduce the amount of time eligibility specialists spent providing updates to customers. Leadership reports that these improvements, combined with staff reductions resulting from a hiring freeze and existing staff attrition, contributed to increased departmental efficiency.

In July 2011, PFP was added into the mix of new programs intended to increase performance. The implementation of PFP represents the fourth major system change in a span of two years. While PFP is likely responsible for some gains, its individual contribution to division efficiency cannot be determined. Figure 2.1 identifies the steady pace of staff reductions during this period of increased efficiency.

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**Rapid changes had a significant impact on employees and the nature of their work.**

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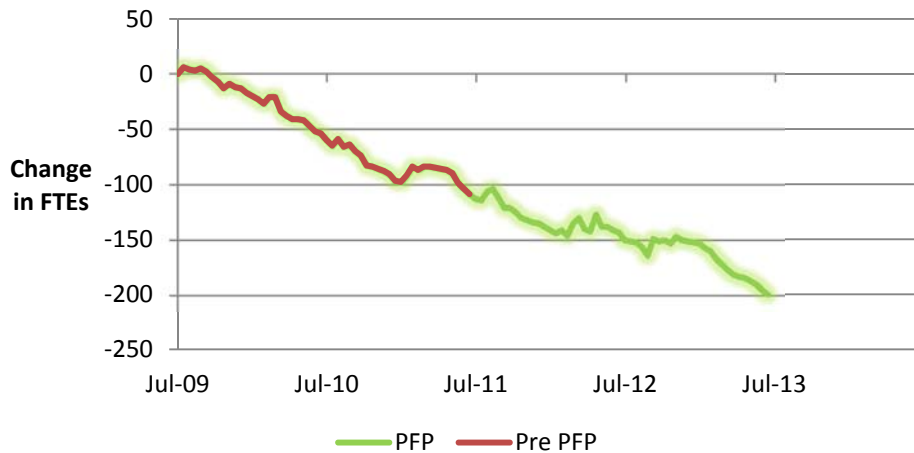
**Four major program changes in two years make tracking program effectiveness difficult.**

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<sup>5</sup> Efficiency is defined here as ability to meet demand for services with available resources.

**Figure 2.1 Attrition Continued Through Multiple Changes.** The pace of staff reductions (attrition) continued through PFP’s introduction but, according to ESD management, further attrition is not sustainable at the same rate. For more information on the changes in the agency, see Figure 5.2 in Chapter 5.



Source: Auditor analysis of State Datawarehouse information

The decreases in FTEs shown in Figure 2.1 can be attributed to a mix of organizational changes (including eREP and PFP) which created opportunities to increase staff workloads. The implementation of eREP in July 2009 was the key element of these reductions. In fact, a 2013 study by the United States Department of Agriculture regarding Utah’s modernization efforts states that

the increasing level of automation in the eREP eligibility system appears to enable eligibility workers to process applications faster. . . . These types of technological innovations have allowed a smaller eligibility staff to process increasing numbers of applications with no sustained increase in average processing time.<sup>6</sup>

In our opinion, no one in the department could sufficiently state the degree to which each change affected the efficiency of the organization.

**The department did not sufficiently state the effects of each change.**

<sup>6</sup> U.S. Department of Agriculture. Food and Nutrition Service. Office of Research and Analysis. *The Evolution of SNAP Modernization Initiatives in Five States*. 2013. 143.

## **Lack of Baseline Data Resulted in Significant Incentive Reductions**

ESD management has significantly reduced the amount of PFP incentives paid to individual eligibility workers, in part because of their lack of baseline determination data used to establish what levels would be both motivational and sustainable. These incentive reductions are detrimental to the morale of high-performing employees, who receive a reduction in total compensation as management addresses the budget constraints for the program. Best practices for incentive payments suggest that incentives need to be consistent to ensure proper buy-in from employees. The division is beginning to receive additional funding to maintain and slightly expand current staffing levels. Other intrinsic rewards should be emphasized as funding and staffing levels stabilize.

### **Minimal Use of Baseline Data Caused Management to Reduce Incentives**

Since the PFP program began, determination incentives have been based on the number of correct determinations<sup>7</sup> an eligibility specialist makes above hierarchy average. Since the pilot phase of the program, the amount paid for each net determination has steadily decreased as the cost to incentivize participating workers exceeded the savings applied to fund the program. The primary reason for this discrepancy is that the growth of incentive payment cost was not set from baseline determination volume data.

DWS Workforce Research and Analysis staff stated that determinations were defined around April 2011, and data collected through June 2011 were unreliable. Therefore, when the PFP pilot began in the subsequent month, management had no reliable baseline data to justify its incentive structure.

The PFP legislation sponsor, also a consultant in private sector PFP programs, said that for PFP programs to be properly designed, an organization must have at least three years of reliable data on which to base program expectations.

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<sup>7</sup> Determinations here are defined as the acceptance or denial of an application to a specific public assistance program.

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**Steady decreases in incentive amounts are, in part, the result of inadequate baseline data.**

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When the pilot phase of the program began in July 2011, the incentive structure consisted of two-tiers:

- Base goal: 101 to 119 percent of the hierarchy average per week yielded \$15 per net determination
- Stretch goal: 120 percent or more of the hierarchy average per week yielded \$25 per net determination

These incentive amounts resulted in such high monthly incentives for some eligibility specialists that the amounts had to be reduced to sustain the program.

During the first two months, 15 monthly incentives over \$2,000 were paid to nine employees, including six employees who received payments in both months. These 15 payments include four payments over \$3,000 and one payment over \$4,000. These incentives represent 14 percent of the monthly incentives (15 of 109) during the first two months of the pilot, but accounted for 40 percent of the value (\$41,958 of \$105,990). Since benchmark data regarding individual determinations was not available when the pilot started, incentive amounts were incorrectly calibrated and reductions were necessary.

When PFP was rolled out to the entire ESD operations group in December 2011, net determinations above the hierarchy average were reduced from \$15 and \$25 to \$10 apiece. However, management again failed to use adequate baseline data from the pilot to develop a structure that could accommodate future increases in participation levels. In July 2012, PFP had 196 eligibility specialists enrolled, and by September 2012, the amount increased by 65 percent to 324. ESD management concluded that additional incentive reductions were necessary to keep the program viable, and cut the determination incentive from \$10 to \$5.

ESD management's inadequate development and use of a baseline is contrary to a report from the U.S. Merit Systems Protection Board (federal report). This report contains a thorough analysis of effective design of public pay for performance systems, and has been used by multiple entities, including the Internal Revenue Service. This report advises ongoing data analyses to evaluate system impact, comparing "pre-implementation measures with data for the system as it progresses and when it becomes firmly entrenched in the organizational culture." For ESD, proper benchmarking could have

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**40 percent of incentive value paid went to only 14 percent of the 109 payments.**

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lessened or eliminated the need to reduce incentives. This report also states that limited incentive funds spread among too many people will not “motivate individuals to improve their performance.”<sup>8</sup> As the incentive amount has seen significant reductions, we are concerned about its future ability to motivate participants.

### **Incentive Reductions Diminished High Performers’ Compensation**

As management reduced determination incentives from \$10 to \$5 per net determination, PFP participants experienced a reduction in total compensation.<sup>9</sup> The size of individual reductions varied depending on how much incentive compensation the eligibility specialist generated from net determinations. The highest compensation reductions were experienced by eligibility specialists who generated relatively high amounts of net determinations. These same employees are vital to PFP and division operations as they account for a significant portion of above-average productivity.

Figure 2.2 provides an estimate of the percentage reduction in compensation experienced by eligibility specialists who participated in PFP during calendar year 2012. Total compensation (wages and incentives) was calculated for the year using both incentive amounts (\$10 and \$5). Since accuracy and task backlog incentives remained unchanged, these payments were held consistent for the comparison. The following analysis also accounts for the \$8,000 limit on incentives, which is specified in *Administrative Rule 477-6-5(1)(b)*. This cap reduced the percent of pay reduction for eligibility specialists with the largest amount of net determinations as shown in Figure 2.2.

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<sup>8</sup> U.S. Merit Systems Protection Board. 2006. *Designing an Effective Pay for Performance Compensation System*. A report to the President and the Congress of the United States. 22.

<sup>9</sup> This reduction was on PFP bonuses distributed, and had no effect on employees’ base salary.

**Figure 2.2 Some PFP Eligibility Specialists Experienced Compensation Reductions over 8 Percent.** Reducing determination incentives from \$10 to \$5 most affects those generating a large percentage of net determinations.

PFP Net Determinations	Employees			Individual Pay Reduction		
	Count	Percent	Average Months	Average	Minimum	Maximum
0-199	174	51%	6	0.9%	0.0%	2.6%
200-399	73	21%	9	2.8%	1.2%	4.8%
400-599	43	13%	11	4.6%	1.7%	6.4%
600-799	24	7%	11	6.5%	2.6%	8.2%
800-999	14	4%	12	6.5%	4.0%	8.5%
1000-1199	7	2%	11	3.8%	2.1%	6.8%
1200-1399	4	1%	11	2.5%	1.0%	3.9%
1400-1599	4	1%	12	0.5%	0.0%	1.3%
<b>All Employees</b>	<b>343</b>	<b>100%</b>	<b>8</b>	<b>2.5%</b>	<b>0.0%</b>	<b>8.5%</b>

*Source: Auditor Analysis of Monthly ESD Pay for Performance Calculators and State of Utah Data Warehouse  
\* Figure excludes 108 employees who enrolled in PFP and never received an incentive payment.*

**During 2012, we estimate 48 percent of PFP participants experienced pay cuts due to incentive decreases.**

In Figure 2.2, the group shown who experienced the largest reductions from this change were eligibility specialists who made 800 to 999 net determinations for the year. This group had an average total compensation reduction of 6.5 percent, with the largest reduction being 8.5 percent and the lowest 4.0 percent. The average employee in this group received about a \$250 reduction in overall monthly compensation. While this group is not the highest producers of determinations, they do make significant contributions to PFP objectives and felt the greatest impact from the reduced incentives.<sup>10</sup>

In addition to the depth of overall compensation reductions, it is also important to recognize the breadth of reductions that occurred. Employees with net determinations of 200 to 1399 represent 48 percent of the PFP participants. The average total compensation reductions for groups in this range were 2.5 percent to 6.5 percent, which illustrates the extent of reduced total compensation experienced by eligibility specialists enrolled in the PFP program.

Another important observation about Figure 2.2 is the reduced impact on those with the highest amount of net determinations. As was alluded to earlier, this group was not being compensated for all of

<sup>10</sup> **Appendix C** shows the impact from the determination incentive on an individual level while Figure 2.2 shows the impact on groups of eligibility specialists.

their net determinations during the \$10 incentive, because they exceeded the \$8,000 incentive payment cap. Therefore, their excess net determinations provided a buffer that reduced the impact. Three eligibility specialists generated so many net determinations that after the incentive reduction, their total compensation was unaffected.

Overall, Figure 2.2 demonstrates the negative financial impact that reducing determination incentives from \$10 to \$5 has had on employees who are vital to the incentive program's success. The way ESD management has approached determination incentives, by over-awarding incentives and later retracting a portion of those incentives, raises concern about the longevity of the program. That support could be further impaired by the fact that supervisors and management did not receive similar reductions.<sup>11</sup> As the federal PFP report cited above indicates,

The credibility of the new pay system can also be undermined if funding is inadequate to provide high performers with bonuses or pay increases that are commensurate with their contributions and that motivate others to improve their performance.<sup>12</sup>

Since all employees are not currently participating in PFP, increased participation in the program would likely drive additional reductions in incentive payments, further reducing its credibility.

### **Efficiency Gains Appear To Be Tapering Off**

While eREP, myCase, and PFP have all positively affected the department's efficiency, these gains appear to be tapering off to a new performance plateau. While the average caseload of eligibility specialists has risen consistently since fiscal year 2008, there have been slower growth rates in the number of individuals requiring DWS services coupled with a desire by DWS management to maintain or

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**DWS over-awarded then eventually reduced incentives as it became apparent the amounts could not be supported.**

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<sup>11</sup> Discussed further in **Chapter III**.

<sup>12</sup> U.S. Merit Systems Protection Board. 2006. *Designing an Effective Pay for Performance Compensation System*. A report to the President and the Congress of the United States. 6.

slightly increase ESD staffing levels. These changes suggest that efficiency gains made in the division may be leveling off.

Figure 5.3 in Chapter V shows that the rate of additional people requiring DWS services has been slowing since 2010. At the same time, DWS reports having the funding and the desire to maintain the number of eligibility specialists in ESD. In fiscal year 2008, state appropriations to DWS were \$90.3 million, which were significantly reduced to \$74.4 million in the subsequent year. By fiscal year 2012, state funding bottomed out at \$65.4 million, and now appears to be on a slight upturn, with a projected increase in fiscal year 2013 to \$68.7 million. State funding for the department appears to be stabilizing.

At this point, we believe that efficiency gains from existing programs and investments are approaching the upper limit of what is both achievable and sustainable. Since about 60 percent of all employees we interviewed raised some concern about the PFP program, we believe that the disincentives that resulted from reducing PFP payments have limited the ability of the program to generate additional efficiency gains.

In addition, ESD's current model for funding its PFP program relies on reduced payroll costs realized through employee attrition and associated efficiency gains. The federal PFP report states that

a pay for performance system funded by money earmarked for the general increases . . . typically results in some employees obtaining more than they would have otherwise and others receiving less. This may create resistance among those who perceive that their incomes are falling behind and heighten competition among employees in a negative way. This discrepancy appears most problematic for the 'good, solid employees' who may no longer receive regular, though modest, increases to recognize their contributions.<sup>13</sup>

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<sup>13</sup> U.S. Merit Systems Protection Board. 2006. *Designing an Effective Pay for Performance Compensation System*. A report to the President and the Congress of the United States. 21.



When employees see their workloads intensify, without what they believe to be commensurate monetary benefit expected from a PFP program, the effect can be demoralizing and lead to a distrust in management.

Because of the leveling efficiency gains and perceived employee inequities, we believe that new innovations in how eligibility determinations are processed and rewarded would be necessary to achieve additional efficiencies.

### **Intrinsic Rewards Should Be Reemphasized**

As efficiency gains level, intrinsic motivations of eligibility specialists' work should be emphasized. While PFP programs in general, and ESD's program in particular, focus on money to incentivize employees, research shows that other, non-monetary factors are also important in employee retention and motivation. Further, a focus on monetary or external rewards can actually crowd out or diminish intrinsic motivators.

PFP is based on the fundamental assumption that money motivates people to work. However, as our organizational behavior consultant stated, the assumption that money is the primary motivator "oversimplifies the nature of human motivation in work settings."<sup>14</sup> Economic incentives as work motivators can be less effective in relation to more intrinsic motivators. Workers can be motivated by challenging work, a quality work environment, positive relationships, and by deeper meaning and purpose, for which workers are often willing to forego greater pay that could be found in the private sector. In fact, studies on the subject have shown that public and nonprofit organizations which focus on public service values are more effective at finding and retaining employees, especially "when employees felt

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**Not achieving expected PFP benefits can be demoralizing to staff.**

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**Deeper meaning and purpose can be a motivator in place of increased pay.**

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<sup>14</sup> Green, Richard. 2012. *Pay for Performance in the Public Sector: A Review and Assessment*. Report prepared for the Utah Auditor General. 4.

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**DWS has deemphasized intrinsic motivators while implementing PFP.**

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that their work was useful to society.”<sup>15</sup> The mission of DWS can inherently provide much of this deeper meaning.<sup>16</sup>

Moreover, recent research indicates that “completion-contingent rewards are found to undermine intrinsic motivation quite severely.” PFP was specifically cited in this report as generating anxiety and exhaustion.<sup>17</sup> Our consultant concluded his analysis of pay for performance versus public service motivation by saying that

focusing heavily on performance-contingent monetary rewards in settings dominated by public service motivation actually displaces and disrupts this motivational set, causing undue frustration, anxiety, exhaustion, and de-motivation. The result, even in the best of conditions and with good intentions, is worker disillusionment.<sup>18</sup>

In attempting to implement private sector motivational practices for DWS (in the instance of PFP), leadership has actually neglected one of its most powerful tools for employee attraction and retention, which is the intrinsic motivation inherent in DWS’s mission.

## **PFP Resulted in Inequitable Opportunities to Earn Incentives**

ESD’s PFP system is driven by the final outcome measure of “determinations.” This single piece of data, while important, does not adequately address system variability or employee contributions. While the PFP program assumes all eligibility specialists have similar workloads, the workloads for some employees are skewed with additional opportunities to make determinations, which results in

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<sup>15</sup> Perry, James L.; Hondeghem, Annie; Recascino Wise, Lois. 2010. “Revisiting the Motivational Bases of Public Service: Twenty Years of Research and an Agenda for the Future.” *Public Administration Review*, Vol.70, No.5 (September/October): 681-90.

<sup>16</sup> ESD leadership asserts that ESD offers many non-monetary incentives in the form of employee recognition plans, awards, service projects, etc.

<sup>17</sup> Gerhart, Barry, and Rynes, Sara L. 2003. *Compensation: Theory, Evidence, and Strategic Implications*. Thousand Oaks, CA: Sage Publications.

<sup>18</sup> Green, Richard. 2012. *Pay for Performance in the Public Sector: A Review and Assessment*. Report prepared for the Utah Legislative Auditor General. 11.

higher incentive payments. In a multifaceted decision process such as ESD's, particular emphasis on a single event (determinations) can lead employees to engage in counterproductive behavior surrounding that event. ESD created a scarce resource with its determination metric, and incentivized employees to behave in a negative manner to obtain those determinations.

The workload for eligibility specialists consists of activities within two major classifications, phone work and processing. Performance plans specify that eligibility specialists must "contribute equitably to team and hierarchy workload." Equal participation was quantified by the division as an employee producing 80 percent of their hierarchy's average determinations and 80 percent of their team's average phone calls.

Since these metrics are not conducive to the flexibility supervisors need to run their teams effectively, they are not included in eligibility specialists' annual evaluations. Therefore, a workload that allows an eligibility specialist to focus on processing, which results in determinations and avoids phone work, may be considered equitable by their supervisor. However, that same workload also provides the employee with inequitable opportunities to generate determination-based incentives.

### **PFP Design Devalues Phone Time**

The PFP program heavily incentivizes determinations relative to other workload activities, including work on phones. Initially, determinations were the only metric rewarded, but ESD management has since modified the program to include other aspects of eligibility work. However, management still fails to reward phone work, an indispensable component of eligibility specialists' assignment.

Over the course of 2012, ESD management quantified equitable workload contributions by gradually giving a minimum set of performance metrics for each of four key components of an eligibility specialist's workload. Figure 2.3 lists those components, as well as the minimum level required to get incentive bonuses.

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**The necessary task of phone time is not incentivized by PFP.**

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**Figure 2.3 Phone Calls Are Not Incentivized by the PFP Program.** Management began providing employee incentives for multiple performance objectives in 2012 but continued to focus heavily on determinations.

	PFP Incentive Requirement as of:		
	January 2012	February 2012	August 2012
Determinations	\$10/ determination exceeding hierarchy average	Same	\$5/ determination
Accuracy	None	\$100/ month for 100% accuracy	Same
Task Management	None	None	\$25/week for task timeliness
<b>Phone Calls</b>	None	None	None

Source: Planning documents supplied by ESD leadership

Figure 2.3 demonstrates that PFP’s primary monetary incentives have continually been provided for determinations, while never rewarding phone calls. Other metrics currently rewarded include accuracy<sup>19</sup> and task management.

While quality and task backlog management are now rewarded, phone calls, which are a significant component of eligibility specialist workload, are still not promoted by the PFP program. The purpose of an incentive system is to promote activities, behaviors, or outcomes that are of greater importance to management and the organization. Therefore, omitting phone calls from the incentive program clearly relegates work on the phones to a position of minor importance in the minds of employees. This is especially true when some employees are granted disproportionate time to make determinations.

**Some Employees with High Determinations Were Provided Additional Opportunities**

In calendar year 2012, some ESD eligibility specialists were able to generate exceptional amounts of determinations. On average, each eligibility specialist made about 1,550 program determinations per

<sup>19</sup> A detailed discussion of the accuracy metric can be found in **Chapter IV**.

**Omitting phone calls from PFP incentives deemphasizes phone calls’ importance.**

year. During that same time frame, 10 specialists almost doubled the average by generating over 3,000 determinations each. Leading this group was a single eligibility specialist who produced 4,551 determinations. That individual's productivity surpassed even the next-highest eligibility specialist (3,572 determinations) by 27 percent.

We reviewed the top 10 determination-making employees, including the high performer mentioned previously, by using their annual performance evaluations and obtaining clarification from supervisors as needed. Two employees' evaluations did not mention their level of phone participation, so no conclusions could be drawn. The remaining 8 results are as follows:

- Five employees appeared to carry an equitable workload of determinations and phone calls. For example, one employee's evaluation stated that the employee "contributed more than 100% to covering team phone calls."
- Two employees were assigned a general assistance caseload, which is easier to complete quickly. Their time also excluded phone calls. All eligibility workers are required to send applications for this program to one of these employees, as they are the only ones authorized to make determinations on these cases. Therefore, these employees have queues of referrals from other eligibility workers to process. They are able to spend their entire time processing applications that produce relatively straightforward determinations. One of these two employees had the highest number of determinations.
- One employee's role did not include regular phone shifts. This employee was a processor, and only made determinations.

These cases illustrate the differing opportunities provided to eligibility specialists. High numbers of determinations can be due to legitimate high performance or may simply be the result of a disproportionate amount of time processing determinations. If some employees are given more time to process cases, other employees must cover the phones and other non-determination tasks.

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**High determinations can be the result of supervisors allowing those employees more processing time.**

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## **PFP Design Allows Negative Employee Behavior**

Determinations are the driving incentive of eligibility specialists' work. Essentially, ESD created a scarce resource with its determination metric, and incentivized employees to compete for those determinations that are most easily obtained.

In a multifaceted decision process such as ESD's, particular emphasis on a single event (determinations) can lead employees to engage in counterproductive behavior surrounding that event. Cherry picking and upselling are examples of this potential type of behavior. We define cherry picking as an employee completing determinations on another's casework and upselling as programs offered to customers for which they are ineligible, sometimes in order to generate additional determinations.

Although 10 percent of respondents specifically cited cherry picking as a concern (see Figure 2.4), we were unable to obtain any record of DWS leadership acknowledging the issue with its employees. When asked in the January 29, 2013, Social Services Appropriations Subcommittee meeting about cherry picking, the executive director replied that he did not think it was happening. Yet this report identifies numerous examples where supervisors approved a team member to work longer phone hours, enabling other employees to process more determinations. Such examples illustrate the inequality of the PFP system established by DWS. In our opinion, these cases amount to supervisory approved cherry picking with supervisors allowing certain staff the advantage of more determinations that generate financial rewards at the cost of other team members.

During our interviews, one employee actually claimed to have engaged in cherry picking in order to keep pace with other employees who were doing the same. Other employees reinforced this statement, saying that PFP turned employees on a team against each other because they were taking each other's cases.

In contrast, the issue of upselling is made possible because of a lack of system controls in three main areas. First, the system allows customers the option of applying for programs which in certain circumstances may be unavailable. In this case, the department pays a PFP incentive for unnecessary determinations.

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**Particular emphasis on a single incentivized aspect of work can lead to negative employee behavior.**

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**Employees state that PFP turned team members against each other.**

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Second, when an eligibility specialist processes an application, the specialist may encourage a customer to apply for programs for which the specialist knows the customer is not qualified. In this case, an eligibility specialist can receive incentives for encouraging customers to apply for unavailable programs.

Third, an eligibility specialist can indicate a customer's interest in a program without actually speaking to the customer. In this case, the specialist would be adding a program to the application exclusively to collect the PFP incentives therefrom. There are no controls in place to prevent this from occurring.

Currently, the system design does not adequately prevent or track incentives paid on program denials or allow the department to identify system abuse. ESD leadership doubts that system misuse is happening but, because of the lack of system controls, cannot show that it is not.

One example is the Primary Care Network (PCN) program. PCN was specifically mentioned as a target for those looking to increase their determinations through upselling. PCN is a subsidized health insurance program with limited funding provided by the state. Because funding is limited, the state will only accept applications for a short enrollment period, usually less than a month in a given year. Any customers who apply outside of the enrollment period are immediately ineligible.

During calendar year 2012, many applications were made during this ineligible period. We estimate that employees received roughly \$95,000 of PFP incentives based on some of those program denials.

The federal PFP report states that "agencies must be sure they are reinforcing desired behaviors associated with the most critical outcomes and not encouraging counter-productive responses." In this case, ESD has created a scarce resource with its determination metric, and has incentivized employees to compete for those determinations that are most easily obtained.

### **PFP's Implementation Does Not Fully Recognize the Collaborative Nature of ESD Work**

The additional time given to some employees to make determinations requires that other employees complete additional

work that does not generate determinations, specifically phone time. In addition, the PFP program does not take into account the collaborative nature of making a determination. As supervisors adjust eligibility specialists' workloads to align with employee strengths to generate additional outputs, the PFP program has not been amended to control for the resulting inequitable opportunities.

### **Some Employees Facilitate High Performers by Taking Additional Non-Determination Work**

For some employees to obtain high numbers of determinations, other employees must do more non-determination tasks. To provide a more complete illustration of unequal workloads, we reviewed eligibility specialists with relatively few determinations. Specifically, we examined those who were frequently unable to make 80 percent of the average monthly determinations of their hierarchy. Over the 13-month time period from December 2011 through December 2012, 57 employees in the four largest hierarchies did not meet this requirement in seven or more months.

While our review was limited by unclear documentation, four of fifty 2012 employee evaluations cited increased phone shifts as a factor in low determinations, stating:

- “[Determination] numbers might look low but [Employee] was on the phones for most of the year. I am very proud of [Employee] and her accomplishments this year.”
- “[Employee] continues to be low in this area for this year as I have many times pulled him off processing for phones. I will pass him for the year.”
- “[Employee] agreed to maintain a lesser amount of cases and have an additional phone shift to help balance the talents of workers that process a little slower and those that process a little faster.”
- “Determinations were a little low but [Employee’s] phone time was highest on the team.”

These statements demonstrate that the amount of time some employees have to make determinations is reduced. This factor has

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**To allow some employees higher determinations, some employees must work other tasks.**

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significant implications, as the PFP program focuses on rewarding those who make large amounts of determinations. Three of the four employees cited above participate in PFP. While they may still be eligible for task and accuracy incentives, their ability to generate determinations is distorted. By taking additional phone shifts, some of their opportunities to earn determination incentives are transferred to other employees, supplementing the other employees' opportunities to earn determination incentives.

While supervisory judgment can compensate for inequitable workloads during the annual employee evaluation process, the PFP program is not equipped to handle these inconsistencies. Inequitable opportunities have led to employee discontent and distrust that the program may not reward employee contributions in an equitable manner.

### **Individualized Incentives Do Not Address Collaborative Nature of ESD Work**

PFP's design does not adequately take into consideration the level of collaboration required by employees to reach a determination. Instead, it rewards the final output of an interdependent process. Optimal PFP system design calls for rewards that are commensurate with employees' levels of contribution. When activities require teamwork, that teamwork should be reinforced by the incentives offered.

Employees collaborate to help customers through the application process and to perform ongoing work on recipients' cases. In addition to disparate and untracked phone versus processing time<sup>20</sup>, multiple employees may perform tasks on program customers' cases that are assigned to one specific caseworker. ESD management acknowledges that workers engage in a high level of teamwork and point to federal guidelines that necessitate such teamwork.

While casework requires the collaboration of multiple employees, often only one individual is recognized as having performed work on a case. Currently, DWS cannot accurately measure individual inputs into ESD work processes. The federal PFP report states that

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**PFP does not recognize inequitable opportunities.**

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<sup>20</sup> As previously discussed in more detail.

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**PFP's goal should be to mirror employee pay with level of performance.**

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when high levels of interaction and communication are necessary, it becomes much more difficult to accurately measure the accomplishments of individual employees. Rewarding only individuals when mutual support helps advance the organizational goals may discourage cooperation and teamwork, to the organization's detriment.<sup>21</sup>

The federal PFP report also recommends that pay (and evaluations) should mirror the level of performance by the employee. The same report goes on to state that "the level at which performance is assessed for award purposes should reinforce the desired breadth of collaboration, although this must be balanced with the need to be able to identify individual contributions."<sup>22</sup>

Of all employees interviewed in the initial phase of our audit (61 percent of random respondents and 57 percent of complainants) expressed at least one concern with PFP. Employee concerns varied in subject and intensity. The majority of complaints about PFP centered on the unfair nature of the program. In fact, about 60 percent of all respondents voiced at least one concern with the PFP program. Those complaints often stemmed from a perception that employees' rewards and opportunities for rewards were not well connected to the employees' actual effort and/or productivity.

While we do not recommend that everyone on a team receive monetary rewards regardless of contribution, when employees are not rewarded commensurate with their level of input, demotivation and disillusionment with the system can occur.

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**Incentive rewards should reflect contribution.**

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<sup>21</sup> U.S. Merit Systems Protection Board. 2006. *Designing an Effective Pay for Performance Compensation System*. A report to the President and the Congress of the United States. 11.

<sup>22</sup> U.S. Merit Systems Protection Board. 2006. *Designing an Effective Pay for Performance Compensation System*. A report to the President and the Congress of the United States. 10.

## In Making Their Teams More Efficient, Some Supervisors Differentiate Roles

Allowing supervisors the flexibility to adjust individual workloads is an important efficiency tool. During our review of the top ten determination-making eligibility specialists, one supervisor from the hierarchy serving Spanish speaking customers explained that the hierarchy had been having problems meeting performance requirements. The hierarchy manager told them that performance had to improve. Therefore, the hierarchy supervisors decided to separate eligibility specialists into two classifications with emphasis on different parts of their workload. After this structure was implemented, the supervisor said they were able to meet performance requirements.

A new position classification of processor, with nearly all time dedicated to processing and no scheduled phone shifts, was assigned to 10 to 12 eligibility specialists. The remaining eligibility specialists, who split their time between phone shifts and processing, were classified as hybrid eligibility specialists.

To illustrate the differences in determination-making abilities, the average determinations for the two classifications in December 2012 are shown in Figure 2.4. Determinations are tracked separately based on whether benefits were approved or denied. Therefore, this figure follows ESD practice by showing approved benefits on a weekly basis and denials on a monthly basis.

**Figure 2.4 Average Determinations Differ Between the Two New Classifications.** The average determinations for processors and hybrid workers for December 2012 are compared to show the difference in their productivity determinations.

	Average Determinations					
	Approved					Denied Month
	Week 1	Week 2	Week 3	Week 4	Week 5	
Processor	33	31	35	29	22	53
Hybrid	11	12	13	13	9	29

*Source: Monthly ESD Pay for Performance Calculators*

As shown in Figure 2.4, processors made 203 determinations during the month, while hybrid workers made 87. Consequently, it appears that within this hierarchy, management is controlling for some of the inequities that result from disparities in processing and phone time.

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**One hierarchy differentiates workers' roles to recognize contributions beyond determinations.**

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**Other hierarchies should implement controls to adjust for inequitable opportunities.**

Since the audit, management has reported implementing controls to adjust for inequitable opportunities in other hierarchies, but has not yet implemented controls division-wide.<sup>23</sup> Identifying these inequitable opportunities to generate determinations is a challenging task. Currently, poor phone data limits the analysis of how much time eligibility specialists spend answering customer inquiries. ESD management reports that a new phone system is being implemented and should eventually generate better data. With this new system, ESD management needs to develop a comprehensive solution that both identifies and adjusts inequitable determination opportunities among eligibility specialists.

## **Recommendations**

1. We recommend the Department of Workforce Services improve data tracking and analysis to determine and isolate the efficiency gains achieved from any new process-improvement programs.
2. We recommend that the Department of Workforce Services address the financial and motivational sustainability of their Pay for Performance program given the reduction of incentive amounts resulting from increased employee participation.
3. We recommend that the Department of Workforce Services continue to account for inequitable opportunities among employees by recognizing outputs that better define the performance of its workers.
4. We recommend that the Department of Workforce Services tighten Eligibility Services Division controls over the determinations process or adjust incentives to control for potential negative employee behavior.
5. We recommend that the Department of Workforce Services consider improving its ability to track individual work process inputs and/or shifting focus from individual-oriented rewards

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<sup>23</sup> ESD leadership reports that similar controls have been implemented within LTC, Outreach, AIT, Refugee, and CBT hierarchies.

to incentives better matching existing interdependent work processes.

6. We recommend that the Department of Workforce Services consider additional nonmonetary enrichments and work process changes that may cultivate employee trust and reestablish intrinsic, public-service-oriented motivators.

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## **Chapter III Manager and Supervisor Inclusion in PFP Is Concerning**

The purpose of the Pay for Performance (PFP) program is to isolate and reward high levels of individual performance. However, PFP incentives for supervisors and management in the Eligibility Services Division (ESD or division) are inequitable with those offered for eligibility specialists for the following reasons:

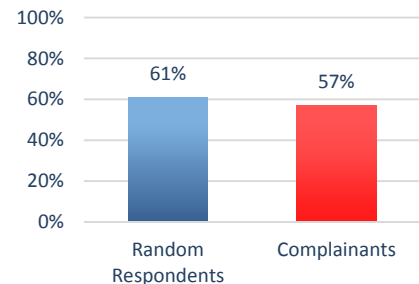
- Supervisors and managers receive a disproportionate share of incentive payments.
- Incentives have not produced greater efficiency in the oversight of eligibility specialists.
- Incentives are generated by high performance of individual eligibility specialists rather than the team's performance.
- ESD has not isolated supervisor and manager contributions when awarding incentive payments.

These issues show an overall failure to isolate and reward the supervisor or management member's contribution to team performance. ESD management was notified of similar concerns by Department of Workforce Services (DWS or department) internal auditors. In management's response, they disregarded the auditor's recommendations and maintained the existing incentive structure.

### **PFP Over-Compensates Supervisors and Managers**

Supervisors and managers receive a disproportionate share of PFP incentive payments. Supervisors and management participated in PFP at a higher rate than staff. In addition, supervisors and managers also satisfy requirements for incentive payments more frequently than staff and receive larger incentives. This disproportional share is the result of the questionable basis used to calculate their incentives, discussed in later sections of the chapter.

**Percent of Employees  
Identifying Concerns in  
Chapters II and III.**



## Supervisors and Management Received a Disproportionate Share of Incentives

Supervisor and management shares of PFP incentives are disproportionately large. Figure 3.1 compares the percentage of compensation and incentive payments that supervisors and management receive, relative to those received by eligibility specialists.

**Figure 3.1 Supervisors and Management Receive a Disproportionate Share of Incentives.** This figure isolates and compares incentives and regular compensation during the 18 months after the program's pilot.

	Supervisors and Management	Eligibility Specialists
Compensation	\$ 5,469,016	\$ 47,839,726
Percentage of Compensation	10%	90%
Incentive Payments	\$ 268,983	\$ 1,297,700
Percentage of Incentives	17%	83%

Source: State of Utah Data Warehouse

As Figure 3.1 shows, supervisors and management received a disproportionate share of incentive payments during this period. While their base compensation accounts for 10 percent of all compensation expenses, they receive 17 percent of total incentives. If supervisors and management received incentives at a similar rate as eligibility specialists, they would have received about \$148,000, rather than the \$269,000 they did receive.

### Three Factors Contribute to Different Amounts of Incentives

To demonstrate the difference in Figure 3.1, we calculated the amount of incentives on individual employee basis from September 2012 through December 2012. In September 2012, incentive amounts and requirements for the PFP program were changed, and were in effect through the remainder of this audit. The total PFP incentives earned by supervisors was \$57,419. Eligibility specialists earned \$297,137. These incentives for determinations, accuracy, and tasks resulted in average monthly amounts of \$396 per supervisor and \$152 per eligibility specialist, regardless of their PFP enrollment status. We calculated these values by using all employees to illustrate the impact of the following three factors:

Although supervisors and managers receive 10 percent of ESD's compensation, they receive 17 percent of incentives.



- All supervisors participate in PFP, whereas only about half of eligibility specialists participate.
- Eligibility specialists are over three times as likely to fail to qualify for an incentive payment each month.
- Incentive amounts for supervisors are significantly more than those for eligibility specialists.

As these factors demonstrate, inequities exist between the incentive opportunities for eligibility specialists and those who oversee their work.

**Differences in Participation Levels Result from Policy Concerns.** From September 2012 to December 2012, all supervisors and management were participating in the PFP program, while eligibility specialists had only 64 percent participation. Non-participation by eligibility specialists can be attributed to two factors. First, eligibility specialists were concerned about the effects of switching to AW employment status<sup>24</sup> before participating in the program.<sup>25</sup> Second, the incentives supervisors and management receive are larger than those for eligibility specialists, and they are obtained more frequently, as discussed in the next two sections.

**Supervisors and Management Qualify for Incentive Payments More Frequently.** To evaluate the frequency with which various positions earn accuracy and determination incentives, we evaluated individual performance from September to December 2012, when incentive requirements were changed substantially. During this time period, supervisors failed to qualify for either incentive 7 percent of the time, while eligibility specialists failed to qualify 26 percent of the time. This disparity is due to the fact that determination payments are calculated differently for supervisors.

For determination incentives, if at least one of 13 eligibility workers reporting to a single supervisor has positive net determinations for the month, then the supervisor will receive a determination payment, as long as the team meets its accuracy

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<sup>24</sup> A definitional index clarifying this term and other key terms used in the report can be found in **Appendix B**.

<sup>25</sup> This employment status change is discussed further in **Chapter V**.

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**PFP had a 64 percent participation by staff, but a 100 percent participation by supervisors and management.**

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**Supervisors failed to qualify for an incentive 7 percent of the time, while staff failed 26 percent of the time.**

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Eligibility specialists receive \$100 for accuracy, while supervisors receive \$200, and management receives \$500.

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requirement. In addition, eligibility specialists have to be 100 percent accurate for an accuracy incentive, while a supervisor's team must be 95 percent accurate.

**Determination and Accuracy Incentives for Supervisors Are Significantly More Than Those for Eligibility Specialists.** From September 2012 through December 2012, eligibility specialists were eligible for a \$100 accuracy incentive, while supervisors were eligible to receive \$200. While this discrepancy in accuracy incentives is straightforward, the discrepancy in determination incentives is more complex.

Beginning September 2012, determination incentives were set at \$5 per net determination for eligibility specialists, and \$1 for supervisors per net determination made by the eligibility specialists they oversee. Supervisors oversee about 13 eligibility specialists and count every net determination regardless of the eligibility specialist's participation in the PFP program.

Since this calculation is much more complex than the accuracy incentive, we calculated the average monthly determination payment for supervisors and eligibility specialists, which only included employees who received a payment. Over the four month review period, supervisors receiving determination payments received an average of \$348 per month, while eligibility specialists received an average of \$212 per month. This disparity again demonstrates how the incentive program has favored supervisors over eligibility specialists.

The combined effects of these three factors produce the differences in incentives illustrated in Figure 3.1 and at the beginning of this section. Management is also included in this disproportionate distribution of incentives as they all participate, earn accuracy incentives of \$500, and receive the average determination payment of their supervisors. Since the following sections raise concerns about the basis for awarding incentives to supervisors and management, this disproportionate distribution of incentives becomes problematic and needs to be addressed.

## **PPF for Management and Supervisors Cannot Demonstrate Greater Efficiency**

The stated purpose of PFP on the whole is to drive efficiency. A review of the incentive structure for ESD supervisors and management revealed that their efficiency levels actually appear to be regressing. This assessment is based on two measurements, total compensation costs and span of control ratios (the number of employees a supervisor oversees).

The former DWS executive director outlined the efficiency objective in an internal communication to staff, stating the following:

The PFP model allows us to provide performance bonuses which are “one-time” payments based on job performance and differ from an on-going ASI. The bonuses are funded based on a reduction in FTEs which occurs as a result of the increased performance.

As this statement demonstrates, DWS expected that PFP would be an efficiency tool that simultaneously increased staff productivity while allowing for cost reductions.

### **Total Compensation Costs for Supervisors and Management Have Not Decreased**

The intended bottom-line impact of PFP, as illustrated in the former executive director’s comment, is reduced staffing costs due to FTE reductions. Figure 3.2 shows projected total compensation costs (excluding incentive payments) and FTE counts based on staffing levels as PFP was expanded to the entire ESD operations group. Actual compensation costs and average FTEs are included to show changes during the 18 months after the initial pilot.

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**PPF incentives were funded by the efficiency gains from reducing staff.**

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**Figure 3.2 Supervisor and Management Compensation Costs and FTEs Have Not Reduced.** From January 2012 through June 2013, significant staffing reductions have occurred among eligibility specialists, but similar reductions have not taken place higher up the organizational structure.

	Supervisors and Management	Eligibility Specialists
<b>Compensation:</b>		
Jan. 2012-June 2013	\$ 5,469,016	\$ 47,839,726
Estimated as of Dec. 2011	\$ 5,337,473	\$ 51,757,636
<b>Difference</b>	<b>\$ 131,543</b>	<b>\$ (3,917,911)</b>
<b>Average FTEs:</b>		
Jan. 2012-June 2013	48.8	542.9
Estimated as of Dec. 2011	47.3	597.3
<b>Difference</b>	<b>1.5</b>	<b>(54.4)</b>

Source: State of Utah Data Warehouse

As Figure 3.2 shows, reduced compensation costs and average FTEs for eligibility workers demonstrate efficiency gains by staff who process applications and make eligibility determinations. However, the positions that oversee eligibility specialists have experienced compensation and FTE increases. While compensation for eligibility specialists decreased 7.5 percent, supervisor and manager compensation increased by 2.5 percent. In addition, if similar staffing reductions for eligibility specialists were experienced by supervisors and management, then supervisors and management should have accounted for at least five fewer FTEs than the 48.8 that exist.

### **PFP Has Contributed to Lighter Supervisory Duties**

During the same 18-month period reviewed in Figure 3.2, the number of supervisors has remained relatively constant at 39. However, span of control ratios, which measure the number of eligibility specialists per supervisor, started around 15:1 and ended around 13:1.<sup>26</sup> The ESD director confirmed these ratios and added that the 15:1 ratio was applicable back to July 2009 when ESD was consolidated into a division.

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**Supervisor span of control has reduced from 15:1 to 13:1.**

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<sup>26</sup> Based on the number of employees at the beginning and end of the span of analysis.

The decreasing span of control ratios and a lack of reduction in staffing costs for supervisors and management may contribute to the lack of fairness perceived by eligibility specialists regarding the PFP program. As the U.S. Merit Systems Protection Board states<sup>27</sup>, “a pay for performance system also requires fairness – both actual and perceived – for it to have any credibility or motivating power.”

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**Decreasing span of control and steady compensation may contribute to staff’s lack of fairness perception.**

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## Management Incentives Are Based on Staff Output

Along with decreasing efficiency, the incentive structure for supervisors and managers has rewarded oversight that has not proven its effectiveness through departmentally established metrics. Monthly incentives were paid to supervisors whose team produced below average determinations relative to other teams in the same hierarchy. This situation is possible because supervisor and management incentives are calculated from the individual outputs of their subordinates rather than comparing the collective team’s performance against other teams.

To illustrate the problem, Figure 3.3 shows the outputs by the four teams determining eligibility for the Aged, Blind and Disabled (ABD) hierarchy. This figure focuses on the outputs and incentives for January 2012.

**Figure 3.3 Supervisor Incentives Are Not Indicators of Above-Average Team Performance.** This figure shows the portion of each supervisor’s incentive payment received for determinations and how well their team generated determinations on a per-employee basis.

Team	Supervisor Incentive Payment	Determinations Per Employee	Determinations from Hierarchy Average
D	\$ 456	175	26
B	289	154	5
A	313	149	0
E	139	118	-31
<b>ABD</b>	<b>\$ 1,197</b>	<b>149</b>	

*Source: Monthly ESD Pay for Performance Calculators*

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<sup>27</sup> This is the federal report introduced more fully in **Chapter II**, and is referred to as the “federal report”.

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**Supervisors receive incentive payments despite having underperforming teams.**

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As this figure shows, supervisor incentives are not aligned with their team's performance relative to its peers. Since teams D and B generated more determinations per employee (175 and 154 respectively) than the hierarchy average (149), the incentives paid to these supervisors seem at least justifiable. However, the incentives paid to the supervisors of teams A and E are perplexing.

While team A's determination output was in-line with the average, its supervisor still received an incentive payment of \$313. An eligibility specialist with this level of work performance would not receive PFP money. Despite being compensated for average performance, this supervisor also received a larger incentive than the supervisor for team B, which produced more average determinations per employee. The supervisor of team E received an incentive even though the team produced less than 80 percent of the hierarchy's average output. An eligibility specialist in this situation would receive no payment and might be reprimanded. These examples of disconnect raise concerns about the basis for supervisor incentives. DWS management states that supervisors do not always qualify for a payment even if members of their team do.

The results of Figure 3.3 demonstrate a flaw in the incentive structure for supervisors and management. For supervisors, their incentive structure provides "\$1 for every determination above the hierarchy average, with errors to be subtracted from the total." Rather than calculating this at the team level by comparing outputs as we did in Figure 2.3, ESD management uses individual eligibility specialist outputs instead. When eligibility specialists in the PFP program make a determination above their hierarchy average, they receive \$5. In addition, their supervisor receives \$1 regardless of the team's relative performance to other teams. The process does not hold the supervisor accountable for their team's overall performance.

Since supervisors are compensated for the high performance of their individual subordinates rather than for team outputs, management's incentives are also flawed as their incentive payments are calculated as the average determination payment of the supervisors they oversee. These incentive structures were identified as problematic by eight percent of the DWS employees interviewed during the audit. Specifically, they stated that supervisors are benefiting from their high PFP outcomes.

## PFP’s Inability to Isolate Supervisor and Manager Contribution is a Concern

ESD has not isolated the contribution of supervisors and managers to team efficiency. Because determinations are the metric used by the division to determine productivity, and neither supervisors nor management makes determinations, the division has no clear metric to determine supervisor and management contribution. Eligibility specialists enrolled in the PFP program typically generate more determinations than those not enrolled. Therefore, if a team consists of more eligibility specialists participating in the PFP program than other teams in its hierarchy, then the supervisor over that team has an advantage unrelated to their individual contribution to team efficiency.

To illustrate the challenge presented by high concentrations of PFP participants when evaluating supervisor impact, Figure 3.4 reviews the composition of the same ABD teams shown in Figure 3.3.

**Figure 3.4 Higher Percentages of PFP Employees Significantly Impact Supervisory Incentives.** This figure shows how the supervisor of a single team has benefited from a high concentration of PFP employees on their team.

Team	Employees	PFP Employees	Percent PFP	Determinations Per Employee *
D	13	6	46%	175
B	15	3	20	154
A	14	3	21	149
E	14	3	21	118
<b>ABD</b>	<b>56</b>	<b>15</b>	<b>27%</b>	<b>149</b>

*Source: Monthly ESD Pay for Performance Calculators  
\* Values were derived in Figure 3.3*

In Figure 3.4, team D had the highest percent of employees participating in the PFP program. Team D had six employees participating in the program, while the other three teams had three employees each. Not surprisingly, team D also had the highest determinations per employee.

The problem this scenario presents is how to isolate and reward the contributions of team D’s supervisor. While the supervisor of team D may have excellent managerial skills, the current system does not provide an adequate way to isolate and measure their actual performance. Conversely, the high performance of team D may simply be the result of outstanding performance of its eligibility specialists.

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**Isolating actual supervisor performance from that of staff has not been done.**

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DWS management states that supervisors throughout the division have increased their efficiency in areas including mentoring, training, coordinating policies, monitoring phone calls, building new tools, etc. While we are not arguing that this could be true, none of these activities are included with those measured and rewarded by the PFP system.

This inability to isolate supervisor and manager contribution was a concern raised by the internal auditor at DWS. Specifically, the auditor stated “it may be difficult to justify why they are receiving incentive awards for others' work performance.” This scenario illustrates the complexities involved when attempting to isolate and reward the individual contributions of supervisors participating in PFP.

### **Management Disregarded Their Own Internal Audit Findings**

In December 2012, the internal audit division of DWS produced a report outlining findings from its review of the PFP program. Part of that audit addressed management’s participation in PFP.<sup>28</sup> The following statement from their report illustrates the internal auditors’ concerns with management incentive payments:

Management also likely thought it would be advantageous to provide incentives for managers and associate directors to support and encourage staff performance. However, it does not appear that Associate Directors and Managers who do not directly supervise line staff meet the AW classification requirement that "substantially all their work is repetitive, measurable, or transaction based." It may be difficult to justify why they are receiving incentive awards for others' work performance.

As stated in the final sentence, the auditor’s main concern with providing incentives for these positions is that compensation is based on “others’ work performance.” While the internal auditor’s concern is focused on managers and associate directors, our concerns also extend

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<sup>28</sup> The bulk of this internal audit did not concern management participation, and DWS management reports that they corrected the other recommendations made in the audit.

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**DWS Internal Auditors expressed concern with compensating managers based on “others’ work performance.”**

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to supervisors, as their incentive structure is based on individual eligibility specialists' outputs.

In its response to the internal audit report, ESD management disagreed with the auditor's conclusion and stated that their observation and recommendation "lacks merit and is subjective." In addition, management continued that "the Deputy Director and Associate Directors have established this incentive to ensure all bonuses and incentives are justifiable, data, and performance driven."<sup>29</sup>

We agree with the DWS internal auditor concerns about whether incentive bonuses for management are justifiable. As discussed in detail throughout this chapter, supervisor and management incentives are not well supported. Rather than isolating and evaluating the impact of supervisors and management, the current process uses the performance of individual eligibility specialists to draw conclusions about supervisors and management's performance. This situation disconnects from the premise of individual accountability on which the PFP program is based.

ESD management continues its response by stating

To separate out those who perform the work, from those that are ultimately accountable for outcomes suggests there are no incentives for managers and directors, which is not correct given the nature of the policy and structure of directing day-to-day operations.

This assertion that without PFP monies no incentives exist for managers and directors is inaccurate. Prior to PFP and since its implementation, managers and directors who have always been ultimately accountable for outcomes were incentivized by traditional means consisting of higher wage and traditional state bonus mechanisms. ESD management's insistence that their positions be included in the production staff incentives is concerning.

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**ESD responded that  
DWS's internal audit  
report "is subjective."**

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<sup>29</sup> The audit findings and response can be found in **Appendix E**.

The federal report discussed earlier addresses who should be rewarded in such a system. The report does recognize that covering an entire organization with a PFP program is an option. However, it also suggests limiting performance pay to “those employees with direct responsibility for the organization’s core functions and results.” Specific situations where this approach may be preferable include

front-line employees whose work is directly linked to mission accomplishment because their work is more readily measured (and of more immediate importance to the public) than work performed by employees whose activities indirectly support organizational goals.<sup>30</sup>

From our perspective, the problematic incentives not only include those for management, as expressed by the DWS internal auditor, but also those for supervisors. Developing appropriate metrics to measure supervisor performance faces multiple difficulties, most notable of which is adjusting for team composition.

As suggested in the federal report, perhaps performance based-incentives are best reserved for “those with direct responsibility for the organization’s core functions and results.” Reserving incentives for eligibility specialists provides these employees with an opportunity to generate wages commensurate with that of the average supervisor. If ESD management desires to continue providing incentives for oversight positions, incentives should be based on a similar level of individual accountability required of its eligibility specialists.

## **Recommendations**

1. We recommend that the Department of Workforce Services and its Eligibility Services Division limit Pay for Performance incentives to only its eligibility specialists, unless supervisor and management incentives are redesigned to isolate the individual impacts of supervisors and management.

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<sup>30</sup> U.S. Merit Systems Protection Board. 2006. *Designing an Effective Pay for Performance Compensation System*. A report to the President and the Congress of the United States. 7-8.

# Chapter IV

## Accuracy Assessments Are Inconsistent and Inequitable

Accuracy assessments of eligibility specialists' determinations in the Eligibility Services Division (ESD or division) rely on a process that contains the following inconsistencies and inequities that should be addressed:

- A single required accuracy rate (90 percent) creates inequitable expectations.
- Case selection for accuracy reviews is neither completely random nor unbiased.
- Individual reviewer error rates are inconsistent and generate markedly different results.
- Accuracy assessments need to be reliable and result in consistent enforcement.

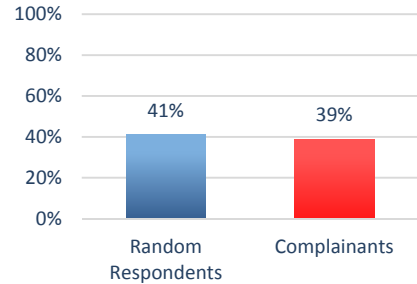
These issues impair conclusions about the accuracy of individual eligibility specialists, which results in inconsistent and inequitable actions by supervisors.

Despite these issues, it is important to recognize that the case review process is still beneficial. Specifically, the process allows the division to correct errors before benefits are issued and allows management to use errors as teaching opportunities. One eligibility specialist described the case review process fairly accurately by stating, "it's a necessary thing and they do a good job, [but] sometimes they can be picky and not uniform." In response to this concern and others like it, this chapter outlines various inconsistencies that should be addressed to increase the credibility and reliability of the accuracy assessments.

### Inconsistent Rates of Non-Compliance Illustrate Inequitable Accuracy Expectations

Eligibility specialists working in more complex hierarchies are, by the nature of their work, less likely to meet accuracy requirements. This increased complexity affects their eligibility for incentives and the likelihood of corrective actions. The percent of employees who miss

**Percent of Employees Identifying Concerns in Chapter IV.**



accuracy requirements varies by hierarchy but parallels the hierarchy's overall error rate. Differences between hierarchy error rates are attributable to the complexity of cases associated with each hierarchy. Since ESD management has already established a procedure that results in differing productivity requirements for each hierarchy, similar adjustments should be implemented for accuracy requirements.

### **The Percentage of Employees Missing Accuracy Requirements Varies by Hierarchy**

Determinations made by eligibility specialists are grouped into several categories called hierarchies.<sup>31</sup> Each hierarchy specializes in eligibility criteria for specific financial, medical, cash assistance, or child care programs. For example, some medical programs are restricted to individuals who are blind, meet specific age requirements, or qualify as disabled. Those cases are evaluated by staff in the Aged, Blind and Disabled (ABD) hierarchy. Eligibility specialists in that hierarchy have knowledge of the specific requirements for those programs. An accurate determination is one where the appropriate benefits were approved or denied.

All eligibility specialists have the performance requirement to achieve 90 percent accuracy on their determinations. While a single accuracy requirement for all eligibility specialists may initially seem fair, differences in the percent of eligibility specialists in each hierarchy that fail to meet this accuracy standard demonstrate that the requirement is more difficult for hierarchies with more complex programs.

Figure 4.1 shows the error rate and percentage of eligibility specialists who do not achieve 90 percent accuracy on a monthly basis during calendar year 2012. These values are reported for the five largest hierarchies by case review volume, and the sixth group, called "Other" combines the results of smaller hierarchies.

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<sup>31</sup> A definitional index clarifying this term and other key terms used in the report can be found in **Appendix B**.

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**Hierarchies are comprised of cases containing similar supportive service programs.**

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**All eligibility specialists are required to meet a 90 percent minimum accuracy.**

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**Figure 4.1 Error Rates among ESD Hierarchies Differ Significantly.**  
 The following error rates were calculated from accuracy reviews conducted during the 2012 calendar year.

Hierarchy	Hierarchy Average Error Rate	Percent of Employees Below Monthly Accuracy Requirement	Percent of Reviews Completed
Aged, Blind, & Disabled (ABD)	2.92%	8.60%	12%
Eligibility Services Operations (ESO)	4.92%	16.50%	49%
Other	5.89%	12.02%	8%
Community-Based Teams (CBT)	6.84%	25.07%	12%
CHIP, UPP, & PCN (CUP)	7.08%	21.00%	10%
Spanish	8.30%	26.24%	9%
<b>Total</b>	<b>5.49%</b>	<b>16.92%</b>	<b>100%</b>

Source: DWS Workforce Research and Analysis

As Figure 4.1 shows, hierarchy average error rates are quite different. For example, the ABD hierarchy has an error rate of less than 3 percent. In contrast, the Spanish, CBT, and CUP hierarchies<sup>32</sup>, have average error rates ranging from seven to eight percent. As the error rates for these two groups of hierarchies are vastly different, so is the difficulty of reaching the expectation that all eligibility specialists be 90 percent accurate. This single requirement does not provide as reasonable a margin of error to an eligibility specialist in the Spanish hierarchy as it does the ABD hierarchy. As Figure 4.1 shows, 8.6 percent of ABD eligibility specialists did not meet the 90 percent accuracy requirement on a monthly basis, whereas the CUP hierarchy experienced 21 percent of its eligibility specialists not meeting the monthly accuracy requirement.

This margin of error is demonstrated in the percent of eligibility specialists in each hierarchy who fall below the accuracy requirement on a monthly basis (shown in the next column). For the division as a whole, every one percent increase in error rate results in roughly three percent of employees missing the accuracy requirement. Consequently,

**Meeting the 90 percent accuracy requirement is more difficult for some hierarchies.**

<sup>32</sup> The CUP hierarchy consists of Children’s Health Insurance Program (CHIP), Utah Premium Partnership (UPP), and Primary Care Network (PCN).

the three percent error rate for ABD results in about nine percent missing the accuracy requirement. For the CUP hierarchy, the seven percent error rate results in 21 percent missing the accuracy requirement. Since the single accuracy rate requirement results in compounded amounts of employees unable to comply with the requirement, ESD management should consider adopting hierarchy-specific accuracy requirements.

### **Error Rate Differences Are Attributed to Case Complexity**

After reviewing the various error rates reported in Figure 4.1, ESD management said the difference in error rates was not surprising. They explained that the difference in error rates corresponds with the complexity of a typical hierarchy case. In addition, they cited two case characteristics that have historically impacted the accuracy of the casework (resulting in higher or lower benefit payments for customers):

- **Household Size:** ABD cases typically consist of one- or two-member households, whereas ESO and CUP have more members. Additional household members can lead to additional errors (which will be discussed later in the chapter).
- **Income Calculation:** ABD customers have fixed, unearned income that can be verified through a match with the Social Security Administration. ESO and CUP customers typically have earned income or self-employment income. Around 20 percent of CUP cases involve self-employment income involving ledgers, receipts, or tax returns, which are more prone to human error.

Besides case characteristics, management also commented about the types of eligibility specialists that may gravitate towards particular hierarchies. “Typically, we train new employees in ESO programs and when we need to fill vacancies in other hierarchies, we tend to choose from ESO.” Since ESO is the largest hierarchy and had the second lowest error rate, this placement makes sense as a starting point for new hires. This practice helps confirm that the high error rates for CBT, CUP, and Spanish teams are the result of case complexity rather than inexperienced staff.

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**Hierarchy error rates vary because of case complexity.**

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**Eligibility specialists typically start out determining eligibility for programs with less complex policies.**

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In regard to high performers, management said that “higher performers . . . are found in every hierarchy.” This statement is particularly relevant to the low error rate achieved by the ABD hierarchy. Our concern was that the hierarchy may have had a disproportionately high amount of high performers. However, management’s statement, compounded with the hierarchies favorable characteristics of small household size and fixed, unearned income confirm that error rates are primarily the result of case complexity rather than other factors such as staff composition.

### **Hierarchy-Specific Benchmarks Are Used for Determination Requirements**

While ESD management has implemented a single accuracy requirement for all eligibility specialists, the number of determinations each eligibility specialist is required to make is specific to their hierarchy. The specific requirement states that eligibility specialists are required to make determinations on 80 percent of the average monthly determinations in their hierarchy. This practice seems reasonable, as it allows for differences among the various hierarchies.

To demonstrate the flexibility this practice provides, determination requirements for December 2012 were calculated for the ABD and ESO hierarchies. ABD had average determinations of 136, while the ESO hierarchy had 176. Therefore, the 80 percent requirement for these two hierarchies would be 109 and 141 respectively. For this month, the average determinations by ABD were less than 80 percent of the ESO average. Therefore, allowing the ESO hierarchy to influence the ABD hierarchy’s determination requirements would place the ABD hierarchy at a disadvantage.

ESD management was prudent in its decision to allow hierarchy-specific benchmarks in its determination requirements. Differences in case complexity among hierarchies, which affect error rates and the percentage of employees who fail to meet the accuracy requirement, also need to be accounted for as they produce inequitable expectations. Therefore, we recommend that ESD management adopt a hierarchy-specific approach to creating benchmarks for its accuracy requirement.

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**ESD should use  
hierarchy-specific  
accuracy benchmarks.**

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## **Case Selection for Accuracy Reviews Needs To Be Random and Unbiased**

Eligibility specialists raised concerns about Performance Review Team (PRT) case reviewers' tendency to review multiple-determination cases, which is being addressed by PRT management. Data from calendar year 2012 confirmed the selection bias, but also showed that eligibility specialists appear to be nullifying the effect of that bias by better preparing cases more likely to be selected. While samples may be stratified to accomplish specific purposes, the selection of cases within specified strata should be random. Therefore, we recommend that ESD management continue making the process more random and unbiased by minimizing the information provided to reviewers during the case selection process.

### **Biased Selection Cases Is a Concern That Is Being Addressed**

For PRT reviewers, the benefit of multiple-determination cases is the efficiency they provide. Reviewing one case with multiple determinations takes less time than reviewing the same number of cases with single determinations. As such, one PRT specialist reported that, "PRT also has to be at 90 percent of their hierarchy in number of cases reviewed. Thus, [we] are incentivized to pick cases with multiple determinations." To perform the required number of reviews, multiple-determination cases present an appealing solution.

Eligibility specialists from both the complainant and randomly selected groups raised concerns about PRT case reviewers' propensity to select cases with multiple determinations. These cases are considered a higher risk for eligibility specialists, because a single mistake can generate multiple errors. In contrast, a similar mistake on a case with a single determination generates a single error. ESD management is aware of the elevated risk and reward associated with these cases and believes the current system provides adequate balance.

On two occasions, ESD management has taken steps to address biased PRT case selection. Allegations of the biased case selection were made to management, and in October 2012 PRT reviewers were instructed to focus on random case selection rather than selecting based on the number of determinations associated with a case. By March 2013, biased cases selection became less significant as reviewers were no longer able to view the number of determinations associated

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**Reviewing multiple determination cases allows PRT reviewers to reach their minimum reviews earlier.**

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**ESD has taken some steps to address bias in case review selection.**

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with a case but were instead provided with other information regarding the case’s complexity. This change will be discussed in greater detail later in the chapter.

### Multiple-Determination Cases Are Reviewed More Frequently

PRT case reviewers disproportionately select cases with multiple determinations. Figure 4.2 compares the frequency of cases with a specified number of determinations with their frequency of being selected for a PRT review.

**Figure 4.2 Multiple-Determination Cases Have a Higher Likelihood of Selection for Review.** This figure shows the number of cases with a specified number of programs and how often they were selected during calendar year 2012.

Determinations Per Case	Total Cases Available	Cases Selected for Review	Percent of Available Cases Selected
1	387,987	25,801	6.65%
2	112,679	14,415	12.79
3	38,543	7,255	18.82
4	14,165	3,195	22.56
5	6,413	1,657	25.84
6	2,699	750	27.79
7	1,096	272	24.82
8	459	122	26.58
9	191	49	25.65
10	100	32	32.00
11+	153	30	19.61

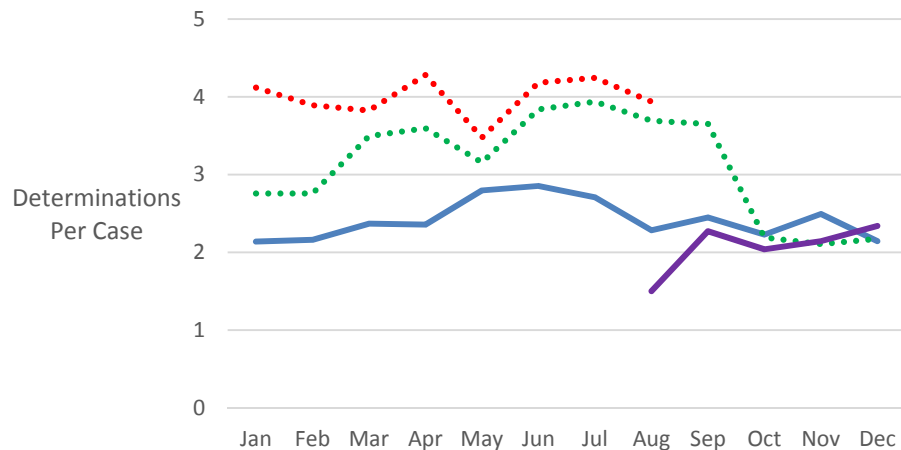
*Source: Auditor Analysis of Data from DWS Workforce Research and Analysis*

As Figure 4.2 shows, a higher proportion of multiple-determination cases are selected for review. Reviewers select an average of about 25 percent of all cases with four to nine determinations per case. Those with less than four are selected less frequently. For example, less than seven percent of single-determination cases were selected. This figure confirms that the bias toward selecting multiple-determination cases was a problem among all reviewers. To illustrate this problem, the Spanish hierarchy is examined in detail.

**Two reviewers in the Spanish hierarchy selected far more multiple determination cases than other reviewers.**

Figure 4.3 demonstrates the biased selection of some PRT reviewers by showing the number of determinations per case for PRT case reviewers primarily assigned to the Spanish hierarchy during calendar year 2012. The four colored lines represent four PRT case reviewers who accounted for 93 percent of Spanish hierarchy case reviews. Two of the four reviewers were not assigned to the hierarchy for the entire year, so their lines are truncated to reflect their actual tenure.

**Figure 4.3 Two Spanish Hierarchy PRT Case Reviewers Had Significantly Higher Determinations per Case.** For calendar year 2012, noteworthy differences are observed in the number of determinations per case by four reviewers assigned to the same hierarchy.



Source: DWS Workforce Research and Analysis

The four PRT reviewers in Figure 4.3 are grouped into two categories. The first represents those with consistently fewer determinations per case, which are identified by solid lines. The second represents those who experienced elevated determinations per case, which are identified by dotted lines. From January through September, two reviewers had significantly higher average determinations per case (3.6) than the reviewer identified by the solid blue line (2.4). Reviewers in the Spanish hierarchy converged towards the lower determinations per case in October 2012, which was after management told reviewers not to favor the selection of multiple-determination cases. Allowing PRT reviewers to select cases in a non-random way allows the bias shown in Figure 4.3.

## Eligibility Specialist Avoid Costly Multiple Determination Errors

While PRT case reviewers appear to have been biased toward selecting multiple-determination cases, data shows that eligibility workers were aware of this practice and may have compensated for it by taking additional caution when completing these cases. The following figure shows the corresponding error rates based on the number of determinations per case during calendar year 2012.

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**Eligibility specialists are more cautious when completing multiple-determination cases.**

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**Figure 4.4 Higher Error Rates Are Associated with Cases with Fewer Determinations.** Cases with one or two determinations were more likely to have an error discovered.

Determinations Per Case	Determinations Reviewed	Determination Errors	Error Rate
1	25,801	2,640	10.23%
2	28,830	1,277	4.43
3	21,765	832	3.82
4	12,780	499	3.90
5	8,285	301	3.63
6	4,500	175	3.89
7	1,904	64	3.36
8	976	22	2.25
9	441	7	1.59
10	320	1	0.31
11+	390	3	0.77

Source: DWS Workforce Research and Analysis

Figure 4.4 shows decreasing error rates as the number of determinations per case increases. While PRT case reviewers were selecting multiple-determination cases to provide more reviews, eligibility specialists appear to have responded by ensuring determinations on these cases were accurate. Essentially, eligibility specialists try to ensure that the potentially costly errors associated with multiple-program cases are avoided in favor of more frequent errors on smaller cases, which are less likely to be detected.

## Management Is Addressing Selection Bias

During the audit, ESD management began making changes to address the selection bias concerns expressed by employees. As discussed earlier, PRT management discussed the selection bias with PRT case reviewers around October 2012, which yielded positive

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**ESD has requested an IT change to remove biasing information from the reviewer screen altogether.**

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results in Figure 4.3. As of March 2013, case selection screens for PRT case reviewers no longer display the number of determinations associated with a case. Instead, cases are evaluated on the number of filters triggered from 1 to 5, indicating how error prone the case may be. Management has established filters that attempt to identify error-prone case characteristics.

Reviewers are instructed to pull cases from the top of the queue, regardless of the number assigned to it, but there are no controls in place to prevent a reviewer from selecting another case. Since management's objective is for reviewers to simply select the next case regardless of other factors, we question why any information besides identifying information is being provided. Presenting this information provides another way to potentially bias the selection process. ESD management has filed a change request that removes identifying information from the reviewers screen. Based on these changes, ESD management appears to be moving in the right direction regarding reviewer selection bias. Therefore, we recommend that ESD management continue addressing any remaining issues associated with selection bias in the case review process.

### **Management Needs to Ensure Consistent Error Rates among PRT Reviewers**

Management's system of evaluating consistency among PRT case reviewers is inadequate and requires better tracking of overturned errors. The rate that individual PRT case reviewers identify errors is inconsistent when compared against other reviewers evaluating similar cases. Eligibility specialists raised concerns about this lack of consistency among PRT case reviewers because it may affect their ability to meet accuracy requirements. Manager evaluations of PRT case reviews verify the existence of problems with accurate case reviews. PRT management has not tracked the details of overturned errors at a case reviewer level. We recommend that PRT begin tracking how often and why case review findings are being overturned.

### **Reviewer Error Rates Deviate Significantly from Expectations**

While error rates are expected to deviate to some degree from reviewer to reviewer, the extent of deviation among PRT case reviewers is concerning. To illustrate these differences, the error rates

for reviewers of Community-Based Teams (CBT) hierarchy cases during calendar year 2012 are shown in Figure 4.5.

**Figure 4.5 CBT Case Reviewers Identify Significantly Different Rates of Errors.** While excluding other types of determinations, this figure shows the error rates identified by the nine reviewers of CBT cases.

Reviewer	Actual Reviewer Error Rate
A	3.64%
B	4.78%
C	5.88%
D	6.67%
<b>CBT Average</b>	<b>6.82%</b>
E	6.85%
F	8.35%
G	8.50%
H	11.11%
I	11.25%

*Source: Auditor Analysis of Data from DWS Workforce Research and Analysis*

All reviewers in Figure 4.5 evaluated the same type of cases from a diverse mix of eligibility specialists. Despite reviewing a relatively similar mix of cases, the error rates for individual reviewers are quite different. While reviewers H and I identified errors for over 11 percent of the determinations they reviewed, reviewers A and B identified errors in less than five percent of their determinations. Since some reviewers are able to identify two to three times as many errors, we are concerned with the consistency of how errors are defined and identified.

To understand the extent of the problem in Figure 4.5, we evaluated the 2012 error rates for all 48 PRT case reviewers. To evaluate consistency, actual reviewer error rates were compared with expected error rates, which was calculated from the average error rate for each hierarchy.<sup>33</sup> Appendix F contains this detailed analysis.

As was the case with case reviewers for the CBT hierarchy, error rates for all PRT case reviewers vary widely from expectations. The

**Review consistency is questionable as error rates for PRT case reviewers vary widely from expectations.**

<sup>33</sup> Actual reviewer error rate is defined as a reviewer's percentage of errors found per reviews performed. Expected error rates is the weighted average of each hierarchy reviewed divided by the reviewer's total reviews. Average error rate is the error rate of all reviewers in the hierarchy.

following statistics highlight the extent of inconsistency among case reviewer error rates:

- Actual reviewer error rates range from 6 to 224 percent of their expected error rates.
- Half of reviewers were between 71 and 120 percent of their expected error rate, while the other half were outside this range.

These two statistics raise concerns about the consistency of PRT case reviewers. When two reviewers who review similar types of cases are generating vastly different results, the reliability of accuracy assessments becomes questionable, which is one of the concerns raised by DWS employees.

### **Employees Are Concerned That Reviewer Inconsistencies May Impact Their Performance**

Several eligibility specialists expressed concerns that individual error rates can be affected by the strictness of the particular person reviewing their case. Interviewees asserted that PRT reviewers varied in the rigidity with which they reviewed cases and sometimes interpreted unclear policy differently. This results in disparate impacts on error rates depending on how critical one particular reviewer is versus another.

Regarding this perceived inconsistency among PRT reviewers, eligibility specialists commented:

- “Your stats change based on which editor you get.”
- “It’s a necessary thing and they do a good job. Sometimes they can be picky and not uniform.”
- “There’s no standardization anymore, no guarantee two editors will get the same result.”
- “Some are lenient and others are very strict. There is little consistency.”
- “PRT itself isn’t consistent. Some editors cite errors where others wouldn’t.”

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**Employees voiced concerns with PRT reviewer inconsistencies.**

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- “There is inconsistency between editors. The policy is muddy, so different editors interpret policy and procedures differently.”

Based on these stated concerns, we focused on the controls management has implemented to ensure consistent performance by PRT case reviewers.

### **PRT Manager Evaluations Confirm Concerns about Reviewer Accuracy**

During calendar year 2012, PRT managers evaluated the reviews performed by their case reviewers. One of the questions in these evaluations is “did the review correctly identify whether the correct program, plan, and benefit were determined?” Essentially, the manager is stating whether their case reviewer came to the correct conclusion about the accuracy of a determination made by a particular eligibility specialist.

During the first five months of calendar year 2012, managers agreed with all of the conclusions made by their PRT case reviewers. However, the remaining seven months were a stark contrast where 33 reviews were identified as coming to the incorrect conclusion. In these reviews, a case reviewer either cited an error when the eligibility specialist was correct, or thought the eligibility specialist was correct when it was actually an error. Since incorrect conclusions were identified during the seven months, we disregarded the evaluations conducted during the initial five months of the year because of the stark difference they presented.

PRT case reviewers are making incorrect conclusions at a rate almost as high as they cite errors by eligibility specialists, which is significant and concerning. The entire population of eligibility specialists has an estimated error rate of 5.49 percent.<sup>34</sup> The reviews with incorrect conclusions account for four percent (33 of 795) of reviews evaluated by managers during the last seven months. This relationship helps validate the error rate differences shown in Appendix F, and it also raises the importance of understanding how

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**Reviewers and eligibility specialists have similar error rates.**

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<sup>34</sup> See **Figure 4.1**.

often and for what conditions errors cited by case reviewers are appealed by eligibility specialists.

### **ESD Needs to Track Appealed Errors**

Considering the evidence of inconsistent error rates being identified by PRT case reviewers, ESD management should understand to what extent and why errors are being overturned. Unfortunately, PRT managers said they do not track information regarding appealed errors by eligibility specialists even though the process does exist.

One PRT manager said that records of error appeals are not kept because they are that common and involve gray areas where no one is really wrong. We believe that this approach is inappropriate when considering the inconsistencies observed. First, tracking the number of appeals and their success rate would provide additional evidence of the extent that errors are perceived and indeed incorrect. Second, documenting gray areas can identify situations where additional policy or procedures are needed to clarify expectations and procedures.<sup>35</sup>

While the documentation provided during the audit confirms there is a problem with PRT case reviewer consistency, it has not provided adequate details to identify specific causes for the inconsistencies. Therefore, we recommend that ESD management develop processes to document how frequently and on what grounds errors are being overturned. The details these processes should generate will be essential for developing lists of included and excluded actions that produce errors. With clearer definitions of what is and is not an error, PRT case reviewer conclusions about the accuracy of determinations by eligibility specialists should become more consistent and provide ongoing training to both reviewers and eligibility specialists.

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**Documenting and tracking appealed errors can identify areas that need additional policy or training clarification.**

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<sup>35</sup> DWS management noted that many errors are resolved informally in the course of communication.



## **Accuracy Requirements Need Reliability and Consistent Enforcement**

The sample size used to determine eligibility specialists' compliance with accuracy requirements is too small to provide adequate assurance of validity. One solution to this problem is increasing the number of months on which that assessment is based. This problem is compounded when formal employee actions, such as written warnings and performance improvement plans, are inconsistently imposed for poor accuracy. After multiple consecutive months of missing accuracy requirements, some eligibility specialists receive formal corrective actions while others do not. Management has given supervisors flexibility regarding corrective actions so they can accommodate extenuating circumstances. Considering the inconsistent enforcement, ESD management should adopt a policy that clarifies when poor accuracy will result in formal corrective actions, which promotes equitable enforcement and clarifies expectations for eligibility specialists.

### **Small Sample Sizes Make Monthly Accuracy Assessments Unreliable**

During the interview phase of the audit, some DWS employees raised concerns about the limited number of reviews supervisors use to evaluate their accuracy on a monthly basis. These monthly accuracy assessments rely on a relatively small sample of cases, making validity of assessments on a monthly basis questionable. By considering multiple months of accuracy data, thereby increasing the sample size, the reliability of information used in these decisions is improved.

By recommending a larger sample size generated by extending the timeframe used for evaluation, we are not suggesting that more samples be completed on the whole. This allows for reviews to be completed at the same rate, but pooled over a longer time period. If designed appropriately, this method also has the possibility of allowing for fewer total reviews in a period, thus freeing resources for other methods of concurrence on accuracy assessment. We recommend that

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**Extending the time frame used for accuracy evaluation can increase the validity of the assessment.**

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the division adjust its sampling methodology to provide greater validity in conclusions about employee performance.<sup>36</sup>

### **Formal Employee Actions Lack Consistency**

In calendar year 2012, insufficient accuracy was cited as the most common grounds for formal employee action.<sup>37</sup> Accounting for 60 of 126 formal employee actions (48 percent), accuracy was a larger problem than determination productivity (8 percent) and all other infractions combined (44 percent). These statistics were compiled from records kept by the Department of Human Resource Management (DHRM).

Eligibility specialists are required to achieve 90 percent accuracy on a monthly basis. We reviewed monthly accuracy rates for eligibility specialists during calendar year 2012 and identified how many consecutive months an individual failed to meet the accuracy requirement. We then determined whether the individuals identified received a formal employee action during the same year. Figure 4.6 shows the results of this analysis, which focused on eligibility specialists whose longest streak of consecutive months below 90 percent accuracy was three or more months.

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**Discipline for poor accuracy varied widely among eligibility specialists.**

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<sup>36</sup> The statistical foundation for the importance of appropriate sample sizes can be found in **Appendix G**.

<sup>37</sup> Formal employee action can range from a written warning to termination of employment.

**Figure 4.6 In Some Cases, Employee Actions Are Not Taken After Three or More Months of Poor Accuracy.** This figure shows the number of employees during calendar year 2012 with three to eight consecutive months of accuracy below 90 percent. In addition, the number of these employees who did not receive a formal employee action was also counted.

Consecutive Months Below 90 Percent	Employees	No Formal Employee Actions	Percent
3	24	17	71%
4	20	10	50%
5	3	1	33%
6	2	0	0%
8	1	1	100%

*Source: Auditor analysis of DWS performance data and performance evaluations.*

Figure 4.6 shows that the consistency of enforcing accuracy requirements is questionable. For employees with three or four consecutive months, receiving a formal employee action does happen but is not expected. For the six employees with five or more consecutive months missing the 90 percent accuracy requirement, formal employee actions appear to be the standard with two exceptions. To illustrate the inconsistency, the conditions involving the eligibility specialists with six and eight months of noncompliance were compared.

From February to September 2012, the employee with eight consecutive months had monthly accuracy rates between 70 and 89 percent. While no formal employee action was filed with DHRM, the employee’s evaluation by their supervisor did document that a verbal warning was given during the year.

In contrast, both employees with six consecutive months of noncompliance received multiple formal employee actions. One employee’s accuracy rate ranged from 43 to 82 percent, and the other’s accuracy rate ranged from 80 to 88 percent. Since the second employee had less extreme accuracy rates that more closely match the employee with eight consecutive months, their experience will be described in more detail.

In January, a written warning was filed with DHRM for this employee, which suggests that accuracy was also an issue in calendar year 2011. In addition, the employee was placed on a performance

improvement plan in March, and was subsequently suspended for three days in June for failing the plan.

The contrast between how supervisors handled accuracy issues for these two employees raises questions about whether ESD supervisors are consistently enforcing the accuracy requirement. Questions about consistency are also raised by the results in Figure 4.6 involving employees with three or four consecutive months with accuracy issues. Based on these observations, we evaluated whether management was providing adequate guidance to ensure consistent application of formal employee actions.

### **Employee Action Policy Should Acknowledge Inconsistency and Inequity**

ESD management has not adopted a policy specifying how many months of accuracy noncompliance justifies various corrective actions. While this is concerning, it is difficult to determine the appropriateness of corrective action given the review flaws presented throughout this chapter. In discussions with ESD management, they are aware of “extenuating circumstances” that may make compliance with various aspects of performance requirements difficult. Consequently, management gives supervisors flexibility as they determine when various formal corrective actions are appropriate.

We agree with ESD management that flexibility to adjust performance expectations when employees are dealing with life challenges that affect work performance are necessary. However, the process for granting that flexibility needs to adhere to policy that ensures consistent and equitable treatment of employees. As illustrated in the different responses by supervisors responding to extensive accuracy issues, the absence of policy has led to inconsistent treatment of employees.

Adopting a policy that addresses formal employee action for accuracy provides clear expectations for eligibility specialists. As discussed in Appendix G, monthly accuracy assessments are not very reliable because of their small sample size, and eligibility specialists have raised this concern. A policy addressing clarifying formal corrective action should be built on a foundation of valid data and reviews, as addressed throughout this chapter.

If employees have a clear understanding of how many months of noncompliance will trigger specific employee actions, fluke months of noncompliance, which will eventually occur, can be placed in an appropriate context of possible consequences. Instead, the lack of policy does not provide employees with this context, resulting in unclear expectations regarding the consequences that will result from occasional non-compliance. Therefore, we believe that providing this policy will help ensure consistent enforcement and address eligibility specialists concerns about the reliability of monthly assessments.

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**DWS management should create policy guiding accuracy disciplinary action.**

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## **Recommendations**

1. We recommend that the Department of Workforce Services develop hierarchy-specific benchmarks for accuracy that are similar to existing productivity requirements.
2. We recommend that Eligibility Services Division management continue addressing any remaining issues associated with selection bias in the Performance Review Team case review process.
3. We recommend that Eligibility Services Division management develop processes to document the frequency and basis that errors identified by Performance Review Team case reviewers are being appealed and overturned.
4. We recommend that the Eligibility Services Division adjust its sampling methodology to provide a greater level of confidence in conclusions about employee performance.
5. We recommend that Eligibility Services Division management adopt guidelines and tools that specify acceptable employee performance and clarify when negative personnel actions are appropriate.

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## Chapter V

# Structural and Management Changes Have Caused Staff Unrest

Ongoing organizational change at the Department of Workforce Services (DWS or department) was cited by both employees and management as a source of employee unrest. Specifically, the following changes were identified as primary causes for this concern:

- Continual restructuring of the department's programs and divisions
- Implementing a zero tolerance policy for improperly accessing client information
- Requiring that employees relinquish their career-service employment status to participate in the Pay for Performance (PFP) incentive program

We recommend that DWS work to repair employee relations by slowing the rate of change within the agency and modifying its zero tolerance policy to allow for case-by-case flexibility.

### Continual Change at DWS Contributed to Staff Unrest

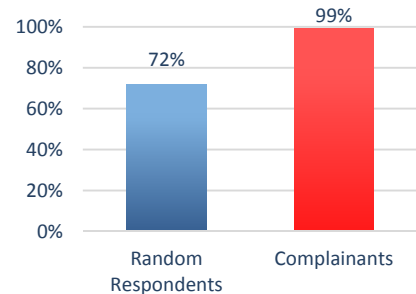
Changes within DWS, including budget reductions, caseload increases, and the creation of new management processes, operating divisions, incentive programs, and disciplinary actions have led to staff unrest. Individually, change is difficult for employees to adjust to; concurrently, changes have contributed to significant, negative employee responses. The recession, beginning in 2007, set the stage for continual change, initiated from both outside the department and within it. Increasing demand for services and decreasing budgets necessitated considerable changes and improvements. The following changes to DWS operations were all introduced within a short period of time:

- The Performance Review Team (PRT, discussed in Chapter IV)

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#### Percent of Employees Identifying Concerns in Chapter V.

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**ESD's frequent and sometimes unnecessary changes lead to staff unrest.**

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**Reduced appropriated funds prompted leadership to pursue many structural changes.**

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- The Eligibility Services Division (ESD)
- The eREP case management system
- The Theory of Constraints (TOC) or Throughput Operating Strategy management process
- The PFP system (discussed in Chapters II and III)<sup>38</sup>

While DWS management attempted to alleviate the negative impacts of these compounding changes, the number, extent, and frequency of the changes were likely ill-advised.

### **Some Changes Were Externally Initiated While Others Were Internally Initiated**

Both complainants and randomly selected employees mentioned their concerns with the rate and extent of change within the department. These changes, undergone mainly over the last five years, are the result of both external influences beyond the control of DWS management (for example, economic shifts) and internal decisions made by DWS (for example, PFP).

Figure 5.1 shows the percentages of employees, among both randomly selected and complainant pools, who voiced concerns about some of these changes.

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<sup>38</sup> A definitional index clarifying these terms and other key terms used in the report can be found in **Appendix B**.



**Figure 5.1 Employees Voiced Concern About Many of the Changes.**

In addition to the numbers listed in the figure, a total of 76 percent of all 172 interviewed employees expressed one or more of the concerns listed below.

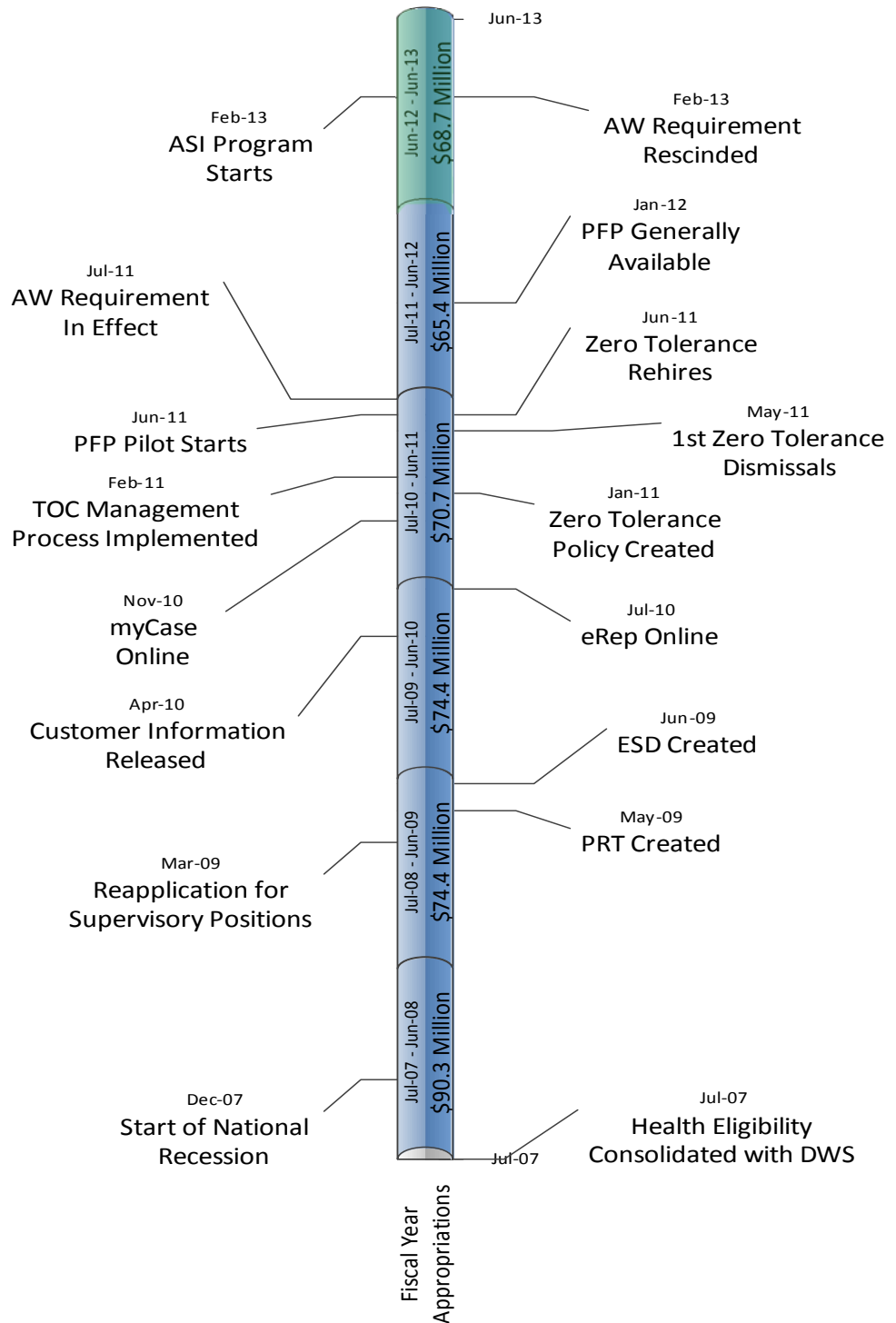
Change/Employee Concern	Percent with Concerns	
	Randomly Selected	Complainant
Pay for Performance	61%	57%
PRT	41	39
AW Requirement	19	10
ESD	13	25
Zero Tolerance	3	24

*Source: OLAG interviews of DWS employees*

Both randomly selected employees and complainants expressed multiple concerns about changes at DWS. In the case of the PRT and PFP programs, randomly selected current employees voiced more concerns than complainants. This distinction is concerning because these interviewees are currently employed by the department, generally in good standing and did not come forward with complaints, but were chosen at random. 76 percent of all interviewees voiced one or more concerns with the changes listed in the figure. The genesis for these changes occurred earlier with the economic recession.

When the 2007 recession began, DWS had a General Fund appropriation of \$90.3 million. The next fiscal year, DWS's state appropriation dropped to \$74.4 million, forcing reductions and operational adjustments. During this same time period, DWS made major structural changes to the organization in an attempt to increase efficiency and cope with more cases and fewer staff. Figure 5.2 chronicles some of those changes, with the corresponding state appropriations allocated to DWS from fiscal year 2008 to 2013.

**Figure 5.2 During a Time of Budget Fluctuation, DWS Has Undergone Multiple Changes.** While some of these changes were responses to external forces, others were made for internal reasons over which DWS leadership exercised discretion. Fiscal year 2013 budget data is based on projections. Budget data is detailed vertically.



Source: Auditor compilation of DWS information

Many of the changes listed in Figure 5.2 correlate with the concerns employees expressed in Figure 5.1. Additionally, 21 percent of randomly selected employees and 11 percent of complainants voiced concerns about expectations and/or processes as a whole changing too often or being unclear.

The bulk of these changes began in January of 2009 when DWS began discussions and formed workgroups to determine how to improve efficiency through structural changes. These discussions led to the implementation of ESD. As discussed in our 2012 audit (#2012-07),

DWS has organized the ESD into a single centralized organization rather than offering services on a regional basis. . . . The department has made several changes within ESD, such as an online application process, call centers, online case information called myCase, and launched a new eligibility determination system called eREP.

As a part of the restructuring process, ESD leadership elected to eliminate the position of team lead worker. In conjunction with that decision, all managers and supervisors were required to reapply for their positions. At that point, employees, including former lead workers, had an opportunity to apply for supervisory positions or to remain staff eligibility workers. Although this period of restructuring was a recurring theme in our complainant interviews, we do not believe that Department of Human Resource Management (DHRM) policies and procedures were disregarded.

In addition to budgetary and structural changes, DWS's total case numbers have increased steadily. Figure 5.3 illustrates the increase in the number of DWS cases.

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**Many randomly selected interviewees cited continuous change as a significant concern.**

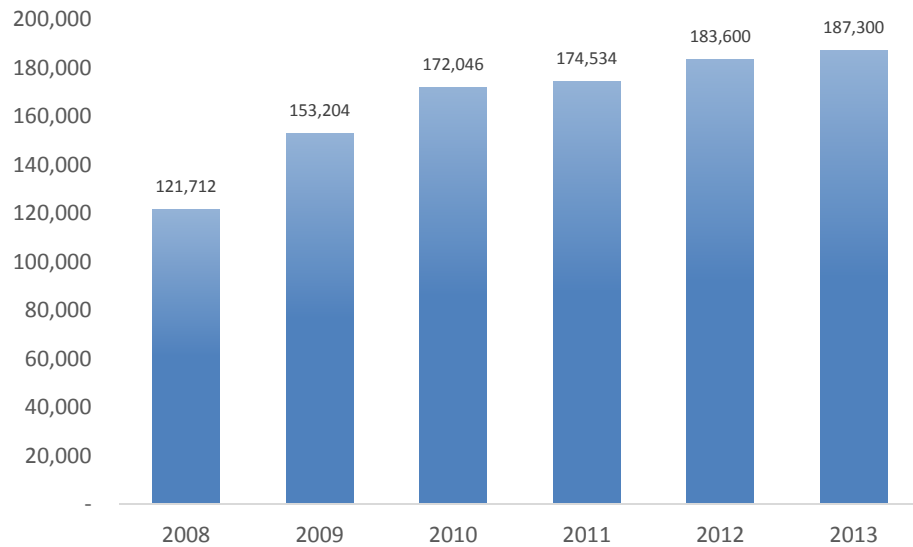
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**The largest structural change occurred when DWS centralized their eligibility operations into one unit.**

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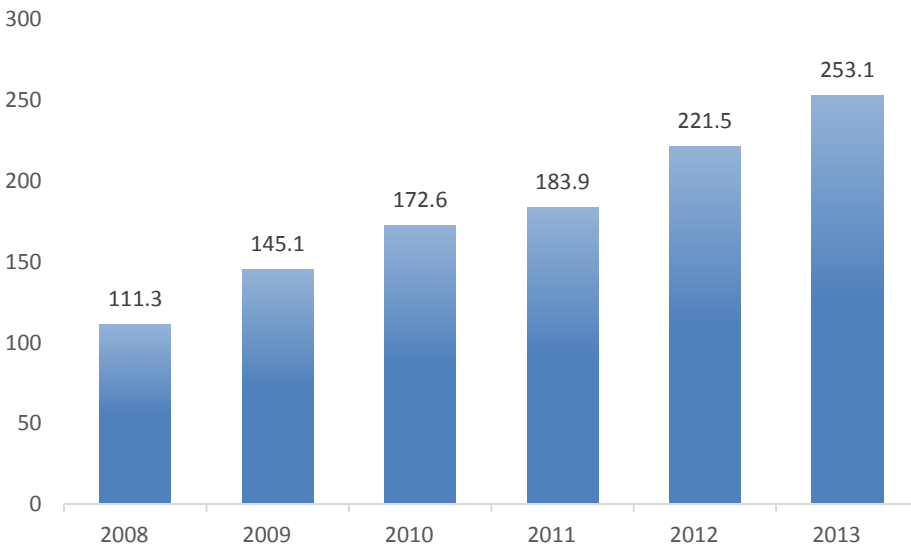
**Figure 5.3 The Number of People Applying for DWS Services Has Climbed Over the Last Five Years.** Public assistance cases have increased 54 percent since fiscal year 2008.



*\*2013 data based on projections  
Source: DWS*

Our calculations show, the demand for services increased by 54 percent in the last five years, the department continued to reduce FTEs. As a result, individual caseloads increased on average about 125 percent. Figure 5.4 shows a marked increase in caseloads. In fact, caseloads increased significantly more than the increase in the number of public assistance cases because the number of eligibility specialists had significantly decreased.

**Figure 5.4 The Average Annual Caseload for an Eligibility Worker Has Increased Significantly.** Caseloads have more than doubled in the past six years.



*\* 2013 data based on projections*

*Source: Auditor analysis of agency provided data. The basis for this information has changed as structures and processes at DWS changed.*

Prior to 2010, caseload growth came from requiring existing staff to make up the difference. From mid-2010 on, some of the increase shown in this figure was absorbed by added efficiencies created by the implementation of eREP.

However, 25 percent of interviewees cited increased caseloads as a cause of staff concern. The increasing caseload, coupled with decreased funding for case management, necessitated different methods of operation. This amount of change naturally leads to employee unrest.

### **Rapid Changes Taxed the Trust of Employees**

Seventy-four percent of total employees interviewed expressed concerns which we believe demonstrated lack of trust in management or in its management systems. These concerns included favoritism, inconsistency, retaliation, discrimination, and expressions that employees are expendable.

Our organizational behavior consultant, who was involved in the employee interviews, concluded that “the change process was chilled by a sense of vulnerability and threat that employee jobs were on the line, and that changes were unilaterally imposed without concern for

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**While management has taken some steps to mitigate concerns, many employees still feel that caseloads are unmanageable.**

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**Employee trust is vital to successful implementation of a PFP program.**

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employee adaptation and meaningful input.” More specifically, the consultant observed that “at DWS, there are strong indications that management failed to give ESD workers sufficient time and discretion to adapt the new automated system to the variety and complexities of their casework and vice-versa”. Supporting this conclusion, a national study supporting DWS’s technological change nevertheless concluded, “implementing multiple substantial changes simultaneously can result in high staff stress levels and can affect performance.”

While some of the changes were necessitated by outside forces beyond DWS’s control, others were implemented at management’s choice, making the timing questionable. Examples of questionable timing include the PFP incentive program and the AW status requirement within the PFP program. We believe these implementations exacerbated existing employee unease.

Both our consultant and PFP literature suggest that employee trust is vital to effective implementation of a PFP program. A report issued by the Merit Systems Protection Board, entitled “Designing an Effective Pay for Performance Compensation System” (federal PFP report) states that

change—especially change as momentous as introducing pay for performance—creates stress in an organization. When agencies embark on significant changes with low levels of trust in place, employees frequently experience anxiety about how they will be impacted.<sup>39</sup>

The federal PFP report indicates that a reliable system for ongoing assessment of employee attitudes and trust was essential as a key component of successful PFP programs.

Into this mix of multiple changes came the requirement that PFP participants opt into a different employment status. In an analysis of management’s application of Theory of Constraints with regard to PFP, our consultant stated the “contingent change in [employment] status caused many workers to view the whole project with suspicion because they perceived that their rights as workers were being

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<sup>39</sup> U.S. Merit Systems Protection Board. 2006. *Designing an Effective Pay for Performance Compensation System*. A report to the President and the Congress of the United States. 35.

abridged or even eliminated”. He continued, “in such cases, it does not matter what management intentions are, but how employees perceive the announced or proposed changes.”

Careful consideration of the environment into which a PFP program will be introduced is vital. In a 1991 meta-analysis of the PFP literature, two researchers framed some PFP pitfalls this way:

These findings suggest the dangers of using individual incentive plans for employees in complex, interdependent jobs requiring work group cooperation; in instances in which employees generally distrust management; or in an economic environment that makes job loss or the manipulation of incentive performance standards likely.<sup>40</sup>

The conditions cautioned against by the researchers appear to have been present at the time and in the environment into which ESD leadership launched its PFP program.

DWS management was aware of the potential effects of change on employee morale and reports having taken some steps to try to mitigate these employee concerns.

### **Management Has Been Aware of the Added Stresses of Change**

DWS management has acknowledged to employees and auditors that change is not easy and needs to be managed. In April 2009, two months before ESD was officially created, management sent out an ESD communication entitled “Slow the Flow.” It demonstrates an awareness of some concerns with the amount of change occurring.

When it comes to DWS, “Slow the Flow” means decreasing the frequency and volume of changes to our pathways and processes. Certainly, the announcement of a new ESD and standardized work processes can hardly be confused with a slowing concept; additionally, eREP, budget pressures, and the increasing workload can bring real and perceived ideas about changes into our

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<sup>40</sup> Milkovich, George and Alexandra Wigdor, eds., 1991. *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*. Washington, DC: National Academy Press.

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**Complex work, distrust of management, and unsure economic environment all lead to PFP problems.**

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**DWS management recognizes that change is not easy.**

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**Management emphasized communication in helping employees adjust to change.**

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Department. We know we are testing people’s capacity to absorb some big challenges in a short period of time. And, while you may be wondering if there is any part of all the changes that will ever fulfill our intent to “Slow the Flow,” it is important to note the answer is that there definitely is.

DWS was aware of employee concerns and attempted to address them. They discussed the importance of communication from management to staff and from staff to management. The goal of this communication, as expressed by DWS leadership, is that “when staff feel they are informed, they are more likely to embrace the changes and accept them with a greater understanding.” For example, when ESD was first established, staff received a bi-weekly email updating them on what was happening within the organization. DWS management provided podcasts, opportunities for online feedback, and surveys of staff to foster communication.

Despite these efforts, management acknowledges that the continuing rate of change within the organization has caused problems. This is not unusual within organizations. Our organizational behavior expert discussed these changes, specifically the implementation of the “Theory of Constraints” management process. He stated,

The method . . . becomes exceedingly difficult to apply successfully, especially with the adoption of radically new processes imposed by automation, and because of the short timeframe for changes imposed on or within DWS.<sup>41</sup>

In addition, a former state legislator, the sponsor of the bill allowing DWS to establish AW employment status (addressed later in this chapter), discussed the importance of managing change. He emphasized to us that change such as this should take place gradually and not in concurrence with other changes. PFP, for example, should be implemented only in a stable organization. This stability allows an organization to accumulate the necessary knowledge and baseline productivity data. This foundation is required in order to provide

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<sup>41</sup> Green, Richard. 2013. *Analysis of “The Goal: A Process of Ongoing Improvement” (Goldratt 1984/2004) Relative to Its Application in the Utah Department of Workforce Services*. Report prepared for the Utah Auditor General. 3.

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**Change should take place gradually and not in conjunction with other changes.**

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comparison data to determine which specific changes have been effective and which need modification.

DWS management reports that while they agree there have been major structural changes, changes to the day to day functions of eligibility specialists have significantly slowed. Previously, policy changes were announced frequently throughout the month. Management has worked to markedly limit these policy changes.

We recommend that DWS determine ways to slow the rate of change and ensure that employees are able to effectively adapt to changes.

## **Applying a Zero Tolerance Policy Raises Concerns**

DWS management should reconsider their policy regarding employee access to information to allow more flexibility in determining appropriate discipline. The current policy, known as zero tolerance, requires immediate termination of employees for any client data access outside of “legitimate business purposes.” While some employees have been terminated, at least two employees have not been terminated for infractions that could fall under this policy, even though the policy expressly prohibits flexibility. Other state agencies with sensitive customer information have chosen not to implement a zero tolerance policy but rather allow disciplinary action to be considered on a case-by-case basis. This discretion allows the agency to make reasonable decisions regarding termination or other disciplinary action without the appearance of favoritism.

### **Perceived Inconsistencies Exist in the Application of Zero Tolerance**

The department’s zero tolerance policy, requiring the immediate termination of any employee who inappropriately accesses client information, appears to have been applied inconsistently. This policy was implemented in 2011, following the well-publicized, unauthorized release by a DWS employee of a list of names of DWS clients who were undocumented immigrants.

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**Organizational stability is essential to implementing change and measuring program success.**

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**Twenty-three employees were terminated and then rehired due to inadequate zero tolerance training.**

After the initial rollout of the policy, 23 DWS employees were issued letters of termination. These letters were then rescinded when the Utah Public Employees’ Association (UPEA) successfully argued that employees had not been trained well enough to understand the policy. These employees ultimately served a four-day suspension. During this same period, 33 employees received an official letter of inservice<sup>42</sup> in their employee file for accessing his or her own public assistance case. These actions and subsequent reversals likely contributed to an atmosphere of unrest among the staff, and indeed were cited by some interviewed employees and management as establishing a fearful work environment.

Between July 2011 and December 2012, at least six DWS employees had official consequences for some sort of inappropriate access. Figure 5.5 lists the infractions and the consequences.

**Figure 5.5 Inappropriate Access Has Been Treated Differently Among Employees.** Two cases resulted in separation from the department, while four others are still employed with DWS.

Infraction	Consequence
Accessed own case	Official letter of inservice
Accessed own case*	Written reprimand
Inappropriate access	Retired to avoid dismissal
Inappropriate access*	Dismissal
Access case without following procedure	Written warning
Disclosed customer information on Facebook	Written reprimand

*\*Probationary Employee  
Source: DHRM Disciplinary Records*

Two of the employees listed in Figure 5.5 lost employment as a result of their infraction, while four received a lesser discipline. Lesser discipline is not sanctioned under the current policy, which states

The Department of Workforce Services has “zero tolerance” for inappropriate access, compilation, distribution or misuse of its confidential information. All

<sup>42</sup> **Letter of inservice** - a written notification sent from a supervisor to an employee identifying something that an employee is not doing correctly and identifying the proper or correct procedure to follow. It is not disciplinary in nature but is intended to explain the correct method to do a job task or to accomplish the supervisor's expectations.

**The department failed to follow its own zero tolerance policy in several instances.**

department workers who are granted access to private, controlled, protected or otherwise confidential information may access the information only for legitimate business purposes and must guard against improper uses or disclosures of this information.

The Department will discharge a worker who accesses, compiles, distributes or misuses confidential department information without a legitimate business purpose.

The policy goes on to define confidential information, workers, and legitimate business purposes, and to detail inappropriate use.<sup>43</sup> This policy may also be so restrictive that employees in rural settings may be in violation simply because of the small population they serve. According to management best practices, the variety of consequences for inappropriate access demonstrates the need to maintain official flexibility in these decisions.

### **Zero Tolerance Policies Do Not Allow Sufficient Flexibility**

The department's zero tolerance policy does not allow management the flexibility to adjust their actions for mitigating circumstances. Zero tolerance, by definition, means immediate dismissal. In actuality, this policy is difficult to enforce. For example, when deciding on the discipline for an employee accessing his or her own case, the supervisor stated, "[this employee] really understands how serious this was and is grateful to still be employed." The eventual discipline received was a written reprimand.

Zero tolerance policies are not the norm within the state. We could find no evidence of any other blanket statewide policies that require immediate termination. Staff members in DHRM and the Governor's Office were unaware of any statewide policies requiring zero tolerance. In fact, the official from the Governor's Office also does not believe there are any executive orders requiring zero tolerance.

In addition, most other state agencies whose employees have access to sensitive client information do not employ zero tolerance for

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**Zero tolerance policies are rarely used in state agencies, in part to allow for management discretion.**

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<sup>43</sup> The complete zero tolerance policy can be viewed in **Appendix G**.

inappropriate access to that information. Figure 5.6 lists the agencies we contacted and their consequences for inappropriate access.

**Figure 5.6 Of Six Examined State Agencies, DWS Is One of Two with a Zero Tolerance Access Policy.** PEHP was the only other agency with a zero tolerance policy. Inappropriate access can potentially lead to termination in all agencies, but is not automatic in most.

Agency	Consequence
DWS	Zero tolerance
PEHP/URS	Zero tolerance
Department of Health	Case by case
Division of Child and Family Services	Case by case
Office of Recovery Services	Case by case
Tax Commission	Case by case
University of Utah Hospitals	Case by case

*Source: State agency discussions and policies*

Other than the Public Employees’ Health Program (PEHP)/Utah Retirement System (URS), DWS is the only agency contacted that does not allow for case-by-case review of the appropriateness of access to sensitive information. This policy provision limits their ability to be flexible in determining the severity of the infraction. We are not implying that employees should never be terminated for inappropriate access to sensitive information. Agencies should be able to determine whether a situation is egregious enough to terminate employment, but they should also have the flexibility to determine whether a lesser discipline is appropriate. We recommend that DWS modify the zero tolerance policy to allow for this flexibility.

### **Transitioning Employees to Alternate Career Service Status Became Indefensible**

DWS leadership expected to realize savings in litigation costs by instituting a new career status schedule among employees, but an apparent disconnect between the concept and the development of this idea negated potential savings. Employees often expressed distrust of management motives in requiring the new schedule. Recognizing a lack of savings and growing employee unrest, DWS leadership reversed the schedule requirement.

**While termination for major infractions may be appropriate, accommodating extenuating circumstances is advisable.**

## **Career Service Exemptions Are No Longer Required for Incentive Programs at DWS**

Beginning in March 2013, DWS no longer required employees to switch to Schedule AW employment status (AW) in order to participate in PFP. This new designation was assigned by DHRM to represent “Schedule A, Workforce Services.” During the 2011 General Legislative Session, DWS had lobbied for and received AW as an alternative to the traditional Schedule B career service status. The additional career status had two main purposes: The first was to allow DWS to hire temporary employees using federal funding, while meeting federal requirements for employee merit employment status. The second was to create a status specific to those wishing to participate in PFP.

The significant difference between Schedule B and AW workers lay in the corresponding level of appeal rights. Schedule B workers have the ability to appeal employment decisions to the state’s Career Service Review Office (CSRO). AW workers’ appeal rights extend only as far as DWS’s executive director.

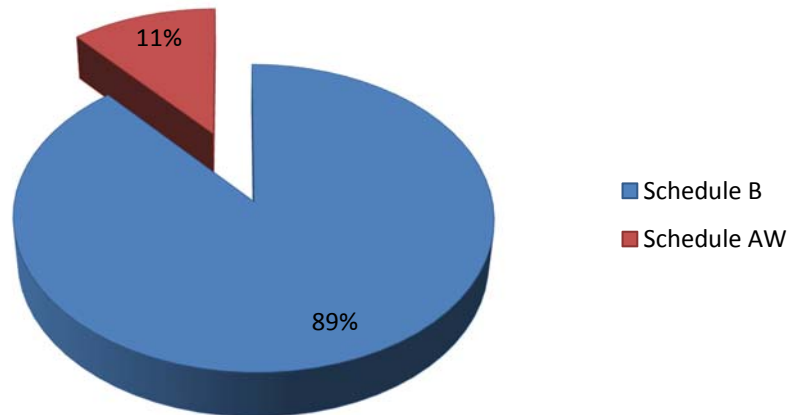
Initially, all employees wishing to participate in PFP were required to give up their Schedule B status in favor of AW status. After March 2013, AW status is required only in the instance of temporary employment funded with limited or one-time money. With the policy change, DWS returned many AW employees to their original Schedule B status, while allowing them to continue in the PFP program. Figure 5.7 shows that 89 percent, or 447, of AW employees were changed back to Schedule B. As of April 2013, only 54 temporarily funded staff remained AW with the policy change.

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**PFP employees were required to change to an employment schedule limiting their appeal rights.**

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**Figure 5.7 Schedule AW Staff Transitioned Back to Schedule B.** Of the 501 employees under the AW distinction, only 11 percent remained AW after the agency changed its policy to no longer require PFP employees to be AW.



Source: Auditor analysis of Department of Human Resource Management data for April 2013.

### **Disconnect Exists Between AW Concept and Development**

Originally, employees were told that the AW status was necessary in order for DWS to offer PFP. Employees were also told that AW made it possible for DWS to hold them more accountable for their performance. The bill sponsor of the AW legislation, who in his private career has helped organizations make PFP transitions, said the purpose for the requirement was to hold employees accountable to a productivity standard.

According to DWS leadership, AW was anticipated to generate cost savings in foregone litigation expenses from avoiding the CSRO appeals, but as of July 2013, no savings had been realized. No savings had been realized because no decisions involving AW employees had been appealed to even the director's office level. In fact, in the 5 years (2008-2011) before AW was required, 9 total DWS employee grievances went beyond the executive director, and only 2 above mediation. DWS leadership expressed that the status change was more symbolic in nature; it was an attempt to make DWS's employment structure more closely approximate a private sector organization and satisfy legislative requirements to start PFP. The bill sponsor claims the AW status was a DWS suggestion.

**As of July 2013, the required shift in career service status has not generated any savings for the department.**

The sponsor also specified that when implementing an incentive based pay system, such as DWS's PFP, there are a million ways to do it wrong, and only a few ways to do it right. In this situation, in order for AW to be a viable option, according to the former legislator, either all employees must maintain that status, or none of them. He concluded that, as implemented, the system allowing employees to choose participation and employment status may be unsustainable.

## **Recommendations**

1. We recommend that the Department of Workforce Services determine ways to slow the rate of large scale changes and ensure that employees are able to effectively adapt to changes.
2. We recommend that the Department of Workforce Services update its client data access policy from zero tolerance to allow more firm but flexible policy.

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# Appendices

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## Appendix A Summary of Employee Interviews

Concern	Complainant	Percent	Random	Percent	Total Percent
At least one concern with PFP	41	57%	61	61%	59%
At least one concern with PRT	28	39	41	41	40
AW Requirement	7	10	19	19	15
New ESD Structure	18	25	13	13	18
Zero Tolerance	17	24	3	3	12
Performance expectations are not clear or change too frequently	8	11	21	21	17
Increased Caseloads	27	38	16	16	25
Lack of trust in management or management system	69	96	58	58	74
Employees engage in cherry-picking	9	13	9	9	10
The PFP program is unfair	9	13	18	18	16
PFP has raised performance expectations for everyone	10	14	5	5	9
Supervisors benefit from high PFP numbers	10	14	4	4	8
Management is applying pressure for employees to join PFP	11	15	2	2	8
Supervisors exercise favoritism in assigning caseloads	7	10	4	4	6
Employees are engaged in upselling	5	7	3	3	5

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## **Appendix B Definitional Index**

**Accuracy** – A measure of an employee’s ability to make correct determinations, based on a random sample of determinations edited by PRT. Accuracy also measures the performance and program integrity of ESD as a whole.

**Automatic Error** – An automatic error occurs when an eligibility worker fails to check for third party liability (TPL) or a tort. This policy is scheduled to change in September 2013.

**Case** – All the programs for which a customer can apply

**Determination** – A single decision, specific to a single program, to either issue or deny benefits to a customer based on eligibility criteria. There are four types of determinations:

- **Initial Approvals at Application**
- **Ongoing Approvals at Review**
- **Denials For Cause – Both Application and Review**
- **Mediated Closures**

**Edit** – (Also referred to as a Case Review) A review for accuracy performed by a PRT case reviewer on a randomly selected program or set of programs. The agency uses edits/case reviews to identify errors and prevent incorrect payments or benefits and maintain program integrity. One edit is performed per determination.

**Eligibility Services Division (ESD or Eligibility)** – The division that determines eligibility for initial applications and conducts on-going reviews of cases regarding financial, nutritional, medical, and child care assistance.

**eREP** – A rules-based eligibility system that was designed to increase the efficiency of the eligibility process

**Error** – A finding by a PRT case reviewer indicating an inaccurate determination by an Eligibility Specialist which consists of the wrong program, wrong plan, or wrong benefit amount. Errors negatively affect an eligibility worker’s accuracy score, which is a fundamental part of their performance measures.

**Hierarchy** – Comprised of one or more eligibility teams that specialize in a specific program or set of programs. Employees in the same hierarchy are compared to each other to measure performance. Hierarchies are headed by a manager. Hierarchies include:

- **Aged, Blind & Disabled (ABD)**

- **Eligibility Services Operations**(ESO)
- **Community Based Teams** (CBT)
- **CHIP/PCN/UPP** (CUP)
- **American Indian Team** (AIT)
- **Spanish**
- **Outreach**
- **Long Term Care and Waivers** (LTC)
- **Customer Service Team** (CST)

**Housing and Community Development Division** (HCD) – The division that works with city and county governments, community organizations, and individuals with issues concerning housing and local infrastructure.

**Letter of Inservice** - A written notification sent from a supervisor to an employee identifying something that an employee is not doing correctly and identifying the proper or correct procedure to follow. It is not disciplinary in nature.

**MyCase** – The online system through which customers can apply for benefits, view forms, make payments, and report changes.

**Pay for Performance** (PFP) – A monetary employee incentive program which rewards employees primarily based on the number of determinations they make, but also for accuracy and timeliness.

**Performance Improvement Plan** (PIP) – A 60 day plan for a worker to improve after verbal and written warnings have been given for a specific performance issue.

**Performance Plan** – A written plan presented to employees which outlines professional and performance expectations.

**Potential Error** – This situation occurs when there is missing information that needs to be added before the case reviewer can decide whether or not an error has been committed.

**Program** – A specific category of benefits for which a customer can apply. Programs include:

- **Family Medical** – Includes several different Medicaid programs available to families
- **ACA** – Affordable Care Act
- **CHIP** – Children’s Health Insurance Program
- **PCN** – Primary Care Network
- **UPP** – Utah’s Premier Partnership

- **ABD** – Aged, Blind and Disabled
- **LTC** - Long Term Care & Waivers
- **Food Stamps** – Nutritional assistance for financially needy individuals and families
- **Financial** – Cash assistance for needy individuals and families
- **Child Care** – Financial assistance for day care services for working parents
- **Foster Care** – Financial assistance for individuals or families with foster children in their custody

**Review (also known as recertification)** – An evaluation performed by an eligibility specialist to determine if a current customer is still eligible for programs

**Reviewer/Editor** – A member of the Performance Review Team (PRT) who randomly selects a sample of eligibility programs/cases to review for accuracy.

**Task** – a step completed in the process of making a determination or conducting a review

**Team** – A group of eligibility workers within a hierarchy. Teams are headed by a supervisor.

**Theory of Constraints (TOC)** – A methodology for identifying the most important limiting factor (i.e. constraint) that stands in the way of achieving a goal and then systematically improving that constraint until it is no longer the limiting factor

**Throughput Operating Strategy (TOS)** – The method through which TOC is implemented. For DWS, TOS involves decreasing the cost per decision, increasing accuracy of combined reports, improving timeliness of decisions, improving re-employment rate, and decreasing duration.

**Unemployment Insurance Division (UI)** – The division that handles unemployment contributions from employers and determines unemployment insurance eligibility for unemployed workers.

**Workforce Development Division (WDD)** – The division that provides job-seeking resources, such as counselling and job training to individuals seeking employment.

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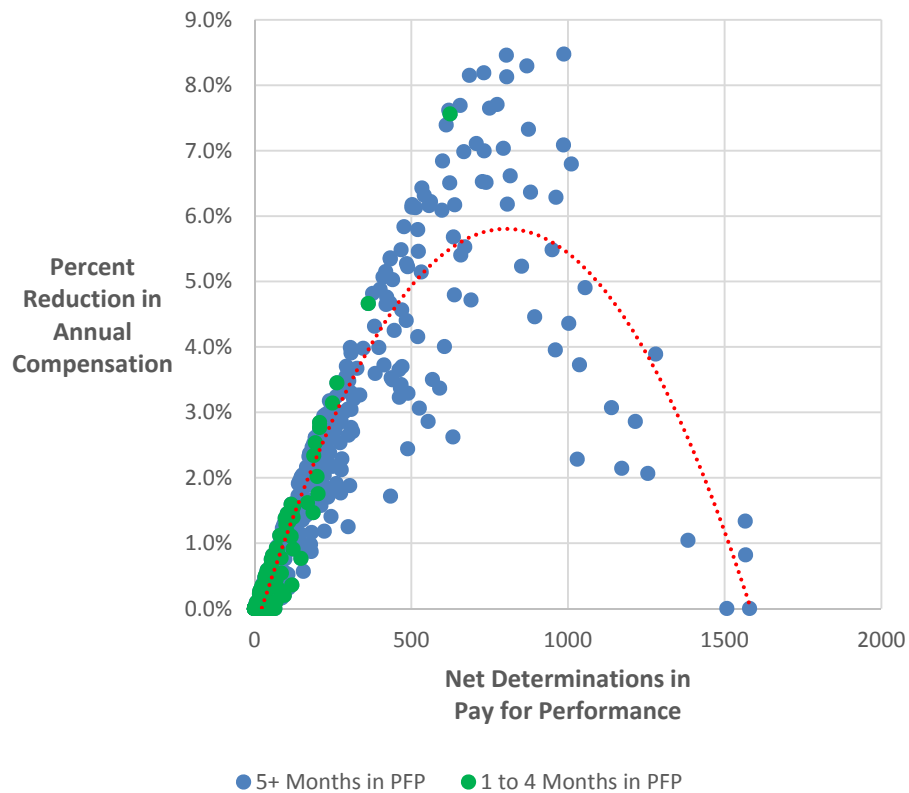


# Appendix C

## Individual Reductions in Total Compensation When Determination Incentives Were Cut from \$10 to \$5

The following figure shows the percent reduction in total compensation that individual eligibility specialists experienced. The amount of net determinations each employee generated while participating in Pay for Performance is provided and represents a combination of eligibility specialist productivity and duration in the program.

The green data points represent eligibility specialists who participated in Pay for Performance between one and four months. Blue data points represent eligibility specialists who participated for five or more months. A red trend line was also added to show anticipated cuts based on net determination production.



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**Appendix D**  
**Reports Prepared by Richard Green,**  
**Organizational Behavior Consultant to the Audit**

**Pay for Performance in the Public Sector:  
A Review and Assessment**

**Task Technology in relation to  
Group and Individual Incentives**

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**Pay for Performance in the Public Sector: A Review and Assessment**

A Report Submitted to the Utah Legislative Auditor General  
November 2012

Submitted by: Prof. Richard Green  
Master of Public Administration Program  
Department of Political Science  
University of Utah

## **Pay for Performance in the Public Sector: A Review and Assessment**

### **Executive Summary**

This report reviews research conducted in a variety of social science disciplines and multi-disciplinary fields on the subject of work motivation generally, and in relation to pay-for-performance systems in the public sector specifically.

Pay for performance is based on the assumption that money is what motivates people to work. The assumption is popularly held, but dramatically oversimplifies the nature of human motivation in work settings. Social science research in fields such as organizational and industrial psychology, social-psychology, organizational sociology, political science, public administration, and more recently in economics indicates that a variety of intrinsic factors play far more important roles in motivating people in routine, day-to-day work life. Psychological needs for esteem, belongingness, and achievement combine with social ties and dynamics, the desire for meaningful, challenging work, and a sense of responsibility, empowerment, participation rights, and affiliation do much more than money to energize, direct, and sustain behavior and cultivate commitment to work over the long run.

Moreover, in the public sector, a substantial social science and public administration literature has identified a distinct motivational set, referred to as Public Service Motivation (PSM), which is prevalent among those who work, or aspire to work, in public service. PSM is defined as “an individual’s predisposition to respond to motives grounded primarily or uniquely in public institutions and organizations” (Perry and Wise 1990, p. 368), and which includes a sense of compassion, civic duty, altruism, and a general disposition toward “prosocial” or “other-regarding” work. Public sector workers are attracted to work that they perceive as making a difference in people’s lives.

The prevalence of these motivational factors does not mean that pecuniary incentives are unimportant. Money and other extrinsic motivators typically become stronger at moments when employees are weighing whether to take a new job, a promotion, or when they are being evaluated for determining whether or not they get a raise. And some kinds of extrinsic benefits provide an important sense of security regarding health, onset of disability, and retirement that allows workers to focus more effort on work than on survival of self and family. In the general routines of work life, however, many people do not simply work in order to get paid, they get paid in order to work. This explains why people in public service (such as social workers and teachers) are satisfied to work in modest- or even low-paying occupations for many years at a time. This is especially true in the public sector where the motivational patterns of employees have always been deemed to be “service” or “other” oriented. In this context, a series of studies conducted over about 25 years indicate that heavy emphasis on pay-for-performance as the primary motivator is inadequate, misdirected, and can even cause harm by disrupting existing motivational patterns.

Attempts at implementing modified pay-for-performance systems in governments became common in the U.S. during the late 1970s and 1980s. The efforts persist despite consistently disappointing results. As these reforms ensued, scholars in the field of public administration and in the social sciences began studying their implementation and effects over time. They also examined the claims and evidence of success in pay-for-performance systems in the private sector from which they had been imported. The findings of this research are briefly summarized as follows:

1. Despite claims of widespread success with pay-for-performance in popular literature and public opinion, little in the documented record of private sector experience with performance appraisal and pay-for-performance suggests clear success, indeed much of the record can be read as failure” (Ingraham, 1991 p.350).

2. Drawing from literature on the private sector, the conditions needed to make pay-for-performance successful are:
  - a. Pay-for-performance should be part of a total management system, that is, managers should have discretion, the authority, and the resources to recognize, reward adequately, and if necessary, to demote or fire.
  - b. The organizational climate should be characterized by high levels of organizational trust, based on common or shared values and objectives between executives and employees.
  - c. There should be consensus about measures of both individual and organizational success.
  - d. The financial resources available for the pay-for-performance system must be adequate to ensure its significance to employees and stable enough to permit long-term payoff to the organization (Ingraham, p. 351; Milkovich and Wigdor 1991, Chap. 8).

Few of these conditions exist in public agencies, first because their resources are determined in large part by legislatures whose membership changes substantially over short periods of time and who must also cope with difficult economic downturns that require budgetary cutbacks. Public managers therefore have few monetary rewards to offer in general, much less in tying to individual job performance. Second, even under ideal conditions where managers have needed flexibility and power to run a pay-for-performance program, the motivational environment may be seriously compromised by a flawed performance appraisal system, or by a few managers who use the system inappropriately to manipulate and even abuse workers. Third, consensus often does not exist about appropriate measures of both individual and organizational “success.” For example, what may be deemed successful at one level of an agency may be viewed as unsuccessful at another level.

3. Successful implementation of pay-for-performance programs is much more difficult to achieve in organizations with interdependent work processes that require teamwork and recursive development (requiring feedback and refinement) of products, outputs, or outcomes. Sorting out individual contributions to such work is difficult at best, and prone to errors of judgment and bias that will chill the performance environment. Most public-sector work is of this nature.
4. Historical and empirical evidence indicates that pay-for-performance systems do not work very well at federal and state levels of government, especially over the long run. The most serious obstacles to success are absence of consistent and adequate funding, lack of sufficient managerial authority, performance appraisal problems, and generalized unwillingness to differentiate among employees (Ingraham 1993a). Distrust about the fairness of pay-for-performance programs, and of the related performance appraisal process, is pervasive.
5. The empirical literature also supports a positive relationship between PSM and performance, though more research is needed to specify more precisely how this works. Perry et.al., (2010, p. 684-5) cite studies which indicate that “the social architecture of jobs can be used to reinforce task significance and thereby prosocial motivation (Grant 2007, 2008), and that “when PSM exists, conditions can be created for government bureaucracy to better obtain effort from employees than [those found in] a standard profit-maximizing firm” (Francois 2000, 2008).
6. Finally, public sector research finds that heavy emphasis on pay-for-performance undermines intrinsic motivation quite severely by “corrupting” and “crowding” it out. It changes the perception of work as “externally driven rather than as internally appealing” Weibel, et.al. 2009, p.388). Pay for performance heightens the awareness and power of external control, and in that environment leads workers to view themselves more “as ‘puppets on strings’ whereby intrinsic motivation is thwarted” (p.399). Furthermore, the literature finds that emphasis on “completion contingent rewards” create recurring events of anxiety, emotional stress, and exhaustion which are likely to be destructive to public service motives.

## **Brief History of Pay-for-Performance Systems**

Individualized pay-for-performance systems have been used pervasively in sales and marketing, and sporadically in private industry since the rise of modern economic markets in the 17<sup>th</sup> and 18<sup>th</sup> centuries. These systems seem relatively easy to implement in firms that sell discrete, standardized goods, or in organizations whose work processes rely on discrete, individual tasks. Implementation is much more difficult in organizations with tightly linked mass-production assembly lines or interdependent work processes that require teamwork and recursive development (requiring feedback and refinement) of products, outputs, or outcomes. Sorting out individual contributions to such work is difficult at best and prone to errors of judgment and bias that will chill the performance environment. In industry, these systems have often been associated with cycles of labor strife and controversy which lead inevitably to either significant modification or abandonment. The vast majority of pay-for-performance systems are modified as add-ons to a base-wage or salary, and thus function essentially as a bonus or tip incentive policy. Attempts at implementing modified pay-for-performance systems in governments became common in the U.S. during the late 1970s and 1980s with the advent of formal merit systems. The efforts persist despite consistently disappointing results. Implementation of full-scale programs (where employee base wages rise and fall with performance outcomes) in government is extremely rare by comparison, and poses daunting challenges that make success very unlikely.

Systematic study of individualized performance in industrial settings began in earnest in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries when industrial engineers such as Frederick Winslow Taylor and Frank Gilbreth developed more refined work processes based on “principles of scientific management.” Taylor (1911) studied industrial production processes with an eye toward increasing the efficiency of production by individual workers. He openly criticized industrial managers for not paying sufficient attention to how workers actually carried out tasks. He believed workers would produce more output if managers played the role of “functional foremen” who would closely analyze workers while doing their work by subjecting them to time and motion studies.

Through such study, Taylor and his colleagues believed workers could achieve optimal efficiency in task completion and would happily embrace the process if their pay increased under a “piece-rate” or “task-completion rate” incentive system. Taylor exuberantly claimed that his method could be applied universally at all levels of an organization and in any type of organization. He was sadly mistaken, and expressed dismay and frustration at fierce resistance by industrial laborers and labor unions to the imposition of his method, and by persistent “soldiering” among work groups in order to moderate and stabilize the pace of work to levels they (not management) deemed tolerable. Even many industrial managers resisted implementation of his system. Profuse numbers of subsequent studies would reveal a much more nuanced and complicated understanding of motivation and performance in complex organizational settings that help explain why pay-for-performance programs often fail.

## **Pay for Performance and Motivation Research**

Pay for performance is based on the assumption that money is what motivates people to work. The assumption is popularly held but dramatically oversimplifies the nature of human



motivation in work settings. Motivation to work became a subject of intense study across a variety of social science disciplines during the 1930s and 40s. A “human relations tradition” of scholarship emerged in the fields of industrial psychology, sociology, and social-psychology. This literature, made famous by the pioneering work of Elton Mayo (1933) and Abraham Maslow (1943), developed models of, and insights on, motivation driven by psychological needs that are fulfilled socially as well as individually. Maslow’s famous “hierarchy of needs” posited an ascending order of needs from physiological and safety needs, to love, esteem, and self-actualization needs that require as much attention to relationships and processes as to outputs and outcomes.

Other scholars such as Frederick Herzberg and Douglas MacGregor developed important distinctions between motivating and de-motivating factors in work settings. Herzberg et.al. (1959) distinguished “hygienic factors” that will de-motivate workers if basic physiological and safety needs are not met, from factors that motivate people to work, such as work-group esteem. MacGregor (1960) emphasized the importance of managerial attitudes about worker motivation, and developed his famous distinction between “Theory X” and “Theory Y” managers. Theory X managers treat workers as if they are lazy, motivated only by immediate self-interest, not interested in organizational goals, easily duped, and in need of constant supervision. Theory Y managers assume that workers like to work, can buy into organizational goals, care about people as well as results, want challenging work, and will work faithfully without much supervision. The real insight here is that managerial attitudes and assumptions create self-fulfilling prophecies in work behavior. Most organizations will therefore get better performance when managers take Theory Y assumptions seriously. This literature spawned a revolution in popular as well as academic literature on manager-leader styles that emphasize participative and facilitative work groups, and work design to cultivate committed workers.

Subsequent work in organizational social-psychology moved beyond group-based work settings to focus on the integration of workers’ needs into organizations as a whole, and on how to balance individual development and maturation on the job with the ongoing need for task-effectiveness (cf. Argyris (1964). This requires attention to an array of human resources benefits and programs that support workers and managers in their human needs (e.g., dealing with personal and family problems through employee assistance programs, insurance benefits, family and medical leave benefits, etc.), all of which contribute significantly to commitment as well as to enabling performance. These kinds of benefits and programs have historically been central to public sector human resources policy and practice in lieu of higher wages.

Related research in organizational sociology emphasized the dynamics of fear of uncertainty (cf. Thompson 1967) and how managers and workers alike respond to different levels and types of uncertainty with diversified incentive systems, different levels and types of managerial responsibility, and contingent organization and work designs. Scholars such as Wamsley and Zald (1973) and Hult and Walcott (1990) developed this model much further by introducing political and economic controversies as additional elements of uncertainty, and by treating complex organizations as “polities” or political communities. Organizations develop their own “constitutions” to establish rules of the game for granting rights and privileges, granting organizational citizenship, and allocating scarce resources. These studies called attention to “organizational politics” as a central feature of organized life, with interest groups such as

professional associations, labor unions, clientele groups, and other institutions populating the organizational community. In this context, worker motivation has political as well as psychological and social dimensions. Ideas, interests, rights, representation, status, and identity are as important as individual needs and group socialization (see Morgan, et.al. 2008, Chapter 8 for application in public human resources management contexts).

These research streams in the social sciences now comprise a vast literature which illustrates, among many other things, the nuances and complexities of human motivation to work in organizational contexts. There is no single factor upon which managers can rely as a consistent motivational force in work settings. Rather, it consists of many “forces that energize, direct, and sustain behavior” (Perry et.al., 2010, p.281; Perry and Porter 1982). Economic incentives are thus only one of many motivating factors, and there is every indication that in many occupations it ranks low and/or sporadic as an extrinsic motivator relative to intrinsic needs and values. Factors such as challenging work and achievement, interesting work, the quality and culture of the work environment, the social value of collegial and client relationships, belongingness, and esteem motivate more effectively in the daily routines of work life.

This does not mean that pecuniary incentives are unimportant. They typically become stronger motivators at moments when employees are weighing whether to take a new job, a promotion, or when they are being evaluated for determining whether or not they get a raise. And some kinds of pecuniary benefits provide an important sense of security regarding health, disability insurance, and retirement that allows workers to focus more effort on work than on survival of self and family. In the general routines of work life, however, many people do not simply work in order to get paid, they get paid in order to work. This explains why many people (such as social workers and teachers) are satisfied to work in modest- or even low-paying occupations for many years at a time. This is especially true in the public sector where the “motivational sets” of employees have always been deemed to be service or “other” oriented. In this context, a series of studies conducted over about 25 years indicate that heavy emphasis on pay-for-performance as the primary motivator is inadequate, misdirected, and can even cause harm by disrupting existing motivational patterns (cf. Perry, et.al., 2010; Weibel, et.al., 2009). Such incentives need to be evaluated in terms of their “fit” in the design and work culture of an organization. Pay-for-performance incentives have generally been found to be more disruptive than complementary to the pattern or system of incentives offered in most complex organizations - whether private or public.

### **Pay for Performance in the Public Sector**

The pay-for-performance principle is now pervasive in the American public sector. Its rise to prominence was ushered in with the resurgence of market doctrines in the late 1970s and 1980s that were adapted and applied to the public sector to encourage downsizing of government through privatization of public services and deregulation. Where total privatization could not be achieved, it was deemed desirable to contract out as many functions of agencies as possible, and compel the agencies to compete through market or quasi-market incentives. Public agencies, especially at federal and state levels were attacked as bloated, rule-bound bureaucracies that needed “leaning out,” “flattening,” “reinventing,” and “reengineering” in order to make them more flexible, adaptable, and responsive to “customers” (rather than “citizens”) as well as to political superiors. Public managers were exhorted to become “entrepreneurial,” meaning

innovative, empowering, and results oriented. Entrenched organizational practices must give way to flexible adaptations that get results – a kind of “bottom line” for public organizations.

Along the way, the pay-for-performance principle, deemed in popular literature as central to best business practices, was gradually imported through reform of civil service systems and imposition of performance reporting through statutes such as the Government Performance & Result Act of 1993. The Federal government led the way in the Carter administration with the Civil Service Reform Act of 1978 which established merit-pay systems along with a Senior Executive Service that converted senior civil servants to at-will employment status on the promise of instituting a business-styled executive bonus system. Subsequent presidential administrations, along with state and local governments followed suit with reforms over the next thirty years that emphasized converting more ranks of civil servants to at-will or modified at-will employment status<sup>1</sup> and instituting “broad-banding” or similar job classification systems that enhance flexibility in deploying, rewarding, and punishing employees (cf, Bowman & West 2007).

As these reforms ensued, scholars in the field of public administration and in the social sciences began studying their implementation and effects over time. They also examined the claims and evidence of success in pay-for-performance systems in the private sector from which they had been imported. In 1993, Patricia Ingraham (1993a and b) published reviews of what had been learned about pay for performance in federal and state governments.

First, citing a National Academy of Science study on the topic by Milkovich and Wigdor (1991), she noted that “[t]he findings did not support many of the assumptions that had surrounded initial adoption of pay-for-performance in the federal government” (p.348). Claims about its easy transferability from private to public sector were found wanting. Evidence quickly mounted that the imported reforms failed badly from the start, in part because they had been adopted dogmatically without any careful analysis of claims, or of the dramatically different contexts to which they would be applied (Ingraham, p.349). Moreover, the assumption that pay-for-performance systems had been generally successful in the private sector was also problematic. Milkovich and Wigdor found that “[O]n average, less than one-third [of surveyed private-sector managers] rated their organization’s performance appraisal plans as “effective” in tying pay to performance or in communicating organizational expectations about work” (1991, p.106). Their study also noted that personnel managers were among those “most likely to view plans as “very effective” or “partially effective,” but even among this group the preponderance of judgment was “similarly unenthusiastic” (p.106). Ingraham concluded that “[O]verall, little in the documented record of private sector experience with performance appraisal and pay-for-performance suggests clear success, indeed much of the record can be read as failure” (1991 p.350).

Second, drawing from Milkovich and Wigdor, Ingraham derived a list of “conditions favorable to effective pay-for-performance schemes” that is useful for understanding why these schemes are likely to fail in the public sector (1993 p. 351).

1. Pay-for-performance should be part of a total management system, that is, managers should have discretion, the authority, and the resources to recognize, reward adequately, and if necessary, to demote or fire.
2. The organizational climate should be characterized by high levels of organizational trust, based on common or shared values and objectives between executives and employees.
3. Because of these common commitments, the ability to link individual performance to organizational goals and objectives is strong.
4. There should be consensus about measures of both individual and organizational success.
5. The financial resources available for the pay-for-performance system must be adequate to ensure its significance to employees and stable enough to permit long-term payoff to the organization (Ingraham, p. 351; Milkovich and Wigdor 1991, Chap. 8).

The problem of course, is that many of these conditions simply do not exist in public agencies because their resources are determined in large part by legislatures whose membership changes substantially over short periods of time, and who must cope with economic downturns that require sporadic budgetary cutbacks. Moreover, as managers become more responsive to political leaders (legislative and executive) under at-will status, ulterior political motives often intrude to compromise their powers and promises. And then, even if top public managers do garner sufficient resources and flexibility (i.e., power) to implement a full-fledged pay-for-performance system, there is no guarantee that the cadres of subordinate managers will use the system to reward truly meritorious employees and punish the bad ones. There is little to stop managers from playing favorites – to use their powers as a source of bureaucratic patronage and abuse, and thereby sew distrust, which poisons the performance environment.

Furthermore, those who are truly committed to pay-for-performance principles know that “they must rely on financial incentives whose size and stability they do not control; [and that] they must apply an individual reward system in a setting noted for group tasks and activities” which defy clarification of individual contributions to outputs and outcomes (pp. 351-2). Ingraham concluded that “[e]xisting public management and compensation systems...generally do not create the authority, flexibility, or resources necessary to give pay-for-performance a good chance” (p.351).

Finally, Ingraham presents well documented preliminary evidence of the failures of pay for performance in early reforms at federal and state levels, reflecting in large part “the perils of organizational change in a political setting” (p.352). Congress quickly backed away from bonus awards for senior executives, and under the new Reagan administration the system at senior and middle management levels turned punitive with sanctions for those who were not intensely loyal to political leaders and agendas. Employee turnover rates soared, and perceptions among the vast majority of these civil servants about the fairness of the performance system – i.e., its connection between rewards and performance – were largely negative.

Studies of state experience with pay for performance (conducted by the GAO, 1990, as well as by Ingraham, 1993a, 1993b b, N= 23) showed they “encountered at least as many problems as

the better documented federal schemes” (1993a, p.353). She noted that “absence of consistent and adequate funding was the most serious problem, but lack of managerial authority, performance appraisal problems, and generalized unwillingness to differentiate among employees” were noted as well (p.353). Because of these problems, distrust about the fairness of pay-for-performance programs and of the related performance appraisal process is pervasive.

Ingraham ends her review (1993a) with some cross-national comparisons that indicate similar problems, but notes that, as in the U.S., there is considerable support among agency managers and employees for the principle of tying pay to performance. It is the politics and mechanics of implementation where things run afoul. Because commitment to the principle of pay for performance still ran high, she provided a list of suggestions to help policy makers and administrators ask the right questions in determining whether such schemes can be implemented without doing more harm than good (pp. 354-5). The list remains relevant today.

### **Subsequent Evidence and Analysis**

Since Ingraham’s assessment in 1993, the literature on motivation and pay for performance has burgeoned, and the analytical rigor of empirical studies has increased markedly, revealing a more specific and nuanced understanding. The sustained work of Perry and colleagues (1990, 1993, 1997, 2006, 2008a, 2008b, 2009, 2010) is especially pertinent in this regard.

Perry and Wise (1990) developed a motivational construct called “public service motivation” (PSM) based on the traditional belief that “unique motives are found among public servants that are different from those of their private sector counterparts (p.367). They defined PSM as “an individual’s predisposition to respond to motives grounded primarily or uniquely in public institutions and organizations” (p. 368). Subsequent studies explored different aspects of PSM, including a sense of civic duty, compassion (Perry & Wise 1990), altruism (Rainey & Steinbaurer 1999), and “prosocial” motivation “which encompasses a broad category of other-regarding behaviors” (Perry et.al., 2010; Brief & Mtowildlo 1986). The PSM construct can now be characterized as “an individual’s orientation to delivering services to people with a purpose to do good for others and society” (Perry & Hondeghem 2008, p.vii), and which entails four basic dimensions: (1) a willingness for self-sacrifice, (2) public-value-based motives that draw people to public or other-regarding occupations; (3) identification with people, groups, objects, or causes that a person wants to serve, and (4) instrumental motives which attract people to certain kinds of work or ways of serving others (Kim & Vandenabeele 2010).

Scholars in social science fields of organizational psychology, organizational behavior, economics, and political science have employed these constructs and confirmed their usefulness and consistent “other orientation” in numerous behavioral studies. They have also noted that motivations are animated by specific dispositions and values arising from public institutions and missions” (Perry et.al., 2010, p.682; see also Kim 2012). They do not confine these motivations exclusively to government institutions, but associate them with “tasks of public service provision” which are “more prevalent in government than other sectors” (Perry et.al., 2010, p. 682; see also Rainey & Steinbauer 1999; Wise 2000).

Another important distinction is made between intrinsic motivation grounded in pleasure or enjoyment gained from work, versus prosocial motivation which “emphasizes meaning and

purpose as drivers of effort. The pursuit of public service motives is not contingent on feelings of pleasure or enjoyment” (Perry et.al. 2010, p.682; Grant 2008).<sup>2</sup> Indeed, public servants are generally accustomed to working in adverse conditions, and tolerate a good deal of stress and abuse over the course of their careers. This is due in large part to the nature of government work, which is often controversial, may involve use of coercive power, may be dangerous, and which impacts people in acute and severe ways. Furthermore, many government services are delivered to people who are already heavily distressed, thus making the interaction between them and public servants very emotional and complicated. Public sector employees commonly face problems characterized as “wicked” (Rittel & Webber 1973; Roberts 2000; Lazarus 2009) or “messy,” (Ackoff 1974) where problems are multi-faceted and beset by paradoxes, where problem-solving powers are dispersed and diffuse (Crosby & Bryson 2005; Morgan, et.al. 2008), and where solutions are tentative or limited at best.

Moreover, evidence from behavioral studies indicate that PSM factors drive the attraction and selection of people to public service, and work cultures that promote PSM values are more effective at securing commitment and retention of employees, especially “when employees felt that their work was useful to society” (Perry, et.al. 2010, p. 684; Steijn 2008). Large-scale studies conducted in Europe showed that “PSM was positively correlated with student preferences for prospective employers,” and that “public sector workers had higher levels of PSM than private sector workers. Interestingly, private sector workers with high levels of PSM were more likely to be looking for public sector jobs” (Perry et.al. 2010, p. 683; Vandenabeele 2008; Steijn 2008; Crewson 1997).

The literature also supports a positive relationship between PSM and performance, though more research is needed to specify more precisely how this works. Perry et.al., (2010, p. 684-5) cite studies which indicate that “the social architecture of jobs can be used to reinforce task significance and thereby prosocial motivation (Grant 2007, 2008), and that “when PSM exists, conditions can be created for government bureaucracy to better obtain effort from employees than a standard profit-maximizing firm” (Francois 2000, 2008).

Finally, and perhaps most significantly, a substantial body of research has emerged which indicates that “a variety of types of tangible contingent rewards undermine intrinsic motivation... and that “recipients experience positive feedback that can amplify intrinsic motivation differently from tangible rewards, such as contingent pay” (Perry et.al. 2010, p. 686; Deci and Ryan 2004). Pay-for-performance systems are specifically targeted as inappropriate incentive structures in government employment. As Weibel, et.al. (2009) indicate in their meta-analysis:

Giving someone a performance-contingent monetary incentive to do something they already enjoy can decrease his/her motivation to do it as the person is then likely to view its action as externally driven rather than as internally appealing. Such incentives produce hidden costs (Lepper and Greene 1978), which has also been referred to as corruption effect (Deci 1975), overjustification effect (Lepper and Greene 1978), or crowding-out effect (Frey and Oberholzer-Gee 1997), and thus may negatively impact performance. Conditions, which are discussed to impact the relationship of pay for performance and performance, are, for example, task type (Jenkins et.al. 1998; Osterloh and

Frey 2000; Frey and Osterloh 2002; Perry, Mesch, and Paarlberg 2006) and organizational culture (Brown 2001).

Later in their study, Weibel et.al. explain that pay for performance “heightens the salience of external control and thus reduces perceptions of self-determination” (Deci et.al. 1999), and that “in such an environment individuals perceive themselves to be a ‘puppet on strings,’ whereby their intrinsic motivation is thwarted” (Weibel et.al. 2009, p. 399; Deci 1971; 1985; Deci et.al., 1999). Especially important is the finding that “completion-contingent rewards are found to undermine intrinsic motivation quite severely,” and that “pay for performance creates recurring events of anxiety and salience (Gerhart and Rynes 2003) and thus has been found to lead to emotional arousal (Campbell et.al., 1998) and exhaustion” (Weibel et.al., p.399; Brown and Benson 2003). Weibel et.al., do not rule out pay for performance in government entirely, suggesting that it might “successfully boost personal efforts in the case of less interesting tasks...” (p. 405). The gist of this analysis suggests, however, that where intrinsic motives are common, such as in jobs that require discretionary judgments, that contingent incentives are more likely to be destructive to PSM.

This literature stream supports the conclusion made by scholars such as Moynihan (2008) “that the substitution of economic rewards for the service ethic has damaged public service missions” (in Perry et.al., p. 687), and by Myers (2008, p6) that, “Rebuilding public sector motivation is viewed as a way to improve public service quality and volume without incurring the transaction/monitoring costs associated with ‘higher powered’ incentives such as performance-related pay.” The clear implication, supported by a substantial literature in the field of organizational behavior, is that workers who display significant commitment to their jobs due to significant levels of PSM or “other-regarding” motives in general, do not require the intensive monitoring and supervision characteristic of pay-for-performance systems. Indeed, as professional and technical training ensue, accompanied by appropriate methods of organizational socialization, very little supervision is required (Dunsire 1979).

The Perry et.al. (2010) meta-analysis concludes with the important point that paying serious attention to PSM does not rule out the existence of self interest in public employees. Future research efforts are likely to address “multiple motives and situations” that combine PSM with government workers’ “need for security and job-security rights.” These are matters that have been “at the center of debates about American public administration for more than a century,” and a “central tenet of civil service since the Pendleton Act of 1883” (p. 687) that is now subject to challenge at all levels of government (cf., Bowman & West 2007, passim).

## **Conclusion**

The research streams reviewed here reveal a problematic relationship between motivation in work settings and incentive systems that rely heavily or primarily on pay for performance. Despite the immense popularity of the pay-for-performance concept in popular literature as well as among managers and policy makers, its implementation record is mixed at best in the private sector, and produces generally negative effects in the public sector. Motivation research in general indicates that money is but one among many motivators, and that intrinsic motivators are more important in the routines of work life. Research focusing on public service workers finds

their motivation driven primarily by “other-regarding” and “prosocial” values that focus on the meaningfulness and challenges inherent to much public service work.

For purposes of this report, the most significant findings from multiple research streams indicate that focusing heavily on performance-contingent monetary rewards in settings dominated by public service motivation (PSM) actually displaces and disrupts this motivational set, causing undue frustration, anxiety, exhaustion, and de-motivation. The result, even in the best of conditions and with good intentions, is worker disillusionment. Unfortunately, in government employment, the desired conditions for effective implementation of pay-for-performance systems seldom pertain due mainly to ulterior political and managerial agendas such as fiscally conservative priorities, budget and benefit cutting, and workforce reductions that are at minimum dispiriting, and likely to instill distrust and cynicism over the long run.

### **Endnotes**

1. On at-will employment reforms in governments generally, see Bowman and West 2007; Green et.al 2006). “Modified at-will employment status” is used here in reference to efforts at truncating the due process rights of public employees in order to make it much easier to fire them. Under this arrangement, the appeal rights of public employees stop at the agency door, thus leaving the final disposition of the action entirely in the hands of agency management, and thereby ending any independent review of the action. From an employee perspective it appears there is little meaningful difference between modified at-will and full at-will status.
2. This distinction between intrinsic motivation and prosocial motivation is not used consistently across all fields, so some studies still use the term “intrinsic” more broadly to encompass both pleasure/enjoyment and prosocial motivators.



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**DWS Audit Investigation Report:  
Task Technology in relation to Group and Individual Incentives**

A Report Submitted to the Utah Legislative Auditor General  
August 8, 2013

Submitted by: Prof. Richard Green  
Master of Public Administration Program  
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## **Task Technology in relation to Group and Individual Incentives**

The organizational and technical reforms implemented at DWS over the past five years have significantly changed how work is performed in eligibility services. The establishment of the new centralized and standardized Eligibility Services Division (ESD), along with online automation (e.g., MyCase) and a randomized-call center approach through the new E-Rep system were intended to help the agency cope with rising numbers of applicants for services and diminishing budget allocations. As already noted, the rate and extent of organizational change resulting from these reforms has led to significant employee unrest, and it is strongly suggested that slowing the rate of change, and decreasing its extent, will help relieve employee disaffection and improve adaptation. There are, however, some additional factors relating to these changes that need serious consideration in order to avoid longer-term systemic problems, at least in the new ESD.

### **(Mis)Matching Task Technology with Task Structure**

The restructuring of eligibility case work into a centralized and standardized ESD represents an attempt to change the nature of the casework itself. In the literature on organizational design, this is referred to as a change in “task technology” (cf., Thompson 1967). Task technology, or the way in which work is arranged and handled through work processes, should emanate in part from the nature of the challenges, uncertainties and interdependencies posed by the work itself – e.g., its “task structure.”

Eligibility work is inherently case based, requiring judgments that range from simple determinations that are easy to analyze and categorize, to complex and nuanced determinations that are difficult to analyze and categorize. The simple cases are easily standardized and can be handled by a single eligibility worker, while the more complex cases require interaction among multiple caseworkers and service providers in order to make the right judgments about the given case. In addition, the training required to do this work entails application of complex and often changing legal or rule-based criteria from Federal as well as state sources to individual cases. This highly technical and mutable information must be acquired and shared among these parties in order to determine initial and ongoing eligibility, as well as to determine assignment of appropriate services. Ongoing, collaborative teamwork is required because the work entails continual analytic challenges (referred to as “low analyzability”) and “high task variety” (Perrow 1986) spread across DWS and its service providers. These conditions make the work “reciprocally interdependent” in nature, which means they are best coped with through a collegial-consensual work structure, and a collegial work environment to support it (Morgan 2013, Chapter 7; Hult & Walcott 1990; Thompson 1967).

The recent restructuring of this work at DWS through standardization and automation represents an attempt to convert the wide variety of ESD cases into a more homogenous and easily treatable form. In effect, this significantly reduces the ability and discretion of workers to engage in team intensive work for analyzing the more complex cases. Automation substitutes formulaic decision rules in place of discretion, forcing caseworkers to rapidly categorize clients through the fixed formulas, which can often result in elevated rejection rates and poor matches of clients to appropriate services. In effect, the restructuring of eligibility services is an attempt to convert team intensive casework into a mass-production assembly line. From the caseworker’s



perspective, this means fitting a lot of “square pegs into round holes,” and a lot of bureaucratic depersonalization of clients into randomized case numbers and interactions that are seldom if ever handled by the same caseworker. Comments of this sort were often heard in interviews with ESD workers, followed by complaints that this new system drained away many of the rewarding aspects of casework, e.g., using one’s training and nuanced judgments, and collaborating with colleagues to deal with the challenging situations of their clients. In short, the workers felt disempowered and isolated, and much of the intrinsic and “prosocial” value (Grant 2007, 2008, see consultant’s report on pay for performance) or motivational potential of their work was dissipating. If this continues, the agency is likely to see higher employee turnover rates over the long run, and a skewing of determinations and services toward the types of cases that are more easily standardized. This may reflect better results in terms of numbers served or cases resolved, but actually mishandle a significant part of the target population that should be served by DWS.

### **Task Technology and Social Architecture**

The kinds of problems described above are well understood and documented in the “socio-technical systems” literature (cf. Emery 1959; Emery & Trist 1965; ) which emphasizes the interdependence of task technology (work substance, structure and methods) with social aspects of organizations which include human relations, motivational sets, group dynamics, and leadership. A change in technical features of production (such as increased automation) will often change peer relationships among workers that induces changes in their attitudes toward the employing organization, as well as toward motivation and performance (Gibson, Shinn, and Locklear 1990). For example, a pioneering study by the Tavistock Institute in England (Trist and Bamforth 1951; Emery and Trist 1965) illustrated how the introduction of new coal mining technology disrupted the highly coordinated communications and teamwork among miners, which then broke down the social cohesion that miners viewed as essential to their safety as well as effectiveness. This resulted in a wildcat strike that forced managers to rethink their top-down method of introducing the new, more efficient technology. Basically, they had to give the miners more time as well as discretion to adapt their communication patterns and collaboration to the new technology, as well as adapting the use of the technology to accommodate their social dynamics. In the process, they developed a new “social architecture” (Grant 2007, 2008) at the mine level of the organization. Social architecture refers to the patterns of interaction which sustain the social aspects of working relationships. These patterns help determine appropriate work structures and relationships within the organization for achieving task effectiveness.

At DWS, there are strong indications that management failed to give ESD workers sufficient time and discretion to adapt the new automated system to the variety and complexities of their casework and vice-versa. More facilitation and coordination by DWS managers of the newly developing relationship between IT-automation and ESD casework would do much more to improve such adaptation than the authoritarian styled, top-down direction that seemed dominant during the transition. Some ESD workers and supervisors interviewed for this study believed that the new automated system could become quite useful with the right kinds of adaptations and sufficient time to make them. It appears, for example, that the rapidly increasing number of cases (due to the recession), combined with significant degrees of task variety among the cases, could be handled more effectively by pooling them through a triage process much like that used in hospitals. Simpler cases could be pooled and addressed quickly by less-experienced (and even temporary) employees, while more complex cases would be pooled and addressed by

more experienced eligibility workers operating in teams and providing follow up through a redesigned call-center system. Training could then be tiered and staged to accommodate the needs of workers operating in each pool. Changes of this sort could also provide a more concrete sense of career progression and step incentives tied more closely to levels of acquired expertise and performance.

### **(Mis)Matching Task Technology and Incentive Structure**

The imposition of the pay-for-performance system in ESD created a mismatch of individualized, competitive human interaction with tasks that generally require collegial consensus and mediation, along with a collegial support system. The consultant's report on pay for performance addresses the motivational incongruities associated with pay for performance in public agencies and service-oriented organizations. Addressed here are the behavioral incongruities and pathologies that arise when incentive structures change the basis of interactions among workers and managers in ways that are inappropriate to the nature of required tasks. Studies of these kinds of problems are associated with the literature on systems theory and decision making, and grounded in pioneering works by Simon 1960, 1957; March & Simon 1958; Cyert & March 1963; Katz & Kahn 1966; and Thompson 1967. Hult and Walcott (1990) refined and extended their work for application to public organizations, and provided a rich case analysis of the NASA Space Shuttle Challenger disaster (see pp. 2-10) to illustrate how mismatches of "organization policies" and task structures can lead to problems which appear very similar to those found at DWS.

First, under the competitive pressures introduced by pay for performance at DWS, the patterns of communication required to sustain teamwork begin breaking down. Workers try to protect information (make it their "turf") for their own benefit rather than sharing it openly with colleagues. Problems therefore tend to linger and even grow (Hult & Walcott 1990, p.2).

Second, communication up the hierarchical chain becomes more distorted because individualized rewards are acutely dependent upon favorable hierarchical assessments of worker performance. Management then hears a lot of good news while things may actually be going very badly. This is exacerbated when assessment criteria are changed unpredictably, and the stakes are raised (threatened job security, punitive reviews, etc.). This can also lead to "containment" of potentially serious problems in "the attempt to resolve them internally rather than communicate them forward" (p.2).

Third, the headquarters staff tend to "rely more on bureaucratic reporting mechanisms" (in this case imposed through automation and standardization) than on "hands-on" monitoring and interaction among professionals (p.2). The paperwork then multiplies while real communication and performance suffers.

Fourth, the introduction of new automation programming poses its own technical complications and uncertainties which are more ably coped with through close teamwork. But teamwork is breaking down (or perhaps never existed between IT and caseworkers), which means that the quality of decisions is sacrificed for the sake of expediency in fitting cases rapidly to the new system. Disparities in such things as error rates then become more random and unexplainable. The focus also changes to identifying errors that are more easily detected and

categorized with the new automation system, which may result in over attention to the wrong kinds of errors – a problem which is very difficult to identify in the short run and may be very costly in the long run.

Finally, external pressures on the agency can compound the internal problems associated with the mismatched incentive structure. At DWS, caseloads increased rapidly due to the recession while the adaptive and coping capacities of ESD employees were being compromised. Added to this were (1) statewide restructuring and reductions of state benefits, (2) threats of privatization, (3) conflicting goals imposed on DWS, (4) budget cuts and the loss of 181 FTE in ESD, (5) the imposition of AW status on pay-for-performance participants, and (6) a zero-tolerance policy instituted in response to a scandalous misuse of data by one employee. All of these factors combined to form an environment marked by fear of job loss, punitive sanctions, and a compelling sense that ESD workers are expendable, and easily and cheaply replaced. Employee perceptions of these factors play heavily on their motivations, despite stated intentions and characterizations to the contrary by top management. Those perceptions caused some ESD workers to go into a protective mode and therefore opt out of the pay-for-performance system despite perceived loss of raises, while others displaced their prosocial motivations and concentrated on playing the new game, seeking to get whatever they could out of it while it lasted. This often translates into lack of commitment to help improve the broader system, especially when pay-for-performance incentives begin to dwindle. As indicated in the consultant’s report on pay for performance, the “crowding out” of prosocial motivation in favor of economic incentives (Weibel, et.al., 2009, p.388), often leads to a diminished sense of task significance, and then to reduced effort and commitment (Perry et.al 2010, p.684-5).

## **Recommendations**

In addition to slowing the rate and extent of change in ESD, DWS management needs to:

1. Examine the potential for adapting its new automated decision programming to accommodate team-based assessments of more complex cases. Eligibility workers need to be involved in more than just an advisory role if attempts at such adaptation are going to succeed. They need discretion or empowerment to work with IT personnel in contributing to modifications of the system.
2. Carefully investigate the impact of automated, standardized eligibility determinations on different client populations served by the new system in order to detect undue skewing toward some clients and away from others.
3. Seriously consider adopting a triage-like process for pooling cases by type and level of complexity, and redesign of the case intake/call center and case management systems accordingly.
4. Consider developing a formal career progression system for eligibility workers with step incentives tied more closely to levels of acquired expertise and performance.

5. Carefully examine incentive structures in the ESD for their potential to support rather than retard collaborative communications and teamwork.
6. Refocus evaluation/assessment on constructive problem solving and away from punitive sanctions (e.g., focus on problems rather than on persons).
7. Make sure that bureaucratic reporting of numbers does not supplant richer sources of communication such as hands-on monitoring and interaction among professionals. The numbers should bear some correspondence with qualitative indications of successes as well as problems.
8. Take steps to reverse the climate of fear and expendability in ESD induced by external threats. Managerial roles include the responsibility for buffering rather than exposing these workers directly to external threats. Not all threats and pressures can be averted, but employees need to know that management is doing its best to mute rather than focus their direct effects on them.

# **Appendix E**

## **Internal Audit Findings Regarding Managers and Associate Directors Participation in Pay for Performance**

### **Internal Audit Finding:**

Some of the Pay for Performance plans include incentives for Managers and Associate Directors based on a percentage of incentives earned by line staff rather than on their own performance measures. It is the Department's business practice to require all employees participating in the program to volunteer to change their employee status to AW but Associate Directors are already exempt from the merit system as Schedule AD's. Utah Code 67-19-15(1)(q)(ii) defines the AW classification as "employees of the Department of Workforce Services, designated as schedule AW . . . for whom substantially all of their work is repetitive, measurable, or transaction based, and who voluntarily apply for and are accepted by the Department of Workforce Services to work in a pay for performance program designed by the Department of Workforce Services with the concurrence of the executive director." The program is currently in pilot phase and there is no formal guidance available to the divisions regarding who can participate. Management also likely thought it would be advantageous to provide incentives for managers and associate directors to support and encourage staff performance. However, it does not appear that Associate Directors and Managers who do not directly supervise line staff meet the AW classification requirement that "substantially all their work is repetitive, measurable, or transaction based." It may be difficult to justify why they are receiving incentive awards for others' work performance.

### **Recommendation**

We recommend that the Department consult with DHRM and determine if involving managers and directors in the Pay for Performance program is in compliance with the AW classification and/or document justification for their participation and receipt of incentives based on others' performance.

### **ESD Response:**

Managers and Associate Directors Participation.

- a. ESD disagrees with this recommendation and observation as it lacks merit and is subjective. All Managers participating in the Pay for Performance program are schedule AW. The Associate Directors are all classified in an AD Status.
- b. The pay for performance program is operated under DWS HR Policy 1305. Staffs at all levels are eligible to receive an incentive or bonus and have participated in such within DWS. The pay for performance methodology is data driven and is tightly

aligned with Department outcomes and Division goals. The Deputy Director and Associate Directors have established this incentive to ensure all bonuses and incentives are justifiable, data, and performance driven.

- c. To separate out those who perform the work, from those that are ultimately accountable for outcomes suggests there are no incentives for managers and directors, which is not correct given the nature of the policy and structure of directing day-to-day operations.
- d. Additionally, the pay for performance model implemented in DWS was benchmarked against private sector proven practices. DWS' executive leadership team charged the ESD Directors to find ways to issue incentives to staff at all levels, including managers and directors. We believe this incentive is key to driving performance outcomes, by ensuring decision makers establish key policies, provide tools, and direct outcomes necessary for staff to be successful on the front lines.
- e. If internal audit is recommending that director level staff not receive bonuses then DWS HR policy should be amended to exclude staff in these positions. This is an Executive Management decision.

## Appendix F PRT Case Reviewers' Deviation from Expected Error Rates

Reviewer	Reviews	Actual Reviewer Error Rate	Expected Error Rate	Percent of Expected
163721	959	0.31%	4.90%	6%
159597	310	1.29%	5.48%	23%
130685	2925	1.61%	4.07%	39%
109237	1363	3.30%	7.12%	46%
167327	604	3.64%	6.79%	53%
143772	1536	4.82%	8.33%	57%
154001	3721	2.90%	4.92%	59%
111265	6603	3.06%	4.92%	62%
109094	335	1.49%	2.39%	62%
152416	2937	4.77%	6.84%	69%
176441	2972	3.50%	4.91%	71%
133467	3378	3.94%	5.36%	73%
128525	3829	2.82%	3.81%	73%
126016	3860	3.86%	4.95%	78%
133438	3428	2.30%	2.92%	79%
171283	1185	4.14%	5.15%	80%
128125	2862	6.95%	8.32%	83%
155262	2359	5.81%	6.82%	85%
156379	3271	4.31%	4.92%	87%
114111	1346	5.05%	5.57%	90%
120311	1488	5.58%	5.85%	95%
136807	2688	6.18%	6.36%	97%
151837	2619	6.95%	6.83%	101%
111955	4636	5.09%	4.92%	103%
155524	4532	3.11%	2.96%	105%
101230	2330	7.47%	7.08%	105%
141511	2306	4.99%	4.73%	105%
127664	2898	7.66%	7.07%	108%
155238	2944	6.52%	5.77%	112%
121175	1231	4.71%	4.14%	113%
166081	3971	6.65%	5.84%	113%
146070	776	9.66%	8.25%	117%
148594	1828	8.15%	6.84%	119%
121753	3610	5.90%	4.90%	120%
170107	482	8.71%	7.05%	123%
163725	1781	6.79%	5.22%	130%
152494	3325	10.95%	8.30%	131%
164423	819	4.03%	2.93%	137%
168774	2069	9.04%	6.23%	144%
154877	818	6.48%	4.40%	147%
127088	640	7.97%	5.16%	154%
143511	479	11.27%	7.10%	158%
180768	782	11.13%	6.78%	164%
113029	1250	8.16%	4.96%	164%
159591	153	9.80%	5.88%	166%
155728	987	11.45%	6.79%	168%
112369	3249	8.96%	4.92%	181%
145426	1454	12.65%	5.64%	224%

Actual error rate is the reviewer's percentage of identified errors/reviews. Expected error rate is the weighted average of each hierarchy worked in by the reviewer/the reviewer's total reviews. Percentage of expected is the actual error rate/expected error rate\*100.



## Appendix G Unreliable Monthly Assessments Necessitate Consideration of Data from Multiple Months

Eligibility specialist accuracy is estimated on a monthly basis, which typically consists of 10 to 30 accuracy reviews of their work. As the number of reviews increases, the likelihood that an eligibility specialist will get 90 percent accuracy decreases until they receive their 10<sup>th</sup> additional review and can make another error. Using this basis, we calculated the likelihood that an eligibility specialist would pass their monthly accuracy assessments. For an eligibility specialist with the same error rate as the entire division, they would pass their monthly assessments between 72 and 92 percent of the time depending on how many of the typical 10 to 30 monthly reviews they received. As additional months of data are considered, likelihoods increase and the range also narrows, resulting in more reliable conclusions.

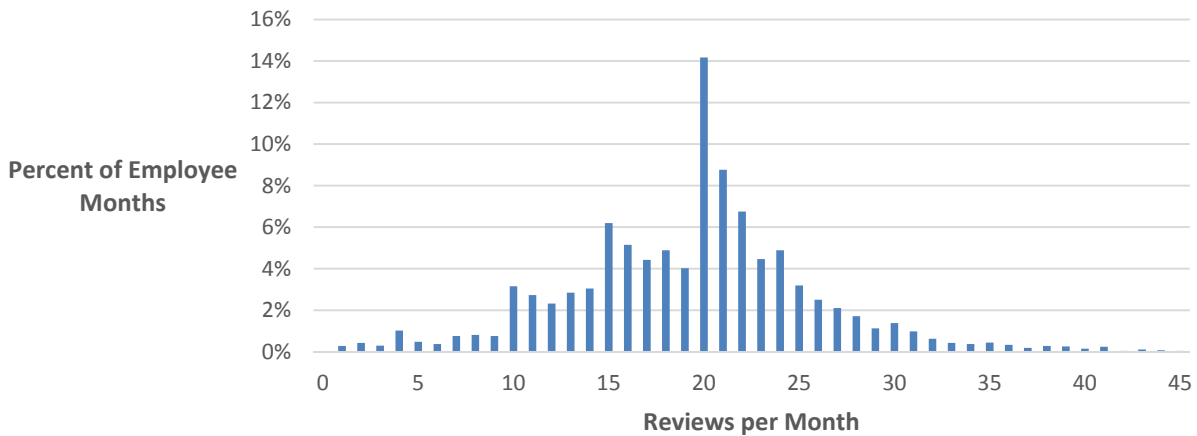
### Ninety Percent of Eligibility Specialists Receive 10 to 30 Reviews Per Month.

While the average eligibility specialist receives 20 determination reviews each month, the actual number of reviews per month varies widely as shown in Figure F.1.

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**Figure G.1 Eighty Nine Percent of Eligibility Specialists Receive 10 to 29 Case Reviews on a Monthly Basis.** This figure shows the frequency that eligibility specialists received a specified number of reviews during a single month of calendar year 2012.

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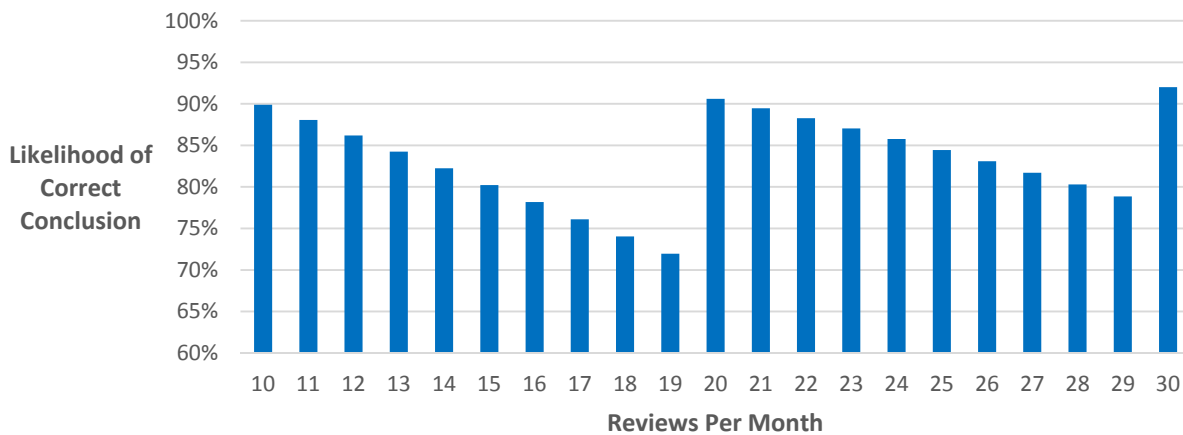
Source: DWS Workforce Research and Analysis Data

As Figure G.1 shows, the vast majority (88 percent) of eligibility specialists receive between 10 and 29 reviews per month. Since performance plans require 90 percent accuracy each month, the allowable errors during a month varies for eligibility specialists depending on how many reviews they receive. Consequently, the 39 percent of eligibility specialists who received 10 to 19 reviews can make one error, while the 50 percent of eligibility specialists receiving 20 to 29 reviews can make two errors. For the 5 percent with

fewer than 10 reviews, no errors can be made, and the 6 percent with 30 or more reviews can make at least 3 errors.

**Likelihood of Passing Monthly Assessments Decreases with Each Review Until the Tenth Review.** Since eligibility specialists are required to achieve 90 percent accuracy, an eligibility specialist can make one error for every 10 reviews performed. Starting with 10 reviews, which allows for one error, each additional review makes it less likely that the eligibility specialist will pass. However, once they receive their 20<sup>th</sup> review, the likelihood increases to reflect the second allowable error. Figure F.2 demonstrates this effect.

**Figure G.2 Additional Reviews Impact the Likelihood An Eligibility Specialist Passes Their Monthly Review.** This figure shows the likelihood for an eligibility specialist with the same error rate (5.5 percent) as the entire ESD.



Source: Calculations Performed by the Legislative Auditor General's Staff

This figure illustrates the impact of the additional review and an additional allowable error. As explained earlier, an additional review decreases the likelihood of making a correct conclusion. In Figure F.2, this is shown by the reduced likelihood from 90 to 88 percent as the number of reviews increases from 10 to 11. In both instances, the specialist is only allowed one error. However, the 11-review scenario presents an additional opportunity to make an error. Therefore, the likelihood of a correct conclusion drops by 2 percent.

Figure F.2 also illustrates the benefit of the additional allowable error, which occurs with the additional review going from 19 to 20 and from 29 to 30. In the “19 to 20” scenario, the opportunity to make two errors rather than one and still achieve 90 percent accuracy increases the likelihood of a correct conclusion from 72 to 91 percent. These large differences are the reason why the number of reviews in monthly accuracy assessments are so important. Rather than incur significant costs to increase the average number of monthly reviews, ESD supervisors are reviewing multiple months of data before taking formal

corrective actions, which increases the number of reviews without incurring additional costs.

**Additional Months of Data Increase Likelihood of Correct Conclusion.** Using the average error rate of the ESD (5.5 percent), we calculated the likelihood that an eligibility specialist would pass their monthly accuracy assessment, while allowing for a range of reviews (10 to 30). It is important to clarify that an eligibility specialist with a 5.5 percent error rate is long-term compliant with the accuracy requirement. Therefore, any time that a sample shows they did not pass is an incorrect conclusion. Figure F.3 shows the range of likelihoods that a sample of 10 to 30 reviews produces a correct conclusion.

**Figure G.3 Additional Months Reduce the Range and Increase the Likelihoods of Correct Conclusions.** This figure shows the effect that additional months of data have on the likelihood of making a correct conclusion.

Months	1	3	6	12
Lowest	72.0%	83.6%	93.0%	98.5%
Average	84.3%	92.7%	97.5%	99.6%
Highest	92.0%	97.4%	99.5%	100.0%

*Source: Calculations Performed by the Legislative Auditor General's Staff*

As Figure F.3 shows, the likelihood that data from a single month of accuracy reviews will lead to the correct conclusion is 72 to 92 percent for an employee with ESD's average error rate. The low of 72 occurs when the eligibility specialist receives 19 reviews and consequently can only make a single error. The high of 92 occurs when the employee receives 30 reviews and is allowed to make three errors.

While the error rates from a single month may be acceptable depending on the costs associated with being incorrect, Figure F.3 illustrates that additional months of data increase the likelihood for drawing correct conclusions. This is an important conclusion in regards to the discussion in Chapter IV. While monthly assessments are relatively unreliable, supervisors are using multiple months of data before engaging in formal corrective actions. The higher likelihood associated with multiple months of data is appropriate and beneficial to eligibility specialists.

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## **Appendix H Zero Tolerance Policy**

### **1301 Employee Code of Conduct**

Effective: November 8, 2012

Replaces/Supersedes Policy  
dated: July 01, 2011

#### **1301-1 Purpose/Background**

The purpose of the Department of Workforce Services Employee Code of Conduct policy is to provide information to Department employees regarding their work environment and to highlight certain expectations that the Department has relative to the behavior of every employee. This policy provides guidance on the following topics:

- Random Drug Testing
- Conflict of Interest
- Dress and Appearance
- Ethical Behavior
- Information Technology Use
- Personal Use of Equipment
- Political Participation
- Unlawful Harassment
- Workplace Violence
- Domestic Violence
- Random Drug Testing

#### **1301-2 References**

This policy is written to comply with state and federal laws, rules, policies, and procedures. Specific references to either state or federal mandates are addressed in the body of each section of this policy.

#### **1301-3 General Policy**

General - Department employees shall comply with all federal and state laws, rules, and procedures that pertain to any subject addressed in this policy. Any violation of those laws, rules, procedures or the content of this policy may result in disciplinary action. In the most general terms, it is the policy of the department to deal with misconduct and violations of law, rule or other policy through a measured approach, wherein more severe penalties are imposed for more serious violations. It is expected that honest mistakes and oversights will

occur and in that regard, the department does not support a 'zero-defects' philosophy. However, the department does maintain a 'zero tolerance' attitude regarding violations of law, rule, or policy, as well as workplace violence and unethical behavior.

### **1301-6 Ethical Behavior**

The ethical conduct of public employees is a primary concern of state government. The citizens of Utah rightfully demand ethical and responsible behavior from their public servants. This policy section addresses areas of behavior both inside and outside the Department. This policy is compliant with the provisions of the Public Officers and Employees Ethics Act, §67-16-1 of the Utah Code, and DHRM Rule R477-9.

Ethical behavior incorporates and goes beyond specific laws and regulations, recognizing the obligation department employees have to protect the rights of customers, the public, and other employees while exhibiting exemplary behavior as a state employee. This Code of Ethics is applicable to all work related activities of department employees and is not intended to govern the private lives of department employees. However, when non-work related activities of an employee clearly affect the ability of the department to provide credible, professional services within the community, or cause the public to lose confidence in the department's ability to provide appropriate services, employees are expected to follow and will be held accountable for the standards of this policy. This policy section does not attempt to address specific situations that are unique to particular job functions nor is it intended to replace more specific direction provided by statute, rules, directives or supervisor instructions.

Zero Tolerance for inappropriately accessing or disclosing confidential information. For the purposes of this policy, the term "confidential information" is defined as all records and information classified as private, protected or controlled under the Government Records Management Act or as otherwise restricted under applicable federal law, state law, Department rule or Department policy. Confidential Information includes but is not limited to economic data, wage data, employer data or information, personnel records, and records or other information regarding applicants or recipients of public assistance, unemployment insurance or any other program the department administers.

For the purposes of this policy, the term "worker(s)" is defined as Department employees, interns, volunteers, contracted workers, temporary workers, subcontractors, and others whose conduct is under the Department's direct control.

For the purposes of this policy, the term "legitimate business purpose" is defined as a need or reason that arises out of the official performance of a worker's assigned job duties or out of a directive from a supervisor, manager or higher levels of management. Acting outside of the scope of a worker's assigned duties or a specific, authorized directive, even if the activity is department business, is not considered a *legitimate* business purpose. For

example, if a family member calls in with a legitimate business need, the worker does not have a "legitimate business purpose" to access the information. He or she is acting outside the scope of their assigned duties by accessing a family member's information. Workers are NOT allowed to work on family member's or close acquaintances cases or access their confidential information.

All DWS workers must comply with all State and Federal laws and regulations and Department policies governing confidential information.

The Department of Workforce Service has "zero tolerance" for inappropriate access, compilation, distribution or misuse of its confidential information. All department workers who are granted access to private, controlled, protected or otherwise confidential information may access the information only for legitimate business purposes and must guard against improper uses or disclosures of this information.

"Zero Tolerance" for Misuse of Confidential Information: The Department will discharge a worker who accesses, compiles, distributes or misuses confidential department information without a legitimate business purpose.

As part of this policy, DWS workers must comply with the following directives:

- a. Do not access any confidential information at any time or for any reason other than legitimate business purposes or with appropriate authorization.
- b. Do not reproduce or remove confidential information from the Department's property or information systems or use confidential information for any purpose other than legitimate business purposes.
- c. Do not disclose confidential information to any person, agency or organization without prior authorization.
- d. Do not falsify or wrongfully destroy any record, report, or claim, or knowingly enter or cause to be entered any false or improper information in Department records.
- e. Immediately report any suspicion or knowledge of a worker's inappropriate access, misuse or disclosure of confidential information. Workers who are aware of inappropriate access, compilation, distribution or misuse of confidential information and fail to report it are subject to disciplinary action, which may include discharge.
- f. Do not access your own case file or private information. Workers who wish to obtain their own information must make the request in writing to their direct supervisor and have the request approved.
- g. Do not view or in any way interfere with, work in or otherwise alter an Unemployment Insurance claim, public assistance, training or other case involving a relative (i.e., son, daughter, stepchild, father, mother, sister, brother, aunt, uncle, niece, nephew, cousin, mother-in-law, father-in-law, sister-in-law, son-in-law, daughter-in-law, grandparent, grandchild, current or former spouse, friend or any

person who creates or could be perceived to create a conflict of interest i.e., friends, neighbors, former or current business associates.)

- h. Do not access confidential information of relatives or family members or serve as the service provider or look at or interfere in any way in the case of relatives or close acquaintances or any other person who creates or could be perceived to create a conflict of interest. Workers may not access confidential information of relatives or close acquaintances or access department confidential information on behalf of a relative or close acquaintance even if they have permission or believe they have a legitimate business purpose. If workers are uncertain about the department's policy regarding providing service to a customer, they are obligated to immediately seek supervisor assistance and guidance.
- i. If a worker encounters information for a relative or close acquaintance while performing his or her duties, is requested to assist a family member or close acquaintance in any way whether legitimate or not, or is the only service provider available to provide assistance to a customer who is a relative or close acquaintance, the worker must immediately refer the case to his or her supervisor or manager. The worker's supervisor or manager shall refer the case to another office or act as the customer's service provider if moving the case to another office would be an unfair burden to the customer.
- j. Under no condition should a worker give his or her password to another person. Workers are obligated to guard against unauthorized access to their accounts. When workers are away from their desks, they are responsible to take precautions to protect their accounts.

This list is not intended to be exhaustive but it is binding. In general, workers should simply not access any department record, data or information unless they have a legitimate business purpose for doing so. Workers should resolve any doubt as to whether they have a legitimate business purpose by seeking immediate counsel from their supervisor.

Workers who have unintentionally or inadvertently accessed confidential information shall promptly report the situation to their supervisors.



## **Agency Response**

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**State of Utah**

GARY R. HERBERT  
*Governor*

SPENCER J. COX  
*Lieutenant Governor*

**Department of  
Workforce Services**

JON S. PIERPONT  
*Executive Director*

CASEY R. ERICKSON  
*Deputy Director*

GEOFFREY T. LANDWARD  
*Deputy Director*

November 13, 2013

John M. Schaff, CIA  
Auditor General  
Office of the Legislative Auditor General  
W315 Utah State Capitol Complex  
P. O. Box 145315  
Salt Lake City, UT 84114-5315

Dear Mr. Schaff,

Thank you for the opportunity to review and respond to the 'Performance Audit of the Department of Workforce Services Work Environment.' I appreciate the courtesy and professionalism your staff has shown over the last year.

As your audit explains, Great Recession-induced innovations at the Department of Workforce Services (DWS) were a response to skyrocketing caseloads amidst severe budget cuts. From fiscal year 2008 to 2013 our public assistance caseload grew from 121,000 to more than 180,000, and yet we reduced operational costs from \$77 million to \$57 million since FY 2009. In addition, since the creation of the centralized Eligibility Services Division (ESD) in June 2009, we have been asked to defend our business model in the face of potential privatization of our services.

As caseloads have increased, so has our ability to manage them. In fact, for 2012, our food stamp accuracy rate was 97.61%, 15<sup>th</sup> in the nation. Since my appointment as executive director, DWS has focused on four essential principles: Operational Excellence, Exceptional Customer Service, Employee Success and Community Connection. These cornerstones guide the work of our agency and focus us around the priorities of public service. The staff at DWS work hard serving the needs of Utahns – and we do it well. This past September, for instance, DWS served over 1,000,000 Utahns through our online exchange, over the phone or in our offices. Of those served, only 98 had unresolved concerns about our service (less than 1/10 of 1 percent). Our nationally acknowledged performance includes recognition of taxpayer dollars served and reception of awards such as those for our myCase (online portal) program and as the only state in the country to win 3 straight "Triple Crown" awards for our Unemployment Insurance programs.

We have successfully demonstrated increased efficiencies and improved quality, resulting in effective services. I can confidently declare that we provide essential services to Utah with a focus on high quality and cost-efficiency. We work hard to ensure that benefits are determined in a timely and accurate fashion, and that taxpayer dollars for administrative costs are expended as conservatively and efficiently as possible.

During the Great Recession, we realized we needed multiple initiatives to revamp core pieces of the Department of Workforce Services. This audit addresses two areas in particular: the Pay for Performance Pilot, and the global view of departmental changes at DWS. These two areas of change played critical roles in our department's ability to reduce costs and improve efficiency without laying off staff.

Our Pay for Performance Pilot was one of the many tools we implemented to help reduce costs and increase efficiency. This program rewarded employees who were highly productive, and incentivized productivity the staff which opted in to the pilot program.

We began this pilot program because we realized staff compensation did not account for those who performed at higher levels with higher outputs. We frequently heard that the "reward for higher production was additional workload at unchanged compensation levels." So we introduced the Pay for Performance Pilot to financially compensate higher performers, while realizing increased outputs at lower costs.

Our Pay for Performance Pilot was not based on traditional models. We used the Department of Human Resource Management and Administrative Rule R477-6 to design a fiscal, performance based incentive program, and we believe we have adhered to these guidelines throughout the process. We still recognize this program is in a pilot period, and we continue to refine our program to fit the needs of DWS' budget, our outcomes and our employees.

We recognize that tools designed to measure employee success (in accordance with their performance plan expectations) always have room for improvement. We believe that recent initiatives are moving us in the right direction. The reduction of incentive amounts resulted from a combination of increased participation in the program and limited funds. Employees who see a change in their incentive amount are still receiving additional compensation on top of salary based on their increased productivity.

In a large department like DWS, with services supporting hundreds of thousands of Utahns, leadership is an essential factor that helps each eligibility team work together more harmoniously and, ultimately, improves output. Supervisors and managers contribute to outcomes for the individual, team and division. Management is responsible to oversee workload, adjust staffing, provide tools/mentoring/training to staff, discuss errors and trends with employees and participate in personnel actions to ensure our staff are successful. Since we estimate it costs approximately \$50,000 to fully train an Eligibility Specialist, our ultimate goal is to ensure they become fully-functioning and successful ESD employees—and effective management is an integral part in achieving that goal.

We recognize that employee success is a result of multiple factors, only one of which is financial incentives. To that end, we have implemented numerous initiatives to reward employees: employee recognition luncheons, DWS Cornerstone Awards, service projects, division-wide accuracy celebrations and more. Many of these non-monetary recognitions include supervisors and managers recognizing employees at their own expense. In addition, opportunities such as flex-schedules, telecommuting and tuition reimbursement contribute to a healthy environment.

We acknowledge we have made numerous concurrent changes in recent years, and further changes will likely take place. We implemented these changes to mitigate negative impacts from shrinking budgets and increasing caseloads brought on by the Great Recession. The economic climate was compounded by pressures to privatize some of our services. It was clear that innovation was necessary.

One example is our consolidation of eligibility determinations into a single division. Five regional service areas with differing methods of delivering eligibility services were merged into a single, cohesive division, focused on consistent work, team efforts and a unified service delivery model. Staff in mid-management and managerial positions were required to compete for their jobs, and our expectations of those jobs were evolving. Our goal was to ensure the best fit between the employee and the position, which would help us achieve excellence in eligibility throughout DWS.

Our new eligibility system, eREP, was approaching completion and we needed a comprehensive implementation plan. We also were managing additional technology enhancements like the online customer portal myCase. These and other changes were part of our overall plan to improve the department's ability to serve more Utahns with fewer taxpayer dollars.

At each step, we have attempted to minimize employee discomfort by limiting the number and frequency of changes when possible and communicating at every step of the way. Targeted support, increased case reviews and a formal update process have assisted employees in adopting new initiatives.

As further innovations occur, we are committed to strategically reviewing each and every potential change in programs or management, and scrutinizing new projects carefully to keep changes at a minimum. Some changes, such as the Affordable Care Act, are outside our control—yet we work hard to mitigate the impacts of all mandated initiatives.

Though we acknowledge that eventually our efficiencies may plateau, we will continue looking for ways to improve our use of taxpayer dollars to serve the people of Utah.

Finally, we are deeply mindful of the fact that as we serve hundreds of thousands of Utahns, we are granted stewardship of sensitive personal information. We believe in the accountability of our employees to do what is morally right and expected of them as public servants when handling this information. To help protect both our customers and our employees, DWS takes initiatives such as Zero Tolerance very seriously. We will continue to examine each case independently, as we strive to ensure confidential information remains so, and program accuracy stays high.

We sincerely appreciate each and every opportunity to improve our services, increase our efficiency and highlight our operational excellence as a department. Whether it's incentivizing hard-working employees, or continuously striving for the latest innovation in our department, we are committed to using every taxpayer dollar in the most efficient way for the greatest benefit of Utahns.

As you will see, with the exception of very few, we are either accepting, presently implementing, or will be implementing in a slightly modified manner each one of your recommendations.

### **Recommendations – Chapter II**

1. We recommend the Department of Workforce Services establish benchmarks or baselines in order to document and isolate the efficiency gains achieved from any new process-improvement programs.

*We agree with the recommendation to establish benchmarks or baselines to document and isolate efficiency gains associated with any new process improvement programs. DWS will look for ways to ensure the ongoing financial and motivational/success and outcome-driven sustainability of our Pay for Performance Pilot program. Moving forward, we will use the Governor's SUCCESS framework to isolate and baseline performance measures over the next four years as we seek to improve Quality, Throughput and Operating Expenses (QT/OE) by 25%.*

*When the Department implemented the Pay for Performance Pilot, we were coming off of the implementation of eREP and did not have access to benchmark reports due to this being a new operating system. Unfortunately, we did not feel that we had time to wait a full year to establish benchmark or baseline data around determinations before we looked for solutions to our mounting workload and budget challenges.*

*Since implementing the Pay for Performance Pilot, DWS has tracked the staff performance associated with this pilot program and resulting efficiencies. Currently, we use several reports and tracking mechanisms to capture efficiencies: Budget vs. Caseload Chart, "At a Glance" Operational Reports, budget documents/cost savings tracking and our Cognos reports/eReports.*

*Information we have tracked to measure increased efficiencies is reflected in our Cognos reports. The outcomes for quality and volume are substantially higher for staff in the Pay for Performance Pilot. The division wide quality rate was 94.87%; staff participating in Pay for Performance pilot had an internal accuracy rate of 95.29% while staff not participating had an internal accuracy rate of 94.47%. Similarly, staff participating in Pay for Performance Pilot had an average monthly determination volume of 161 while staff not participating had an average monthly determination volume of 108. ESD's "budget vs. caseload" chart shows that in FY2009, we were operating at a budget of \$77 million with an FTE count of 1056; in FY2013, we are operating at a budget of \$57 million with an FTE count of 779.*

*As with all of ESD's initiatives, DWS' data and reporting systems allow DWS and ESD to identify specific outputs and corresponding impacts on division, team, and individual worker performance.*

2. We recommend that the Department of Workforce Services address the financial and motivational sustainability of their P4P program given the reduction of incentive amounts resulting from increased employee participation.

*We agree with the recommendation to continue evaluating the sustainability of our Pay for Performance Pilot program. We will look for ways to ensure the financial, motivational and outcome-driven sustainability of our Pay for Performance Pilot program.*

*We believe this program has been an effective way to incentivize higher performing staff who are able to produce more work with exceptional quality. We have also shown the ability to afford the cost of this program with ongoing Department savings and will continue to operate the program in a cost-neutral manner. This includes calibration of payment amounts and performance expectations when required. Previous calibrations may have resulted in fewer dollars earned per determination, but by doing so, we have been able to expand participation to more individuals. We have not reduced the maximum incentive amounts an employee can earn in a single performance year and do not intend to do so.*

3. We recommend that the Department of Workforce Services account for inequitable opportunities among employees by recognizing outputs that better define the performance of its workers.

*We agree with the importance of recognizing outputs that better define the performance of our workers. ESD Management will work with staff to look for ways to modify the Pay for Performance Pilot that address this recommendation.*

*We will continue to evaluate what outputs should be attached to a specific incentive, at what incentive amount, and what other outputs should or should not be included in the Pay for Performance Pilot program.*

*As recognized in the audit, outputs that were not originally recognized through incentives at the start of the Pay for Performance Pilot are now included in the incentive structure.*

*In January 2012 incentives were awarded solely for determinations. By August of 2012, additional incentives were extended based on the accuracy of those determinations and the workers ability to effectively manage their daily tasks. Qualifying elements which align with workers basic performance plans were added in to account for the major work processes completed by eligibility staff.*

*For example, participants in the Pay for Performance pilot who are on teams that take phone calls, if a core portion of their performance requires taking phone calls, must meet a minimum volume of answered phone calls to qualify for an incentive. While a worker does not receive an individual payment based on the number of calls answered, if a worker does not contribute equitably to the team's phone calls, his or her monthly incentive is lost regardless of volume of determinations made.*

*Additionally, ESD cites Utah Administrative Code R477-6.5, compensation, specifically Incentive Awards, under which ESD's P4P/Incentive Bonus Program is governed:*

- *(1) ...Incentive awards and bonuses are discretionary, not an entitlement, and are subject to the availability of fund in the agency; and*
  - *(2)(a)(i) An agency may grant a cash incentive award to an employee or group of employees that demonstrates exceptional effort or accomplishment beyond what is normally expected on the job for a unique event or over a sustained period of time.*
4. We recommend that the Department of Workforce Services tighten Eligibility Services Division controls over the determinations process or adjust incentives to mitigate negative employee behavior.

*We agree with the importance to take steps to mitigate negative employee behavior, specifically the audit-defined practices of "cherry picking" and "upselling." We will use these findings to communicate and educate the Performance Review Team regarding "cherry picking" and "upselling" so that such undesired behavior can be monitored as part of the accuracy audit evaluation of the determination. Moving forward, we will ensure that all reports of "negative employee behavior" will be reviewed at all appropriate levels of ESD Management and handled by staff.*

*While it is unclear whether these practices occur, and/or how often, DWS recognizes such practices can impact the integrity of the Pay for Performance pilot program and will take steps to address those concerns.*

*We currently use an internal case audit team, the Performance Review Team and anomalies in our Cognos reports (i.e. accuracy, determination volume, etc.) to evaluate the accuracy of the determinations made by all workers and address concerns with said anomalies with staff and management.*

5. We recommend that the Department of Workforce Services consider shifting focus from individual-oriented rewards to incentives better matching existing interdependent work processes.



*We agree that all incentive strategies should be considered in the development of a Pay for Performance pilot program. During the Pay for Performance pilot, ESD has recalibrated some incentive structures, while adding others, to enhance the program. For example, while reducing the incentive amount associated with a single individual determination, we have also increased individual opportunities on other important aspects of eligibility (e.g., task management [backlog], accuracy bonus, etc.).*

*DWS will use these audit findings to evaluate the individual-oriented rewards program currently in place and make recommended changes to improve the program.*

*ESD Management has concerns about rewarding staff at a team level, as underperforming staff could potentially be financially rewarded as a result of team members who are performing at a higher level. While we realize that individual incentives may create a spirit of competition at a team level, we still believe that rewarding individual efforts recognize individuals who consistently perform at a higher level and ultimately lead to increased outputs at a team, hierarchy and division level.*

6. We recommend that the Department of Workforce Services consider additional non-monetary enrichments and work process changes that may cultivate employee trust and reestablish intrinsic, public-service-oriented motivators.

*We agree that non-monetary incentives that establish intrinsic, public-service-oriented motivators are important. We have several surveys we distribute in conjunction with DHRM, which gathers information pertaining to employee job satisfaction. We will utilize the results of these surveys, as well as other communication forums to ensure we are cultivating a good work environment for our staff. In doing so, we will continue to provide an environment that fosters professional growth and personal fulfillment.*

*We believe the issues in this recommendation have already been addressed based on the programs in place currently: Four Cornerstones guiding document and awards; employee-friendly policies and non-monetary programs/incentives; rewards and recognition plans at all levels; communication plans; non-cash awards and division-wide celebrations; telecommuting; flex-schedules & tuition reimbursement.*

### **Recommendations – Chapter III**

1. We recommend that the Department of Workforce Services and its Eligibility Services Division limit Pay for Performance incentives to only its eligibility specialists, unless

supervisor and management incentives are redesigned to isolate the individual impacts of supervisors and management.

*While we respectfully disagree that the Department of Workforce Services limit incentive awards through the Pay for Performance Pilot, we are modifying the way that bonuses are awarded and will consider these audit findings as we adjust these for supervisors and managers. Supervisors and Managers should continue to have access to the performance based incentives governed by Utah State Code R477-6.*

*Supervisors' responsibilities in managing workload across the team and meeting outcomes are measurable based on team outcomes. Supervisors' job descriptions require them to be hands-on, often assisting staff in processing work, taking complaint calls from customers, covering workload, managing workload and staffing levels, reviewing internal weaknesses (i.e. case review errors), mentoring and training staff, as well as ensuring program integrity is met by all staff. Most supervisors qualify for a payment based on team outcomes. There are times when they don't qualify for a payment because the team outcomes aren't met, even while individual members of the team do qualify for a payment.*

*The intent of this incentive pilot is to motivate staff at all levels to perform their jobs with increased productivity. However, the result of top performance by front-line staff is in part a reflection of excellent leadership—a common agreed-upon concept among all management theorists.*

#### **Recommendations – Chapter IV**

1. We recommend that the Department of Workforce Services develop hierarchy-specific benchmarks for accuracy that are similar to existing productivity requirements.

*We will further explore this option. It should be noted that inherent in the staffing and workload model is the level of effort required for that hierarchy's program/s. The programmatic combination of each hierarchy was created by DWS' statistics, showing the cycle of workload from application to closure. Additionally, programs of like elements were combined. Depending on the nature of the workload and supporting work requirements (reviews, tasks, phone calls) and frequency of completing these functions, the staffing levels are created.*

*ESD Management ran figures from Cognos for the period of July 1, 2013 to September 30, 2013:*

ABD	93.38
LTC	96.64
Outreach	92.52
AIT	89.13
CBT	90.85

CUP	89.25
ESO	92.14
Refugee	94.43
SPAN	88.56

*The ranges average from 88.56% (Spanish hierarchy) to 96.64% (LTC hierarchy). During this period, the Spanish hierarchy had significant turnover, which resulted in newer staff assigned to that hierarchy. Lower accuracy rates are expected, however, we believe accuracy will increase as staff experience increases. ESD Management will have to further analyze these differences to determine if a reduced expectation of accuracy will negatively compromise our federal and external measurement outcomes.*

*ESD has attempted to calibrate the level of effort or innate complexity of the programs by adjusting for workload by staffing, training and providing tools to support each hierarchies work.*

*All programs retain standard expectations of payment accuracy, correct program approval, and correct program denial as directed by federal evaluation of these programs. Allowing less than 90% accuracy internally does not change the federally required accuracy expectations monitored by external audits on each program. We further believe this uniform accuracy expectation has improved the overall accuracy of benefit issuance to our customers.*

2. We recommend that the Eligibility Services Division management continue addressing any remaining issues associated with selection bias in the Performance Review Team case review process.

*We agree with this recommendation and appreciate the recognition of progress already made by the department. The Department will continue to evaluate its case review selection process to continue mitigating any case review selection bias. We believe our March 2013 launch of the Automated Review Management Engine has been a positive first step in this direction.*

3. We recommend that the Eligibility Services Division management develop processes to document the frequency and basis that errors identified by Performance Review Team case reviewers are being appealed and overturned.

*We agree with this recommendation and will refine its existing practices of tracking and evaluating Performance Review Team re-review evaluations (those reviews of the PRT staff members' efforts). We will implement a formal process for data gathering that will be analyzed to determine training needs for PRT case reviewers or unclear policy that may need discussion.*

4. We recommend that the Eligibility Services Division adjust its sampling methodology to provide greater level of confidence in conclusions about employee performance.

*We agree with this recommendation. We will collaborate with our Workforce Research and Analysis Division to evaluate alternative sampling methodologies, as well as developing a statistically-valid sampling volume. We will work with DHRM on appropriate evaluation timeframes related to staff performance.*

5. We recommend that Eligibility Services Division management adopt guidelines and tools that specify acceptable employee performance and clarifies when negative personnel actions are appropriate.

*We agree to create these guidelines and tools. We will work closely with DHRM on any employee actions that take place. Although we are currently working on supervisory/managerial guidelines to guide management towards more consistent employee actions, we believe a formal policy articulating a required course of action would effectively remove the Supervisor's / Manager's professional judgment. We do acknowledge, however, that a more defined course of action leading to employee actions will effectively guide more consistency in taking said personnel actions.*

#### **Recommendations – Chapter V**

1. We recommend that the Department of Workforce Services determine ways to slow the rate of change and ensure that employees are able to effectively adapt to change.

*We agree that DWS should continue to find ways to slow the rate of change and ensure that employees are able to effectively adapt to change. As we have stated already in this response, we simply don't feel DWS was implementing major changes such as the Pay for Performance Pilot and the Performance Review Process, within normal operating conditions. The Great Recession brought about a unique set of challenges for our agency adding an additional set of pressures behind the need to change. We realize that implementing concurrent or overlapping initiatives can create situations requiring staff's increased ability to adapt.*

*As recognized in this audit, DWS has slowed the rate of several monthly implemented changes associated with policy and procedures. These smaller scale changes have a significant impact to workers day to day work environment. Building upon this progress, we have also brought on new project management tools to ensure our larger projects are scrutinized before put into the pipeline. Although all changes are not within our control, we will do our best to help employees understand the justification behind current and futures changes, as well as assist them in adapting to changes.*

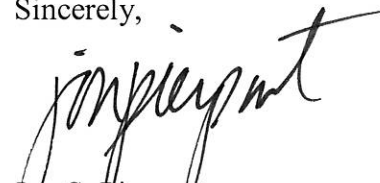
2. We recommend that the Department of Workforce Services update their client data access policy from zero tolerance to allow more flexibility.

*Although we understand the audit's concern regarding zero tolerance policies, we collect and maintain large databases of highly sensitive, confidential information. We view that as the highest level of public trust and cannot tolerate any violation of that trust. We therefore respectfully disagree with this recommendation. However, DWS recognizes the policy needs some clarification regarding employees accessing their own records and will make changes accordingly.*

DWS is committed to continuous improvement in every aspect of our department's service to the State, as evidenced by our responses above. The departmental and policy changes discussed here outline our innovations over the past few years. The Great Recession's impact, as well as other pressures, required DWS to seek new, better ways to deliver government services. We are confident that we made the best of a difficult situation, and we will continue to take into account all additional information that helps us hone our programs.

Again, thank you for the opportunity to engage with you and your staff during this audit. If you have questions, or require additional information, you may contact me at any time.

Sincerely,



Jon S. Pierpont  
Executive Director