



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**THE DEPARTMENT OF HUMAN RESOURCES,
THE BOARD OF APPEALS,
AND THE EMPLOYEE SUGGESTION AWARD BOARD**

Performance Audit Report

July 2018

Justin P. Wilson, Comptroller



Division of State Audit

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July 30, 2018

The Honorable Randy McNally
Speaker of the Senate
The Honorable Beth Harwell
Speaker of the House of Representatives
The Honorable Mike Bell, Chair
Senate Committee on Government Operations
The Honorable Jeremy Faison, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Rebecca R. Hunter, Commissioner
Department of Human Resources
William R. Snodgrass Building, 17th Floor
312 Rosa L. Parks Avenue
Nashville, Tennessee 37243-1102

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Department of Human Resources, the Board of Appeals, and the Employee Suggestion Award Board for the period July 1, 2015, through May 31, 2018. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated*.

Our audit disclosed a finding, which is detailed in the Audit Conclusions section of this report. Management of the Department of Human Resources has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the Department of Human Resources, the State Employee Sick Leave Bank Board of Trustees, the Board of Appeals, and the Employee Suggestion Award Board should be continued, restructured, or terminated.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA
Director

DVL/mkb
18/047



Division of State Audit
Department of Human Resources
Performance Audit
August 2018

Our mission is to make government work better.

AUDIT HIGHLIGHTS

The Department of Human Resources' Mission

Providing strategic human resources leadership and partnering with customers for innovative solutions.

Pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*, we have audited the Department of Human Resources, including the State Employee Sick Leave Bank Board of Trustees,¹ as well as the Board of Appeals and the Employee Suggestion Award Board for the period July 1, 2015, through May 31, 2018. Our audit scope included a review of internal controls and compliance with laws, rules, regulations, policies, and procedures in the following areas:

Scheduled Termination Date:

June 30, 2019

THE DEPARTMENT OF HUMAN RESOURCES

- state security policies and best practice guidance
- compliance with the *Financial Integrity Act*
- performance management
- training

THE STATE EMPLOYEE SICK LEAVE BANK BOARD OF TRUSTEES

- administration of Sick Leave Bank activities
- statutory requirements of meetings

THE BOARD OF APPEALS

- timeliness of the appeals process
- statutory requirements of meetings

THE EMPLOYEE SUGGESTION AWARD BOARD

- award activity
- statutory requirements of meetings

¹ The Sick Leave Bank Board of Trustees does not appear in Chapter 4-29, *Tennessee Code Annotated*. The Department of Human Resources administers the Sick Leave Bank and provides administrative services to the Board of Trustees; therefore, we have included the Sick Leave Bank Board of Trustees in our review.

KEY CONCLUSIONS

Our review resulted in one finding and five observations.

FINDING

- Management did not follow information systems security policies and industry best practices in four specific areas (page 10).

OBSERVATIONS

The following topics are included in this report because of their effect on the operations of the Department of Human Resources, the department's related boards, and the citizens of Tennessee:

- the department should always report fraudulent employee activity to the Comptroller's Office (page 10);
- the Board of Appeals should always issue final decisions within 120 days as required by statute (page 21);
- as the Employee Suggestion Award Board revises policies and procedures to comply with revised statute, special consideration should be given to reducing the total award process time (page 26);
- members of the Sick Leave Bank Board of Trustees, the Board of Appeals, and the Employee Suggestion Award Board should document disclosures of interest (page 28); and
- the Sick Leave Bank Board of Trustees, the Board of Appeals, and the Employee Suggestion Award Board should provide public notice of board meetings (page 29).

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INTRODUCTION

AUDIT AUTHORITY

This performance audit of the Department of Human Resources, the Board of Appeals, and the Employee Suggestion Award Board was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*. Under Section 4-29-240, the department, the Board of Appeals, and the Employee Suggestion Award Board are scheduled to terminate June 30, 2019. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the department and its related boards should be continued, restructured, or terminated.

BACKGROUND

Section 4-3-1701, *Tennessee Code Annotated*, established the Department of Personnel in 1939. In 2007, the General Assembly changed the name of the department to the Department of Human Resources (DOHR). DOHR is a cabinet-level department and acts as the central human resources (HR) agency for the state, which is the largest employer in Tennessee. The department designs and implements policies and practices to effectively manage the state's HR needs and administers the provisions of the Tennessee Excellence, Accountability, and Management (TEAM) Act of 2012. It maintains separated state employee records, including records pertaining to applicants for state employment. DOHR also approves, coordinates, and directs all professional and leadership development activities for state departments and agencies.

The **Mission** of DOHR is to provide strategic human resources leadership and partner with customers for innovative solutions.

Specific functions provided by the department include the following:

- Developing and administering statewide HR policies and rules, performance management, employee relations, and employee appeals.
- Supporting consistent hiring practices across state government, including posting vacant positions, processing applications, and providing enterprise-wide recruiting support for positions that require a specialized skillset or are difficult to fill.
- Providing central HR oversight, management, and processing services through DOHR's Enterprise Agency Resource Center (ARC), including hiring, promotions, position classifications, demotions, separations, and compensation.
- Providing enterprise learning and development oversight and competency management; developing and facilitating enterprise-wide talent management and development initiatives; and implementing the state's employee engagement strategy.

- Providing enterprise HR support for employees through the HR Service Center, DOHR's call center.
- Managing information about the state's workforce.
- Driving the enterprise employee engagement strategy to gain feedback through enterprise-wide Exit, Engagement, Climate and Stay Interview surveys.
- Administering the **Strategic Human Resources Delivery Initiative**.

The Strategic Human Resources Delivery Initiative

According to DOHR management, the growing number of state employees who are eligible to retire; the low retention of young employees; and the decreasing number of applicants highlighted the need for succession planning, targeted recruitment, and retention of high performers. To meet these needs, DOHR developed the **Strategic Human Resources Services Delivery Initiative** to streamline and centralize executive agencies' HR functions and to establish a process to help agencies develop customized plans that meet their strategic HR needs.

In anticipation of this initiative, DOHR created the **Agency Resource Center (ARC)** to provide consistent and efficient HR functions for all executive agencies. The ARC was formed from three former DOHR divisions: **Technical Services**, **Recruitment Management Services**, and **Classification and Compensation**. DOHR standardized these divisions' functions and placed them within the ARC. The department also established the **HR Service Center**, a call center to resolve common employee inquiries in the Executive Branch. Additionally, DOHR developed a specialized **Protected Leave Division** to manage statewide employee leave requests covered by the **Family and Medical Leave Act of 1993**, the **State Employee Sick Leave Bank**, and **Workers' Compensation**.

As of June 2018, the Departments of Agriculture, Finance and Administration, Revenue, Human Services, and Transportation have signed service partnership agreements with DOHR to centralize these agencies' HR transactions. DOHR plans to extend the initiative to all executive branch agencies by December 2018.

ORGANIZATION

The department is organized into six major program areas: Executive Administration, Office of the General Counsel, Operations, Management Services, Strategic Learning Solutions, and Business Solutions.

Executive Administration

Executive Administration is responsible for the development and implementation of best practice policies and procedures for human resource management within the state and the

overall direction of the agency. Executive Administration consists of the **Commissioner, Deputy Commissioner, Assistant Commissioners, Chief Operating Officer (COO), and Chief Strategy Officer.**

Office of the General Counsel

The Office of the General Counsel oversees all legal issues within DOHR, offering counsel and advice to state agencies and individuals on employment law matters. This office oversees all departmental legislative affairs, administers oversight over all media and public records requests, and houses the Ethics Compliance Officer for DOHR. In addition, the Office of General Counsel manages many services provided to state employees, including Employee Relations; Quality Assurance and Records Management; and Equal Employment and Mediation.

This office is administered by the **Deputy Commissioner and General Counsel**. The Deputy Commissioner oversees the **Employee Relations Administrator, Legal Services Administrator,** and the **Legislative Liaison and Public Information Officer**. Two **Program Directors** report to the Legal Services Administrator and one **Program Director** reports to the Employee Relations Administrator.

Operations

The Division of **Operations** oversees the administrative duties of the department and consists of Fiscal Services and Organizational Performance and the Data Management group. The **Chief Operating Officer** leads this work program and is assisted by the **Program Director of Organizational Performance and Data Management**.

Management Services

Management Services administers state employee compensation and position classifications. This division is also responsible for developing and administering preferred service position employment and promotional opportunities, and processing general employee transactions such as appointments, transfers, promotions, separations, and attendance and leave adjustments. This division also partners with agencies to recruit qualified talent to fill preferred and executive service positions. Management Services houses the **Agency Resource Center (ARC); the HR Service Center;** and the State of Tennessee's **Recruiting Center**.

The Management Services Division is administered by the **Assistant Commissioner and Chief Services Officer**. The **Program Administrator of the ARC, the Program Director for the HR Service Center,** and the **Program Director for Recruitment** answer directly to the Assistant Commissioner. Two **Program Directors** report to the ARC Administrator.

Strategic Learning Solutions

Strategic Learning Solutions (SLS) consults and partners with executive leaders to create a customized learning strategy for their agency that develops and sustains a high performing workforce. SLS is charged with assisting agencies with all their professional

learning and development, leadership development, talent management, and succession planning needs, and creating customized learning programs that maximize employee potential and develop targeted results to achieve strategic business goals and objectives.

The **Assistant Commissioner and Chief Learning Officer** oversees the SLS work program, which includes the **Talent Management Business Partner for the Department of General Services** and the **Talent Management Administrator of Learning and Development**. Two **Program Directors** report to the Talent Management Administrator.

Business Solutions

Business Solutions is responsible for administering human resources services, including onboarding, terminations, and performance management, internally for the Department of Human Resources and the Department of General Services. It also provides human resources services to the Governor's office and nine additional small agencies, boards, and commissions through memoranda of understanding (MOUs). This division also leads agency HR teams to develop strategic plans that meet the unique needs of their customers through the Strategic Human Resources Service Delivery Initiative.

An **Assistant Commissioner and Chief Business Partner** leads this work program. Two **HR Business Partners** report directly to the Assistant Commissioner, one serving DOHR and MOU agencies, and one serving the Department of General Services.

DOHR RELATED BOARDS

DOHR provides administrative support, including staff, for three related boards: the State Employee Sick Leave Bank Board of Trustees; the Board of Appeals; and the State Employee Suggestion Award Board. Under Section 4-29-240, *Tennessee Code Annotated*, both the Board of Appeals and the State Employee Suggestion Award Board are scheduled to terminate June 30, 2019. Unlike the Board of Appeals and the State Employee Suggestion Award Board, the State Employee Sick Leave Bank Board of Trustees is not included in Chapter 29 of Title 4, *Tennessee Code Annotated*, the "Tennessee Governmental Entity Review Law."

The State Employee Sick Leave Bank Board of Trustees

The State Employee Sick Leave Bank Board of Trustees is composed of seven board members, including the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Treasurer, and the Executive Director of the Fiscal Review Committee. In addition, there are three board members selected by the membership of the Tennessee State Employees Association at their annual legislative convention. The board is charged with governing the activities of the Sick Leave Bank, to include establishing the criteria for distributing sick leave from the bank, hearing appeals of denials of requests for sick leave, and prescribing the form and manner of participation in the bank as provided by Section 8-50-901 et seq., *Tennessee Code Annotated*. DOHR coordinates the board of trustees' meetings.

The Board of Appeals

Established by Section 8-30-108, *Tennessee Code Annotated*, the Board of Appeals is the appeals tribunal for state employees. The Board of Appeals serves as the hearing tribunal for a preferred service employee who is appealing a demotion, suspension, or termination. It serves as the final step in the administrative appeal procedure provided for preferred-service employees. Pursuant to Section 8-30-108, membership of the Board of Appeals is composed of 9 to 18 members, at the discretion of the Commissioner of DOHR. Members are appointed by the Governor from the public at large for terms of six years. As of March 2018, the Board of Appeals had 13 members.

The State Employee Suggestion Award Board

The State Employee Suggestion Award Program, outlined in Section 4-27-101 et seq., *Tennessee Code Annotated*, is designed to encourage state employees to submit ideas that will improve processes or reduce costs for Tennessee state government. The State Employee Suggestion Award Board, which includes the commissioners of Human Resources, Finance and Administration, and General Services, along with the Executive Director of the Fiscal Review Committee and a representative from the Tennessee State Employees Association, is responsible for reviewing suggestions submitted and approved for implementation within state agencies and approving cash awards under the program guidelines for those ideas that result in documented savings.

AUDIT SCOPE

We have audited DOHR, the Board of Appeals, and the Employee Suggestion Award Board for the period July 1, 2015, through May 31, 2018. Our audit scope included a review of internal controls and compliance with laws, rules, regulations, policies, and procedures in the following areas:

THE DEPARTMENT OF HUMAN RESOURCES

- state security policies and best practice guidance
- compliance with the *Financial Integrity Act*
- performance management
- training

THE STATE EMPLOYEE SICK LEAVE BANK BOARD OF TRUSTEES

- administration of Sick Leave Bank activities
- statutory requirements of meetings

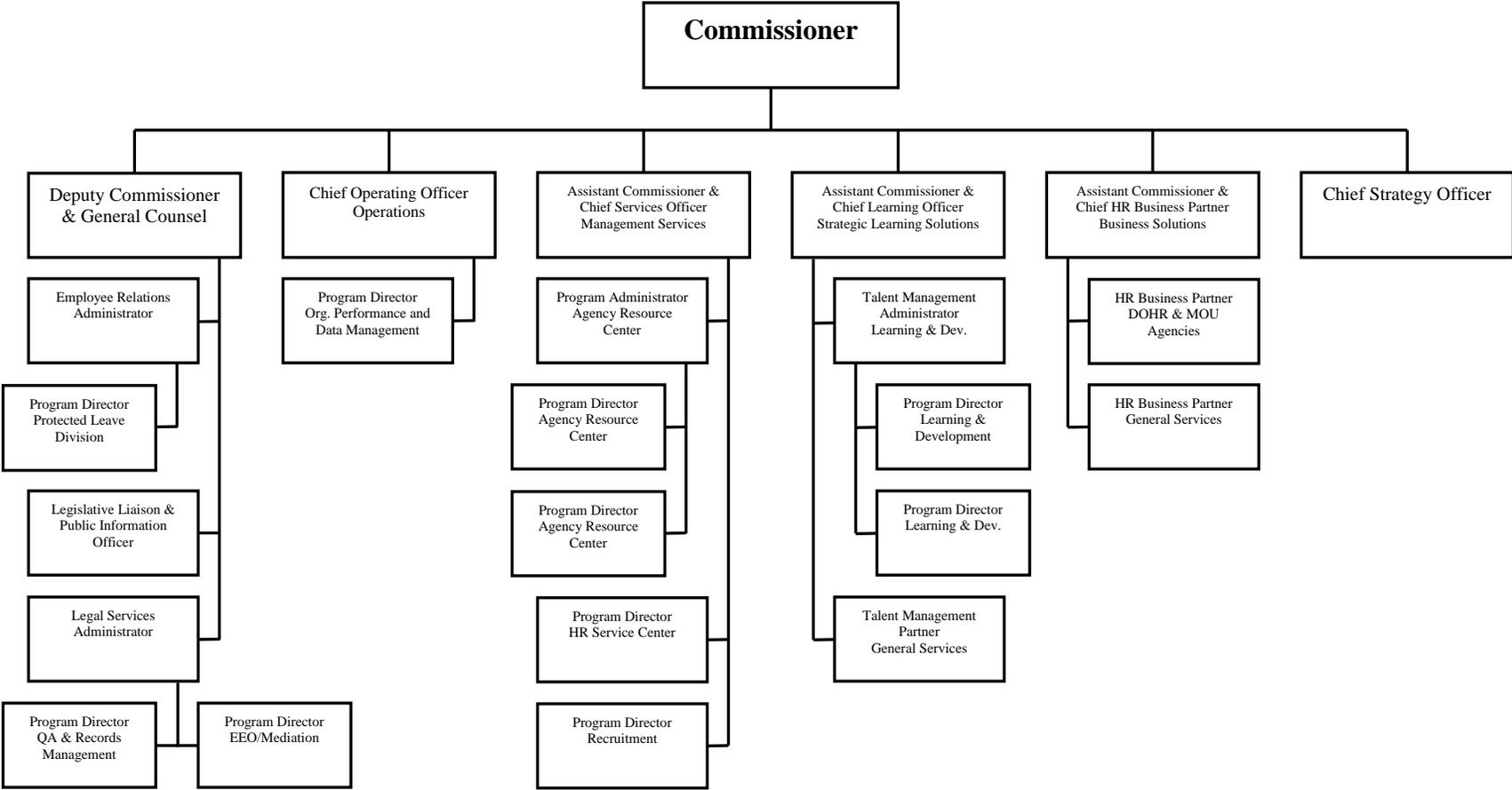
THE BOARD OF APPEALS

- timeliness of the appeals process
- statutory requirements of meetings

THE DEPARTMENT OF HUMAN RESOURCES

Organizational Chart

February 2018



Source: Obtained from DOHR’s Chief Operating Officer.

THE EMPLOYEE SUGGESTION AWARD BOARD

- award activity
- statutory requirements of meetings

DOHR management is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, policies, and procedures.

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

PRIOR AUDIT FINDINGS

REPORT OF ACTIONS TAKEN ON PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The prior audit report was dated December 2015 and contained five findings. The department filed its report with the Comptroller of the Treasury on June 16, 2016. We conducted a follow-up of the prior audit findings as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that DOHR resolved the following previous audit findings concerning:

- The Strategic Learning Solutions Division's communication with other state agencies and its tracking of mandatory training,
- The department's rollout of the performance management initiative,
- The difficulties reported by other agencies in developing and evaluating employee evaluations,
- The applicability of the performance management model to all employees, and
- The administration of the Sick Leave Bank account.

AUDIT CONCLUSIONS

THE DEPARTMENT OF HUMAN RESOURCES

INFORMATION SYSTEMS SECURITY, RISK MANAGEMENT, AND PERSONNEL

DOHR is required to follow state policies for internal control and reporting, including requirements found in *Tennessee Code Annotated* and The Department of Finance and Administration's Division of Strategic Technology Solutions' (STS) *Enterprise Information Security Policies*. The department uses information systems to support its mission-critical business functions, while STS manages the department's network access and email; hosts most of the department's file and application servers; administers Edison, the state's accounting system; and establishes information security policies for the states' information systems. As established in STS guidance, DOHR personnel are responsible for implementing internal controls over information systems.

DOHR is also required to follow the Department of Finance and Administration's guidance on meeting the reporting requirements of the *Financial Integrity Act*. Section 9-18-104, *Tennessee Code Annotated*, requires that department management must submit a report to the Commissioner of Finance and Administration and the Comptroller of the Treasury that attests to the following:

- (1) The agency or institution acknowledges its management's responsibility for establishing, implementing and maintaining an adequate system of internal control; and
- (2) A management assessment of risk performed by the agency or institution provides or does not provide reasonable assurance of compliance with the objectives of the assessment as specified in this chapter.

Additionally, the Department of Finance and Administration's "Management's Guide for Enterprise Risk Management and Internal Controls," states that agencies must review and document their enterprise risk management activities and internal controls in compliance with the guidance established by the US Government Accountability Office (GAO) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Audit Results

1. Audit Objective: Did management follow state security policies and industry best practices in its administration of information systems and personnel?

Conclusion: Management did not follow state security policies and industry best practices in four specific areas. See **Finding** (page10).

2. Audit Objective: Has management complied with the *Financial Integrity Act*, Section 9-18-101 et seq., *Tennessee Code Annotated*?

Conclusion: Although the department did not document its enterprise risk management activities for 2017, management otherwise complied with the *Financial Integrity Act*, Section 9-18-101 et seq., *Tennessee Code Annotated*.

3. Audit Objective: Did the department report fraudulent employee activity to the Comptroller's Office as required by statute?

Conclusion: We determined that the department did not report an incident involving forgery to the Comptroller's Office. See **Observation 1** (page 10).

Methodology to Achieve Objectives

To achieve our audit objectives related to DOHR operations, we interviewed key personnel to determine the nature, timing, and extent of management's review of risk and internal controls. We also reviewed pertinent policies and procedures as well as laws, regulations, and best practices guidance.

Audit Objective 1

We reviewed a list of DOHR employee separations that occurred between July 1, 2015, and March 22, 2018. We reviewed STS's *Enterprise Information Security Policies* to gain an understanding of management's responsibilities for establishing information systems controls. We reviewed personnel files, information systems documentation, and other pertinent documentation for the audit period to determine management's compliance with state policies and best practices guidance.

Audit Objective 2

To determine documentation requirements for the *Financial Integrity Act*, we reviewed the Department of Finance and Administration's "Management's Guide for Enterprise Risk Management and Internal Controls," as well as the USGAO's *Standards for Internal Control in the Federal Government* and COSO's enterprise risk management framework. We reviewed the department's documentation of enterprise risk management activities, including its most recent risk assessment and management's attestation concerning enterprise risk management, to assess compliance with security policies and best practices guidance.

Audit Objective 3

We reviewed a list of DOHR employee separations that occurred between July 1, 2015, and March 22, 2018, and employees placed on administrative leave for the same time period. We reviewed personnel files and other pertinent documentation and interviewed key personnel to determine the nature of the separation or leave. Based on our discussions with the General Counsel, we determined that the department did not report one instance of forgery to the Comptroller's Office.

Finding – Management did not follow information systems security policies and industry best practices in four specific areas

The Tennessee Department of Human Resources did not implement and monitor internal system controls in four specific areas related to its information systems and applications. Ineffective implementation of internal controls increases the likelihood of fraud, errors, or data loss. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the department with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management’s Comment

We concur. The Department acknowledges that there was not consistent monitoring of internal system controls in these areas. Procedures and protocols were in place to ensure compliance with applicable information systems and applications controls. In addition, assigned staff was designated to monitor the risks. Unfortunately, staff assigned to handle some of these areas did not consistently monitor the information systems and applications. As a result, the Department conducted a review of the various areas, reorganized, and assigned new staff to various roles and responsibilities to ensure consistent monitoring of internal system controls.

The Department will continue to monitor internal system controls to ensure compliance with applicable requirements, make certain that assigned staff will be responsible for ongoing monitoring of the risks and mitigating controls, and take necessary action if deficiencies occur.

Observation 1 – The department should always report fraudulent employee activity to the Comptroller’s Office

Pursuant to Section 8-4-119, *Tennessee Code Annotated*, state agencies must report all cases of theft, forgery, fraud, or abuse to the Comptroller’s Office. Based on our review of DOHR employee separations,² the department failed to notify the Comptroller of the Treasury that 1 of the 53 separated employees (2%) was terminated because the employee forged a supervisor’s signature. Although this termination occurred during a time of significant staffing changes for DOHR, state agencies should report any instances of confirmed or suspected fraud or abuse to the Comptroller’s Office immediately so that the Comptroller of the Treasury can conduct any necessary investigations.

² We reviewed all DOHR employee separations that occurred between July 1, 2015, and March 22, 2018.

PERFORMANCE MANAGEMENT AND TRAINING

Section 8-30-10, *Tennessee Code Annotated*, also known as the Tennessee Excellence, Accountability, and Management (TEAM) Act, was enacted in 2012 to attract, select, retain, and promote the best employees based on merit and equal opportunity, and free from coercive political influences. The TEAM Act also enabled DOHR to establish a performance-based employment model designed to recruit, retain, and reward the state's workforce. In 2014, DOHR developed a new compensation structure that focused on rewarding employees based on performance rather than seniority and, in 2015, established guidelines for the Pay for Performance (P4P) initiative. The TEAM Act charged DOHR with oversight of the new performance-based system, including the related training for state employees, such as ensuring that executive branch employees received training related to performance management.³

**Pay for Performance:
A Culture Change**

With the implementation of the **Pay for Performance (P4P)** initiative in 2015, DOHR introduced a significant change in the culture of state employees. P4P transitioned away from the seniority-based wage increases, which had been a part of state employment for decades. According to DOHR executive management, this change in culture may have been the most challenging aspect of implementing the TEAM Act.

Strategic Learning Solutions and Employee Relations

DOHR's Division of Strategic Learning Solutions (SLS) provides professional development skills for employees, offers talent management, and provides leadership development for managers and supervisors. SLS trains facilitators within agencies and tracks mandatory training reports for state agencies. SLS is responsible for statewide planning, coordination, and review of learning and development programs, as well as the direct delivery of initiatives, training sessions, conferences, and workshops. During the rollout of the P4P initiative, SLS provided training to supervisors on how to develop Individual Performance Plans (IPPs) for their staff, including how to develop goals that were Specific, Measurable, Attainable, Relevant, and Timely (SMART).

IPPs and SMART Goals

Across the state, supervisors develop **Individual Performance Plans (IPPs)** for each staff member, which detail how each employee performed in the prior year and where he or she can improve.

SLS established that the goals in these IPPs should be **Specific, Measurable, Attainable, Relevant, and Timely (SMART)**.

The Employee Relations (ER) group, which is included in DOHR's Division of the General Counsel, reviews SMART goal compliance across agencies, boards, and commissions. Each year, the ER group confirms that agencies have completed their staff's IPPs and audits the IPPs to determine whether they meet the criteria of SMART goals. Once reviews are complete, the ER team meets with each agency to discuss the results and develop corrective action plans to improve the IPP process. Corrective action plans detail how

³ Per Section 1120-08-.03 of the *Rules of the Tennessee Department of Human Resources*, "Employees are required to attend certain learning and development workshops provided by the Department as identified in policy."

the agency plans to improve SMART goal compliance; common solutions include offering more training and additional review of SMART goals by agency HR staff.

Edison

State agencies use the Edison Enterprise Resource Planning system for administrative functions, such as accounting, procurement, payroll, benefits, and personnel records. DOHR's and other agencies' HR staff use Edison to document and review an employee's training and performance management history. SLS uses Edison to deliver online training courses and track mandatory training, whereas the ER group uses the information maintained in Edison to monitor performance management data, such as IPP SMART goal compliance. State agencies can use Edison to track employees' performance management history and IPPs, including evaluation scores, and to ensure that all supervisors and employees complete the IPP process.

Deficiencies Noted in the Prior Audit

In the prior Sunset Audit of DOHR, dated December 2015, auditors documented various deficiencies with DOHR's administration of training and the rollout of the P4P initiative. The audit disclosed the following findings related to training and performance management:

- The Strategic Learning Solutions Division needs to improve communication with state agencies, publish a training schedule, and adhere to its policies and procedures for tracking mandatory training.
- The department faced challenges with the rollout of Get SMARTer in performance management training with providing enough facilitators and addressing the difficult transition of changing culture to the new performance management system.
- Most agencies reported that raters lack proficiency in developing SMART-based goals and in completing qualitative evaluations.
- A number of weaknesses in the performance management model could affect the objectiveness and fairness of the process.

Additionally, the prior audit noted the following observation:

- The department needs to review evaluation data reliability and the accuracy of queries in Edison.

We followed up on the deficiencies documented in the prior audit report as part of our current audit work.

Audit Results

1. Audit Objective: In its administration of training, did Strategic Learning Solutions (SLS) ensure that it

- provided training guidelines to state agencies;
- reviewed feedback and recommendations from other state agencies;
- published training schedules; and
- tracked mandatory training?

Conclusion: Based on our review, SLS provided training guidelines, reviewed feedback and recommendations from other state agencies, published mandatory training schedules, and tracked mandatory training.

2. Audit Objective: In the ongoing administration of performance management, did SLS and the ER group ensure that they

- trained supervisors in developing and evaluating SMART-based goals;
- could customize the model to all employees; and
- followed up with agencies to ensure goals were SMART-based?

Conclusion: Based on our review, SLS trained 7,588 of 7,745 supervisors (98%)⁴ in developing and evaluating SMART-based goals and worked with agencies to customize the model for all employees. The ER group and SLS followed up with agencies to ensure goals were SMART-based.

3. Audit Objective: Did Edison queries compile employees' performance evaluation data?

Conclusion: Based on our review, Edison performance evaluation queries compiled performance evaluation data for regular, full-time employees.

Methodology to Achieve Objectives

To achieve our audit objectives related to training and performance management, we interviewed key management and personnel and reviewed pertinent sections of *Tennessee Code Annotated*, rules, and DOHR's policies and procedures to obtain an understanding of performance management and training. Additionally, we reviewed the findings and observation from the prior audit, dated December 2015, related to training and performance management and management's corrective action plans.

Audit Objective 1

To determine if SLS provided training guidelines to other agencies, we reviewed the division's online catalogue of policies and training tools and reviewed training courses. To

⁴ SLS uses the Get SMARTer certification course to train supervisors in developing and reviewing SMART-based goals. These supervisors represented 24 separate state agencies, including DOHR.

determine if SLS reviewed agency feedback and recommendations, we reviewed notes from the agency listening tour conducted by SLS management and email correspondence between SLS and state agencies. We observed the six-month training schedules on the DOHR website. To determine if SLS tracked mandatory training, we conducted a walkthrough of the process used to track mandatory training across state agencies and reviewed documentation of tracking reports. We also observed monthly updates from agencies on completed mandatory training.

Audit Objective 2

To determine how SLS provided training to supervisors, we reviewed the department's contract with Vanderbilt faculty to create a class to certify facilitators and records of mandatory training and reviewed the Get SMARTer certification report, dated June 1, 2018. We interviewed key SLS personnel to determine how IPPs could be customized for various employment fields. We reviewed performance management goal assessments conducted by the ER group and reviewed the subsequent corrective action plans submitted by other state agencies.

Audit Objective 3

We reviewed performance evaluation policies and procedures, including a list of Edison queries for performance evaluation data. We obtained a listing of the 9,582 current, regular full-time employees for DOHR, the Department of Human Services (DHS), the Department of Environment and Conservation (TDEC), and the Department of Transportation (TDOT)⁵ and compared this listing to current performance evaluation reports for these same departments.

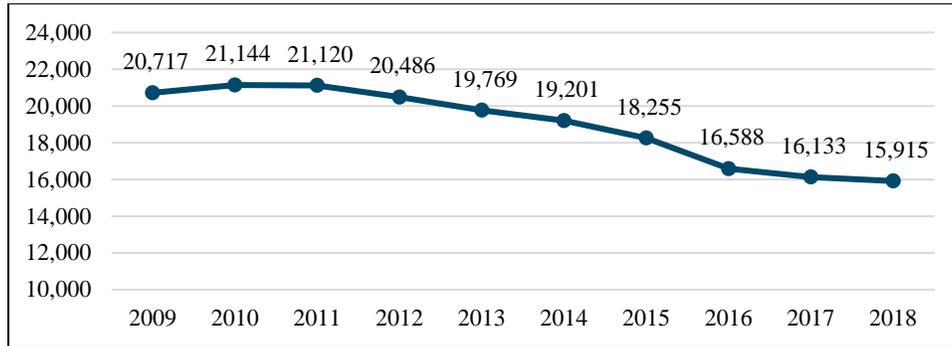
RELATED BOARDS

THE STATE EMPLOYEE SICK LEAVE BANK BOARD OF TRUSTEES

In 1988, the Tennessee General Assembly enacted legislation to form the State Employee Sick Leave Bank. The Sick Leave Bank provides sick leave to qualifying member employees who are unable to work as a result of personal illness, injury, disability, medical condition, or quarantine. Eligible employees donate four days of sick leave to join the Sick Leave Bank and, typically, one additional day each year. As of January 1, 2018, there were 15,915 active members in the Sick Leave Bank. See **Figure 1** on page 15.

⁵ Based on our professional judgment, the employees of DOHR, DHS, TDEC, and TDOT provided an adequate representation of employees across the executive branch. These agencies are in separate phases of the strategic human resources delivery initiative, and their employees encompass a wide variety of position classifications.

**Figure 1: State Employee Sick Leave Bank Membership
January 1, 2009, through January 1, 2018**



Source: Financial information provided by DOHR.

Established in Section 8-50-903, *Tennessee Code Annotated*, the seven-member Sick Leave Bank Board of Trustees provides rules and regulations for administration of the Sick Leave Bank, which includes determining if current members should be required to donate additional days of sick leave to maintain membership. Pursuant to Section 8-50-906(c), *Tennessee Code Annotated*, the Sick Leave Bank account must maintain a total balance of days for the equivalent of at least one day per member.

The Sick Leave Bank Application Process

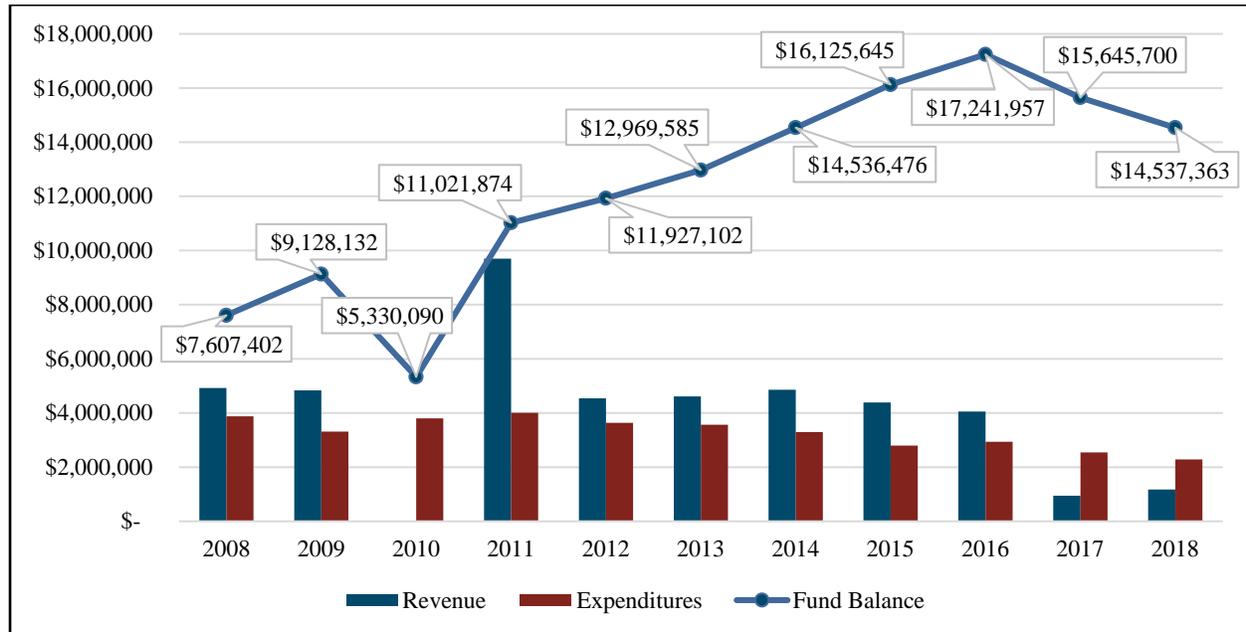
A Sick Leave Bank member may submit a Sick Leave Bank Withdrawal Request Application to the ER group of DOHR to receive a grant of sick leave from the bank. The application must be accompanied by a Medical Certification Form, which is submitted by the doctor or nurse overseeing the employee's care. DOHR's ER group reviews the application and certification form; additionally, the department's contracted medical consultant reviews medical records and offers consultation when the ER group has questions concerning medical issues. DOHR's Sick Leave Bank Administrator returns a Determination Letter, indicating the amount of leave awarded or if the application was denied. If the request is approved, the Agency Resource Center of DOHR contacts the Department of Finance and Administration to pay the granted sick leave from the bank. If the request is denied, the determination letter indicates the reason for the denial, and the employee may appeal the decision to the Sick Leave Bank Board of Trustees. From July 1, 2015, through May 31, 2018, only one employee appealed the decision to the Board of Trustees.

Monitoring the Sick Leave Bank Account

As an earned employee benefit, payable to an employee as salary or wages, sick leave has a measurable, monetary value. The Sick Leave Bank account draws revenue from employee-donated sick leave, which includes the four days of sick leave to initially join the Sick Leave Bank and the single day of sick leave annually to maintain membership. The Edison accounting system converts the donated leave to a monetary amount at the time of the donation, using an hourly rate based on the employee's salary at the time of the donation, plus the value of any benefits. Likewise, awarded grants of sick leave from the Sick Leave Bank are recorded as

expenditures. The monetary balance of the Sick Leave Bank account since July 1, 2008, is exhibited in **Figure 2**:

Figure 2: Sick Leave Bank Account Revenues, Expenditures, and Fund Balance by Fiscal Year July 1, 2008, through April 30, 2018



Source: Financial information provided by DOHR.

According to the Sick Leave Bank Administrator, the revenues for fiscal year ending June 30, 2010, were reported in fiscal year ending June 30, 2011, due to the transition of the state’s accounting system at that time, thereby creating distorted revenue reporting for those two fiscal years.

In the two most recent fiscal years, the Sick Leave Bank Board of Trustees elected to waive the assessment of one day of sick leave for current members to retain membership in the bank, thereby reducing revenues. Board members elected to waive the one-day assessment based on actuarial and financial analyses conducted by external, contracted advisors. These analyses indicated that the account was sufficiently funded in excess of the statutorily required minimum balance.

Since January 2016, DOHR’s Protected Leave Division, housed within the Office of the General Counsel, has been required to track the number of Sick Leave Bank applications that have been received and document whether each application was approved or denied. Between January 1, 2016, and May 7, 2018, employees submitted 2,009 Sick Leave Bank applications, and 1,571 were approved.

In the prior performance audit of the Department of Human Resources, dated December 2015, auditors noted the following finding:

The department did not track Sick Leave Bank activities, did not utilize the contracted medical professional to review medical certifications prior to granting decisions, did not know the minimum number of participants required to remain viable, and cannot explain the substantial increase in the Sick Leave Bank account.

We followed up on the deficiencies reported in the prior audit finding as part of our current audit work.

Audit Results

1. Audit Objective: Did the Sick Leave Bank Board of Trustees and DOHR provide oversight of Sick Leave Bank activities, including tracking Sick Leave Bank applications and decisions and monitoring the monetary balance of the Sick Leave Bank?

Conclusion: Based on our review, the Sick Leave Bank Board of Trustees and DOHR provided oversight of Sick Leave Bank activities, including tracking Sick Leave Bank applications and decisions and monitoring the account's monetary balance.

2. Audit Objective: Did the Sick Leave Bank Board of Trustees comply with applicable statute and best practices regarding administrative procedures, including

- maintaining disclosure of interest statements for board members;
- documenting board meeting activities;
- documenting board member attendance; and
- providing prior public notice of meetings?

Conclusion: With some exceptions, the board complied with applicable statute and best practices regarding administrative procedures. We determined that the board did not have a policy to maintain disclosure of interest statements and did not retain public notice documentation of its meetings. See **Observation 4** (page 28) and **Observation 5** (page 29).

Methodology to Achieve Objectives

To achieve our objectives related to the Sick Leave Bank Board of Trustees, we interviewed key personnel and board of trustee members to gain an understanding of the Sick Leave Bank. We also reviewed applicable statute, rules, policies, and procedures.

Audit Objective 1

We obtained actuarial reports and research studies of the Sick Leave Bank from DOHR. We reviewed the procedures used to track the Sick Leave Bank's account balance for the audit

period and reviewed Sick Leave Bank application and determination reports. We reviewed the Sick Leave Bank’s account balance, including revenues and expenditures, for the audit period.

Audit Objective 2

We obtained and reviewed the minutes of the board meetings to determine average attendance and meeting frequency. We reviewed DOHR’s and the state’s online calendar to determine if the public was notified of meetings. Based on our interviews with the Sick Leave Bank Administrator, we determined that the board did not have a policy to document board members’ disclosures of interests.

THE BOARD OF APPEALS

Prior to 2012, state employees could appeal disciplinary actions, dismissals, and demotions to the Civil Service Commission. The Civil Service Commission had a long appeals process that included several steps, numerous documents, and multiple hearings. To improve the appeals process, the General Assembly created Section 8-30-108, *Tennessee Code Annotated*, to establish a citizen member Board of Appeals to replace the Civil Service Commission. Preferred-service employees who have been dismissed, demoted, or suspended for three or more days can file an appeal concerning the appointing authority’s application of a law, rule, or policy that resulted in their personnel action.

Pursuant to Section 8-30-108, the board must have a minimum of nine members, and three members must be present to establish a quorum. The Governor may remove a member of the Board of Appeals who has missed three consecutive meetings. The board has an elected chair, and each member, upon request, receives reimbursement for necessary travel expenses. The prior performance audit, dated December 2015, noted that while the Board of Appeals’ process of handling appeals had become more efficient, the member attendance tracking process needed improvement.

The Appeal Process

The state’s appeal process consists of three steps, and the Board of Appeals only reviews appeals in the third and final step. The appeal process steps are outlined below:

- Step I** Allows an employee 14 days to file an appeal from the date of the action or the date the employee should have known of the action. The appeal is filed with the

Executive Service and Preferred Service Employees

Section 8-30-202, *Tennessee Code Annotated*, divided full-time, executive branch employees into two categories.

Executive Service Employees are full-time employees with significant authority and meaningful input on the development and implementation of policies, such as the highest-ranking members of a department; Governor-appointed officials; and lawyers representing the State of Tennessee.

Preferred Service Employees are regular, full-time employees not covered by executive service. Full-time employees become a member of preferred service after successful completion of any requisite probationary periods.

appointing authority, and a decision by the appointing authority must be made within 15 days of receipt of the Step I appeal.

Step II Allows an employee 14 days to file an appeal of the Step I decision with the Commissioner of the Department of Human Resources, who must make a decision within 30 days of receipt of the Step II appeal.

Step III Allows an employee or agency 14 days to file an appeal of the Step II decision with the Board of Appeals, which then conducts a hearing. An administrative law judge (ALJ) assists with the hearing to ensure that laws are followed while the agency and employee present their cases and evidence before the board. The ALJ neither conducts the hearing nor provides a recommendation for the order.

Between 2012 and 2017, the Board of Appeals reviewed 325 Step III appeals.

In a Step III appeal hearing, the employee and state agency each draft a prospective final order for the Board of Appeals to consider. During the hearing, the two parties present their versions of the prospective final order to the board, and, after the hearing, the Board of Appeals selects one of the orders, makes any necessary revisions, and submits the draft to the Board Administrator for processing. The Board Administrator types the final order, including the edited information, obtains the necessary signatures,⁶ and files the final order with the Secretary of State. Occasionally, the Board Administrator orders a transcript from the court reporter to ensure the accuracy of an especially complicated final order.

In some instances, the employee or state agency may file for a Step III appeal, but prior to the hearing, the parties reach a compromise or agree to forgo the appeal hearing. For cases that do not proceed to a Step III appeal hearing, the employee and state agency submit an agreed-upon final order to the Board Administrator. Even though there was not a Step III appeal hearing, the Board Administrator files the final order with the Secretary of State.

Pursuant to Section 8-30-318, *Tennessee Code Annotated*, the Board of Appeals must issue its final decision to uphold, overturn, or modify the previous decision within 120 days after the date of the filing of the Step III appeal. According to the Board of Appeals Administrator, the board interprets this requirement to mean that a final order must be filed with the Secretary of State within 120 days.

Because each appeal is unique, the Board of Appeals may fail to meet the statutory deadline for final decisions for various reasons. According to the Board of Appeals Administrator, these reasons include the following:

- the state agency or employee did not bring a prepared order to the hearing;
- the court reporter did not provide a transcript quickly;
- there was difficulty scheduling a hearing with an administrative law judge;

⁶ The General Counsel for DOHR has signature authority for the Board of Appeals; therefore, either each member of the Board of Appeals or the General Counsel may sign a final order.

- the case was settled, withdrawn, or dismissed before the hearing, but the parties did not submit a final order to the board; and
- board members were unable to attend a scheduled meeting, causing it to be rescheduled after the deadline.

Audit Results

1. Audit Objective: Did the Board of Appeals issue a final decision on Step III appeals within 120 days of receipt?

Conclusion: Based on our review, with some exceptions, the Board of Appeals met its statutory responsibility to issue a final decision on Step III appeals within 120 days of receipt. See **Observation 2** (page 21).

2. Audit Objective: Did the Board of Appeals comply with applicable statute and best practices regarding administrative procedures, including

- maintaining disclosure of interest statements for board members;
- documenting board meeting activities;
- documenting board member attendance; and
- providing prior public notice of meetings?

Conclusion: With some exceptions, the board complied with applicable statute and best practices regarding administrative procedures. The board did not maintain conflict of interest documentation for one of its members and did not always give prior public notice of meetings. See **Observation 4** (page 28) and **Observation 5** (page 29).

Methodology to Achieve Objectives

To achieve our audit objectives related to the Board of Appeals, we met with key personnel to gain an understanding of the appeals process and reviewed related policies, procedures, and statutes.

Audit Objective 1

We reviewed a listing of all 164 Step III appeals that were submitted to the board between July 1, 2015, and April 30, 2018, including the result, the date the appeal was submitted, the hearing date, and the date the final order was filed. Eleven (11) appeals had not passed the 120-day requirement; therefore, we tested 153 appeals to determine if the final order was issued during the required timeframe. Additionally, 16 appeals were settled before the hearing was scheduled; therefore, we tested 137 appeals to determine if the hearing was scheduled during the required timeframe. We performed analytical procedures to determine the average length of time between when an appeal was received and when the final decision was issued. We also

performed testwork to determine if the board issued final decisions within the statutorily required timeframe.

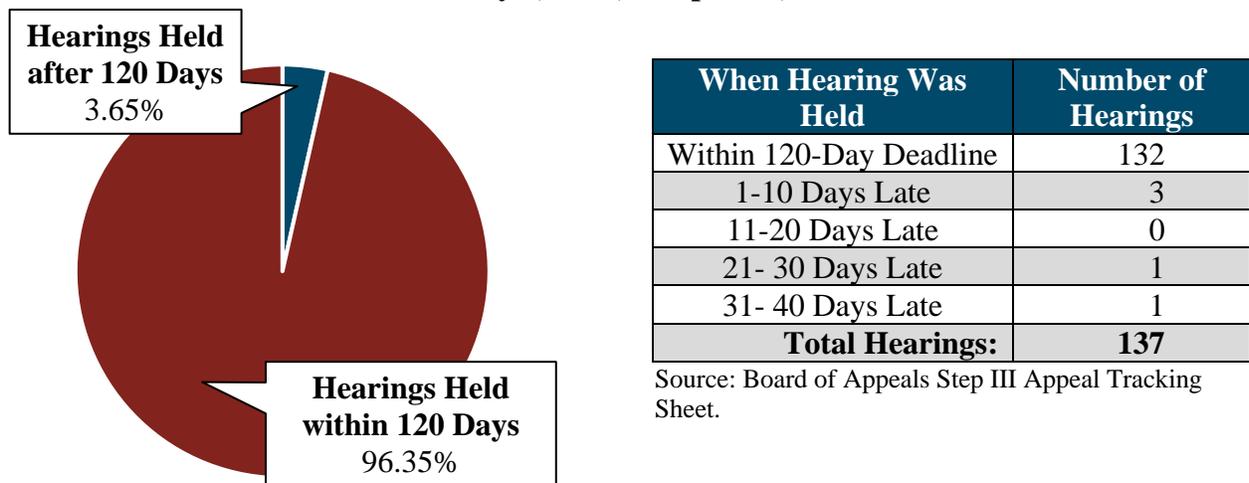
Audit Objective 2

We observed and reviewed attendance records for the board meetings to determine average attendance and meeting frequency. We interviewed key personnel to determine how appeal hearings were documented. We reviewed DOHR’s and the state’s online calendar and the Board of Appeals website to determine if the public was notified of the meetings. Through interviews with key personnel, we determined that the board did not maintain disclosure of interest forms and did not have a disclosure of interest policy.

Observation 2 – The Board of Appeals should always issue final decisions within 120 days as required by statute

As part of our review of the Board of Appeals, we examined 137 Step III appeals received between July 1, 2015, and April 30, 2018, that were scheduled for hearings to determine if the board scheduled the hearing within 120 days of receiving the appeal. We found that for 5 of 137 appeals (3.65%), the hearing was held between 126 days and 154 days after the Step III appeal was received, as demonstrated in **Figure 3**.

Figure 3: Step III Appeal Hearings Held From July 1, 2015, to April 30, 2018



However, to be considered a final decision, the Board of Appeals must file a final order with the Secretary of State. We reviewed 153 Step III appeals received during the audit period to determine if the board issued a final order within 120 days of receiving the appeal. For 15 of 153 appeals we reviewed (9.80%), the Board Administrator did not file a final order within 120 days after the Step III appeal was received, including one final order that had still not been filed, 444

days after the Step III appeal was received as of April 30, 2018. Our summary of filed final orders is presented in **Figure 4**.

**Figure 4: Final Orders Filed with the Secretary of State
From July 1, 2015, through April 30, 2018**



When Final Order Was Filed	Number of Final Orders
Within 120-Day Deadline	138
1-30 Days Late	11
30-90 Days Late	2
90-120 Days Late	0
Over 120 Days Late	2
Total Final Orders:	153

Source: Board of Appeals Step III Appeal Tracking Sheet.

Based on our review, the board has made significant improvement in meeting statutory deadlines since the prior audit, and the administrator has expressed ideas to further improve meeting deadlines. The Board of Appeals Administrator should continue to work with board members, agencies, court reporters, and employees to schedule hearings and file final orders within the required timeframe. The administrator should also ensure that the employee and state agency are informed that they are expected to bring a proposed final order to the hearings, and that even if the case is settled, dismissed, or withdrawn before the hearing, the parties are expected to provide an order for the board’s consideration.

THE EMPLOYEE SUGGESTION AWARD BOARD

Section 4-27-101, *Tennessee Code Annotated*, established the Employee Suggestion Award (ESA) Program to reward, with cash or honorary awards, those employees of state government whose adopted suggestions result in substantial savings or improvement in state operations. The program’s board is composed of the commissioners of the Department of Finance and Administration, the Department of Human Resources, and the Department of General Services, as well as the executive director of the Fiscal Review Committee and one member appointed by the Tennessee State Employees Association. A Department of Human Resources employee serves as the Employee Suggestion Award Board Administrator. After an agency reviews and implements a suggestion, the board is responsible for administering meetings, establishing criteria for making awards, and approving each award. Prior to May 21, 2018, there were no statutory requirements for board meeting frequency, but internal policy indicated the ESA Board should meet quarterly. On May 21, 2018, the Governor signed legislation that required quarterly meetings.

Not all employees in state government can submit suggestions for award consideration. Employees whose suggestions solve a problem the employee was tasked to solve are ineligible for an award. Additionally, employees who serve on state boards and commissions and those whose duties primarily concern administrative planning, evaluation, and research are excluded from the ESA Program; this includes the following levels of management:

- Level I** Governor's staff, department commissioner, or equivalent;
- Level II** Assistant or deputy commissioner, assistant to commissioner, major fiscal and administrative policy department staff, or equivalent;
- Level III** Director or division chief, including the full line division chief to a statewide program; the chief of division supervising several line service units, or equivalent; and
- Level IV** Assistant to director or division chief, section chief, head of major departmental function, or equivalent.

The Two Phases of the ESA Program

The ESA Program is divided into two key phases:

Phase I: The employee submits the suggestion to the agency. The agency reviews the suggestion and decides if it should be implemented.

Phase II: If the suggestion is fully implemented, the agency submits the suggestion to the ESA Board. The board reviews the suggestion and its impact and determines if an award should be made.

The ESA Program Process

The award process is divided between two components: the review and implementation process at the agency and the review and awarding process with the ESA Board; the ESA Board is only involved once the agency reviews and implements a suggestion. The process begins when the employee submits a suggestion to the appointed Agency Coordinator. The Agency Coordinator then reviews the suggestion to determine if the employee is eligible for an award. If the employee is eligible, the Agency Coordinator routes the suggestion to a designated Agency Evaluator, who gathers facts to make a recommendation for implementation or non-implementation of the suggestion. The Agency Evaluator is selected specifically to review each suggestion to ensure that he or she has the necessary qualifications and skills to evaluate the suggestion. Once evaluated, the appointed Agency Review Team meets to determine if the suggestion will be implemented. If the Agency Review Team decides to implement the suggestion, the agency must implement the suggestion fully for the employee to be eligible to receive an award.

The ESA Board only becomes involved in the process after the suggestion is fully implemented and the Agency Coordinator submits the implemented suggestion to the Employee Suggestion Award Board Administrator. The ESA Board Administrator provides information about the suggestion to the ESA Board, and the ESA Board meets to issue a final decision on the suggestion. The ESA Board Administrator communicates the decision to the Agency Coordinator who is responsible for notifying the employee.

Figure 5: ESA Program Process

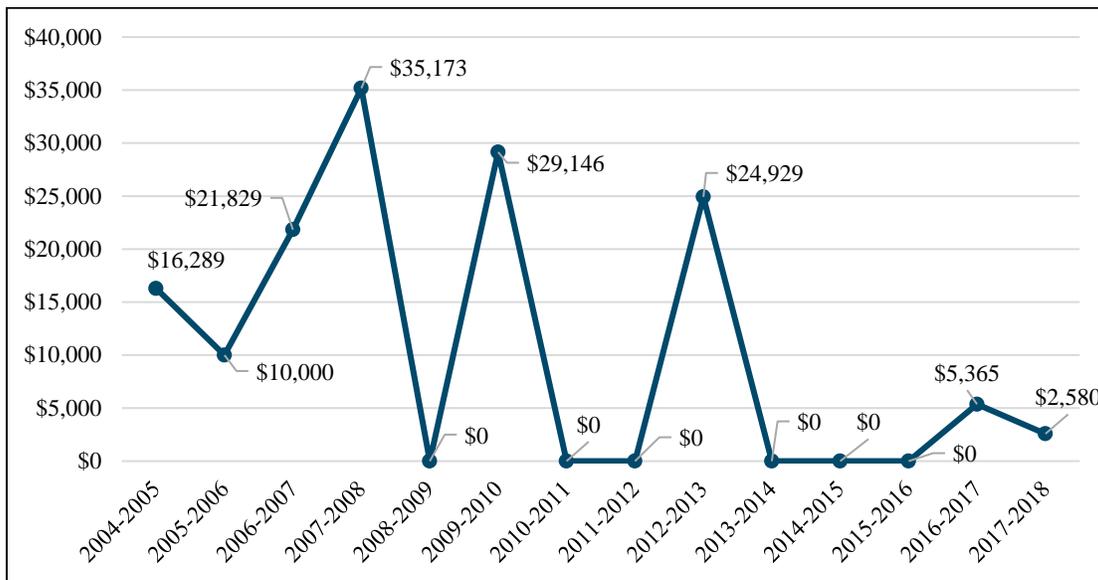


Award Amounts

During the audit period,⁷ the maximum cash award allowed was 10% of the first year’s estimated savings or \$10,000, whichever is less. For suggestions with a value less than \$250, the cash award was \$25. The board can also elect to not provide a cash award or provide a letter of merit and recognition. Since July 1, 2015, the ESA Board reviewed eight suggestions. Of these eight suggestions, the board issued a monetary award for five suggestions and no monetary award for the remaining three suggestions, as demonstrated in **Table 1** on page 27.

Funding for each award comes from the agency or program that received the benefits of the savings. Since its inception in 2004, through January 31, 2018, the State Employee Suggestion Award Program has awarded \$145,311 to state employees. The total amount awarded each year since the inception of the ESA Program can be seen in **Figure 6** below.

**Figure 6: ESA Program Awards by Fiscal Year
July 1, 2004, through April 30, 2018**



Source: ESA Board Records.

⁷ Our audit period was July 1, 2015, to May 31, 2018. Chapter 1038 of the *Public Acts of 2018* altered components of the ESA Program. These changes became effective on May 21, 2018.

Legislative Changes in the Program

In order to increase employee participation in the program and further incentivize cost-saving suggestions, the General Assembly enacted legislation that increased the percent of savings awarded from 10% to 15% and increased the maximum award allowed from \$10,000 to \$100,000. This statute also requires that awards in excess of \$50,000 be paid in installments over three years with the stipulation that employees who leave state service forfeit any remaining installments of the award. Finally, the statute also requires quarterly meetings of the ESA Board. The Governor signed the bill into law on May 21, 2018.

Audit Results

1. Audit Objective: Did the ESA Board ensure the timeliness of award decisions?

Conclusion: Based on our review, we determined that the ESA Board did not meet quarterly, as required by internal policy, and therefore did not always issue final decisions on suggestions within 90 days.⁸ See **Observation 3** (page 26).

2. Audit Objective: Did the ESA Board comply with applicable statute and best practices regarding administrative procedures, including

- maintaining disclosure of interest statements for board members;
- documenting board meeting activities;
- documenting board member attendance; and
- providing prior public notice of meetings?

Conclusion: With some exceptions, the ESA Board complied with applicable statute and best practices regarding administrative procedures. We determined that the ESA Board did not have policies in effect for members to document disclosures of interest and did not give prior public notice of meetings. See **Observation 4** (page 28) and **Observation 5** (page 29).

Methodology to Achieve Objectives

To achieve our audit objectives related to the ESA Board, we reviewed policies and procedures for the board and interviewed key personnel.

Audit Objective 1

We reviewed the financial awards made by the Employee Suggestion Award Board and reviewed the associated tracking sheets for each award issued from July 1, 2015, to April 30,

⁸ During the period of our review, from July 1, 2015, to April 30, 2018, there was no requirement for the ESA Board to issue an award determination within 90 days. We established a benchmark of 90 days to determine award decision timeliness based on our professional judgement.

2018. We used information from the tracking sheets to perform analytical procedures to determine the average time for an award to be processed. We analyzed the timeliness of final decisions by comparing against a benchmark of 90 days after the board received the suggestion. Since internal policy dictates that the board should meet quarterly to review suggestions, we established a benchmark of 90 days. Based on our professional judgement, 90 days serves as an adequate equivalent to a yearly quarter and a reasonable amount of time to schedule and conduct a board meeting.

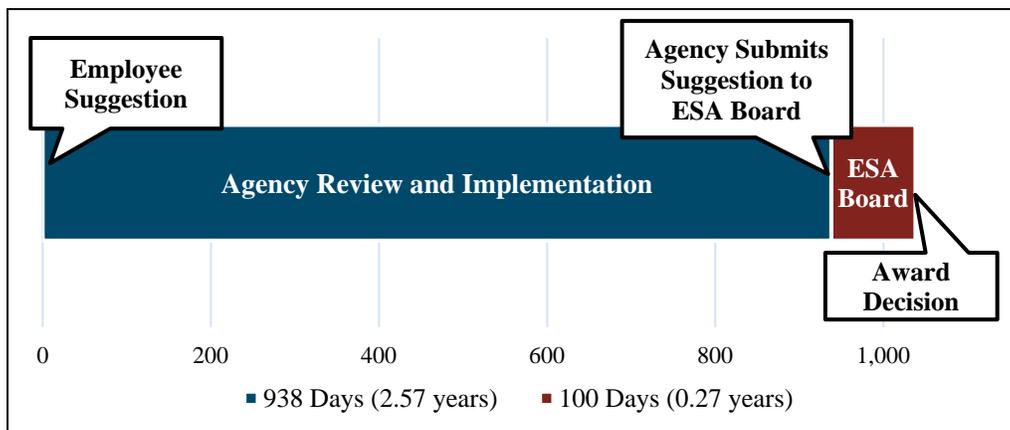
Audit Objective 2

We obtained and reviewed board meeting minutes and discussed the requirements with the ESA Board Administrator to determine if the board met its obligations for member composition, quorum, and meeting frequency. We reviewed the Department of Human Resources’ online calendar and inquired with the ESA Board Administrator to determine if the public received prior notification of board meetings. Based on our interviews with key personnel, we determined that the board did not maintain disclosure of interest forms and did not have a disclosure of interest policy.

Observation 3 – As the Employee Suggestion Award Board revises policies and procedures to comply with revised statute, special consideration should be given to reducing the total award process time

From July 1, 2015, through April 30, 2018, the ESA Board reviewed eight employee suggestions. The board issued its determination for these eight suggestions an average of 1,038 days (2.84 years) after the employee made the suggestion, with a range of 327 days (0.9 years) to 2,043 days (5.6 years), but the board was not involved in the process for most of that time. We reviewed each of the two components of the ESA process, agency review and ESA Board review, separately to determine the cause for the lengthy award process. See **Figure 7** below.

**Figure 7: Average Suggestion Process Time in Days
July 1, 2015, through April 30, 2018**



Source: ESA Board Minutes and Suggestion Tracking Sheets.

Agency Review and Implementation

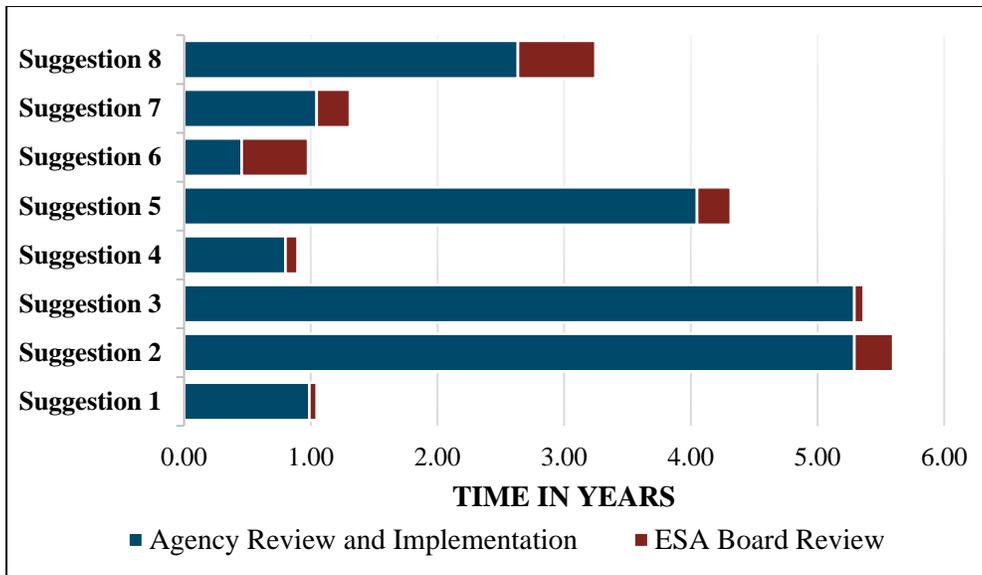
Based on our review, we determined that the length of time between an employee’s suggestion and an award decision was primarily due to the time that an agency takes to review and implement the suggestion and then submit the suggestion for ESA Board consideration. Specifically, before the ESA Board received the employee’s suggestion, an average of 938 days (2.57 years) had passed since the suggestion was made, with a range of 166 days (0.45 years) to 1,931 days (5.29 years). See **Figure 7** on page 26.

**Table 1: ESA Program Awards
For the Period of July 1, 2015, through April 30, 2018**

Suggestion	Description	Amount of Award
Suggestion 1	Procedure to analyze radiation	\$ 2,300.00
Suggestion 2	Reduce paper use	56.42
Suggestion 3	Reduce armored car use	1,260.00
Suggestion 4	Cement treating process	1,749.00
Suggestion 5	Change postage process	2,580.00
Suggestion 6	Speech recognition software	No Monetary Award
Suggestion 7	Lobby sign-in kiosk	No Monetary Award
Suggestion 8	Dimmer switches	No Monetary Award
	Total:	\$ 7,945.42

Source: ESA Program Tracking Sheets and ESA Board Meeting Minutes.

**Figure 8: Individual Suggestion Process Time in Years
July 1, 2015, through April 30, 2018**



Source: ESA Board Minutes and Suggestion Tracking Sheets.

ESA Board Review and Final Decision

We found that the ESA Board reviewed the suggestions an average of 100 days after the agency submitted the suggestion to the board, with a range of 21 to 223 days. See **Table 1** and **Figure 8** on page 27. Policy requires the ESA Board to meet quarterly, but we noted that the ESA Board did not meet quarterly even when awards were ready for review. Based on discussion with the ESA Board Administrator, she only scheduled ESA Board meetings when there were multiple awards in order to use board members’ time efficiently. Pursuant to Chapter 1038 of the *Public Acts of 2018*, quarterly meetings became statutorily required, effective on May 21, 2018. As DOHR and the board revise policies and procedures to comply with the revised statute, special consideration should be given to reducing the total process time.

Observation 4 – Members of the Sick Leave Bank Board of Trustees, the Board of Appeals, and the Employee Suggestion Award Board should document disclosures of interest

Board members and other government leaders provide disclosure of interest statements to promote governmental transparency and to prevent the appearance of conflicts of interest. As part of our review of the Sick Leave Bank Board of Trustees, the Board of Appeals, and the ESA Board, we requested the disclosure of interest statements for each member of these boards. We found that one board required a documented disclosure of interest statement and two boards did not. See **Table 2** below:

**Table 2: Disclosure of Interest Requirements for Boards
July 1, 2015, through April 6, 2018**

Board Name	Disclosure of Interest Requirements	
SLB Board of Trustees	Not Required	✗
Board of Appeals	Required	✓
ESA Board	Not Required	✗

Source: Policies and information provided by DOHR.

Pursuant to Executive Order 20, *An Order Concerning Ethics Policy and Disclosures by the Executive Branch*, board members that also serve as commissioners of state agencies or members of the Governor’s cabinet have statements of disclosures of interests filed with the state. The Sick Leave Bank Board of Trustees and ESA Board both include commissioners, but these forms are not specific to board-related matters and are not sufficient to determine potential conflicts of interests.

While the Board of Appeals does require members to complete a conflict of interest statement, the Board Administrator did not adequately maintain and monitor these statements, and one member participated in meetings without a documented disclosure. We were not aware of any instance in which a board member participated in a meeting or hearing that represented a conflict of interest, and, subsequent to our request, DOHR created disclosure forms for the Sick Leave Bank Board of Trustees and the ESA Board and took action to collect signed forms from board members.

Observation 5 – The Sick Leave Bank Board of Trustees, the Board of Appeals, and the Employee Suggestion Award Board should provide public notice of board meetings

Background

DOHR provides administrative staff for the Board of Appeals, the ESA Board, and the Sick Leave Bank Board of Trustees. In providing administrative support for these boards, Board Administrators should provide public notice of all board meetings, pursuant to Section 8-44-103, *Tennessee Code Annotated*. Public notices promote transparency and citizen participation in the administration of government. According to DOHR management, Board Administrators should use the public calendar available on the state’s website to notify the public of board meetings.

From August 2017 through January 2018, the state transitioned to a new online calendar. During the transition, previous public notifications of meetings for DOHR’s related boards were not maintained; therefore, we could not determine whether the public was notified of certain board meetings that were held prior to January 2018.

Sick Leave Bank Board of Trustees

During our review, we found that the public was properly notified of two Sick Leave Bank Board of Trustees meetings held on January 8, 2018, and May 14, 2018. However, we were unable to determine if the public was properly notified of five meetings held between July 1, 2015, and December 31, 2017, due to the calendar change.

The Board of Appeals

Due to the calendar transfer, we could not determine if DOHR provided prior public notice of the six Board of Appeals meetings that were held between July 1, 2015, and December 31, 2015, and the 11 meetings that were held between January 1, 2017, and September 30, 2017.

Based on our review of an archived online calendar of scheduled meetings of the Board of Appeals for 2016, we determined that DOHR provided prior public notice of 13 meetings held between January 1, 2016, and December 31, 2016. DOHR did not provide public notice of 1 meeting; additionally, DOHR did not remove the prior public notice of 11 meetings that were subsequently canceled.⁹ A summary of the 2016 meetings is illustrated in **Table 3** on page 30.

⁹ Section 8-44-103, *Tennessee Code Annotated*, requires governing bodies to “give adequate public notice” of regular and special meetings. Statute does not provide requirements for communicating canceled meetings.

**Table 3: Public Notice of Board of Appeals Meetings via Website
January 1, 2016, through December 31, 2016**

Publicly Notified Meeting Date	Date Meeting Was Held	
1/15/2016	1/15/2016	✓
1/25/2016	Not Held	■
2/16/2016	Not Held	■
2/26/2016	Not Held	■
3/11/2016	Not Held	■
3/21/2016	3/21/2016	✓
4/8/2016	4/8/2016	✓
4/20/2016	4/20/2016	✓
No Notification	4/28/2016	✗
5/13/2016	Not Held	■
5/26/2016	5/26/2016	✓
6/10/2016	Not Held	■
6/22/2016	6/22/2016	✓
7/15/2016	Not Held	■
7/29/2016	7/29/2016	✓
8/12/2016	8/12/2016	✓
8/26/2016	Not Held	■
9/9/2016	9/9/2016	✓
9/23/2016	Not Held	■
10/7/2016	Not Held	■
10/19/2016	10/19/2016	✓
11/3/2016	Not Held	■
11/17/2016	11/17/2016	✓
12/7/2016	12/7/2016	✓
12/16/2016	12/16/2016	✓

- ✓ Meeting held with prior public notice
- Prior public notice given, but meeting was not held
- ✗ Meeting held without prior public notice

Source: Board of Appeals' meeting minutes and archived online calendar.

We determined that DOHR notified the public of three Board of Appeals meetings that were held between January 1, 2018, and March 31, 2018; however, DOHR did not provide public notice of one meeting, and DOHR did not remove the prior public notice of one meeting that was canceled, as illustrated in **Table 4**.

**Table 4: Public Notice of Board of Appeals Meetings via Calendar
January 1, 2018, through March 31, 2018**

Publicly Notified Meeting Date	Date Meeting Was Held	
January 12, 2018	Not Held	■
January 19, 2018	January 19, 2018	✓
January 26, 2018	January 26, 2018	✓
February 9, 2018	February 9, 2018	✓
No Public Notification	March 9, 2018	✗

- ✓ Meeting held with prior public notice
- Prior public notice given, but meeting did not occur
- ✗ Meeting held without prior public notice

Source: Board of Appeals' meeting minutes and the state's public online calendar.

The Employee Suggestion Award Board

Based on our review, DOHR did not notify the public of the two ESA Board meetings held between July 1, 2015, and May 31, 2018.

**Table 5: Public Notice of ESA Board Meetings
July 1, 2015, through March 31, 2018**

Publicly Notified Meeting Date	Date Meeting Was Held	
No Public Notification	March 6, 2017	✗
No Public Notification	January 31, 2018	✗

- ✗ Meeting held without prior public notice

Source: ESA Board meeting minutes and interviews with DOHR personnel.

APPENDICES

APPENDIX 1: DEPARTMENT OF HUMAN RESOURCES FINANCIAL INFORMATION FOR FISCAL YEARS ENDING JUNE 30, 2016; JUNE 30, 2017; AND JUNE 30, 2018

DOHR's business unit code in Edison is 31901.

Budget and Actual Expenditures and Revenues Fiscal Year Ending June 30, 2016

Department of Human Resources		Recommended Budget [*]	Actual Expenditures and Revenues [†]
Expenditures	Payroll	\$ 9,225,600	\$ 8,206,600
	Operational	2,656,700	2,944,700
	Total	\$ 11,882,300	\$ 11,151,300
Revenues	State	\$ 0	\$ 0
	Federal	0	0
	Other [‡]	11,882,300	11,151,300
	Total	\$ 11,882,300	\$ 11,151,300

*Source: Tennessee State Budget, Fiscal Year 2015-2016.

†Source: Tennessee State Budget, Fiscal Year 2017-2018.

‡Other Revenues include interdepartmental transfers and fees collected for current services.

Budget and Actual Expenditures and Revenues Fiscal Year Ending June 30, 2017

Department of Human Resources		Recommended Budget [*]	Actual Expenditures and Revenues [†]
Expenditures	Payroll	\$ 9,919,700	\$ 9,511,200
	Operational	2,640,200	3,280,000
	Total	\$ 12,559,900	\$ 12,791,200
Revenues	State	\$ 0	\$ 0
	Federal	0	0
	Other [‡]	12,559,900	12,791,200
	Total	\$ 12,559,900	\$ 12,791,200

*Source: Tennessee State Budget, Fiscal Year 2016-2017.

†Source: Tennessee State Budget, Fiscal Year 2018-2019.

‡Other Revenues include interdepartmental transfers and fees collected for current services.

**Budget and Estimated Expenditures and Revenues
Fiscal Year Ending June 30, 2018¹⁰**

Department of Human Resources		Recommended Budget [*]	Estimated Expenditures and Revenues [†]
Expenditures	Payroll	\$ 10,126,200	\$ 10,759,300
	Operational	2,430,200	2,837,200
	Total	\$ 12,556,400	\$ 13,596,500
Revenues	State	\$ 0	\$ 0
	Federal	0	0
	Other [‡]	12,556,400	13,596,500
	Total	\$ 12,556,400	\$ 13,596,500

*Source: Tennessee State Budget, Fiscal Year 2017-2018.

†Source: Tennessee State Budget, Fiscal Year 2018-2019.

‡Other Revenues include interdepartmental transfers and fees collected for current services.

¹⁰ During our audit work, fiscal year ending June 30, 2018, had not been closed; therefore, we presented the estimated revenues and expenditures for that time period.

APPENDIX II: BOARD MEMBERSHIP

2018 Sick Leave Bank Board of Trustees

Board Member	Organization or Position Representing
Commissioner Rebecca Hunter	Department of Human Resources
Commissioner Larry Martin	Department of Finance and Administration
State Treasurer David Lillard	Department of the Treasury
Krista Lee	Fiscal Review Committee
Dr. Alisa Cade	Tennessee State Employees Association, Department of Health
Vicki Burton	Tennessee State Employees Association, Department of Children's Services
Cynthia Minnick	Tennessee State Employees Association, Department of Finance and Administration

Source: Department of Human Resources as of June 8, 2018.

2018 Board of Appeals Members

Board Member	Organization or Position Representing
Barbara Clark	Law Office of Barbara W. Clark, Knoxville
James Crumlin	Bone McAllester Norton PLLC, Nashville
LeeAnn Foster	Team Foster HR Strategy, Knoxville
Rebecca Harmon	DeRoyal Industries, Inc.
Bland Justis	Food City, Greeneville
James McKee	Farmers Insurance Group of Companies, Brentwood
Brian Ragan	Reynolds, Potter, Ragan & Vandivort PLC Dickson
Jonathan Steen	Redding Steen & Staton, PC, Jackson
Rita Roberts-Turner	Nashville Metropolitan Transit Authority
Cynthia Thompson	The Thompson HR Firm, LLC, Memphis
Belinda Sharp	Ernst & Young, Knoxville
Cynthia Wyrick	Ogle, Wyrick & Associates, P.C., Sevierville
Jennifer Lankford	Thompson Burton PLLC, Franklin

Source: Department of Human Resources as of June 8, 2018.

2018 Employee Suggestion Award Board Members

Board Member	Organization or Position Representing
Commissioner Rebecca Hunter	Department of Human Resources
Commissioner Larry Martin	Department of Finance and Administration
Commissioner Bob Oglesby	Department of General Services
Krista Lee	Fiscal Review Committee
Chan Humbert	Tennessee State Employees Association

Source: Department of Human Resources as of June 8, 2018.