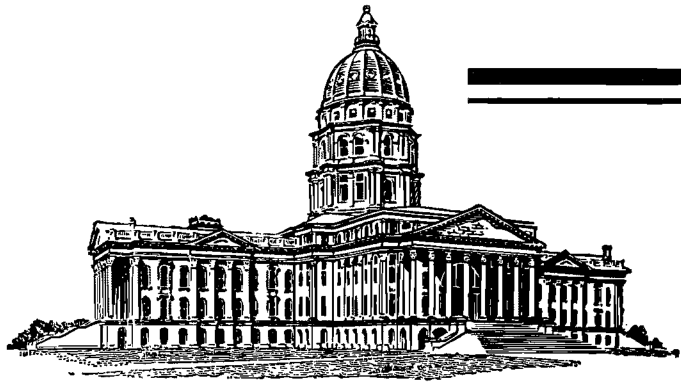

PERFORMANCE AUDIT REPORT

Analyzing the Performance Evaluation System In Kansas

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
January 1984

84-27

PERFORMANCE AUDIT REPORT

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OBTAINING AUDIT INFORMATION

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SUMMARY OF LEGISLATIVE POST AUDIT'S FINDINGS

The current evaluation system was implemented in fiscal year 1981 to provide a more objective appraisal of employees' performance. It was designed to help document job responsibilities and expected performance levels, and to provide the basis for rewarding merit increases. The purpose of this audit was to assess the system's effectiveness in three areas. The results are summarized below.

1. **How effective is the performance evaluation system at distinguishing between different levels of performance?** The auditors found that the system is well designed and capable of distinguishing between different levels of performance, but that several problems with the way it is administered limit its effectiveness. Performance standards often are not written so that they can be objectively measured, ratings often are not adequately justified, and performance improvement goals are rarely used. Closer monitoring of the system would help address these problems.

2. **To what extent is the performance evaluation system consistently applied?** The performance evaluation system is not being uniformly applied, partly because of training inadequacies but also because of widely differing agency policies on rating employees. Some agencies restrict high ratings, while others do not. Such policy differences have contributed to the wide variations among agencies in the percent of employees rated at the higher levels. Among the six agencies examined in the audit, for example, the percentage of employees rated "above standard" and "outstanding" ranged from 31 percent to 93 percent.

3. **How effective is the performance evaluation system in reinforcing good performers and either strengthening poor performers or removing them from the State system?** The system appears to work well at handling poor performers. On the whole the reasons for poor ratings were well documented, evaluations were conducted more frequently, and supervisors appeared to be making an effort to improve employees' performance. However, after two years with no merit pay increases, the system's effectiveness at reinforcing good performers has diminished. Survey comments showed that employees are disgruntled over the lack of reward and recognition that they felt the system promised.

The report presents two options for the Legislature to consider. First, if the evaluation system is to remain a merit-based system, the Legislature should consider consistently funding it, at least for employees rated "above standard" and "outstanding." Second, the Legislature may want to separate merit pay from the evaluation system and reward employees in other ways. If the system is not separated but remains unfunded , it may lose its credibility as a merit-based system and lose any power it has as a motivator.

The report also makes a number of recommendations to the Department of Administration and its Division of Personnel Services to improve employee evaluations.

ANALYZING THE PERFORMANCE EVALUATION SYSTEM IN KANSAS

The State's current performance evaluation system was implemented in fiscal year 1981 in conjunction with a new merit-based pay plan. Under the previous system, employee evaluations were perfunctory and merit raises were automatic. Thus, the evaluation system gave little incentive for improved performance. The new evaluation system was designed to help document job expectations and performance levels and to provide the basis for rewarding merit increases.

The merit portion of the system was funded only once--in fiscal year 1982. Because of revenue shortfalls, merit pay originally budgeted for fiscal year 1983 was frozen, and no merit money was budgeted for fiscal year 1984. Employees continue to be evaluated under the performance appraisal system, but there is growing dissatisfaction over the lack of merit funding.

At its meeting on September 13, 1983, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit of the employee performance appraisal system. The audit was to address three main questions: How effective is the performance evaluation system in identifying different levels of performance? How consistently is the system being applied? And how well does the system reinforce good performers and either improve poor performers or remove them from State employment?

The audit work concentrated on six State agencies, and included on-site reviews of personnel files and employee evaluations, a survey administered by the auditors to approximately 500 State employees, and interviews with upper-level agency managers. The six agencies were as follows: the Corporation Commission, the Kansas Public Employees Retirement System, and the Departments of Transportation, Human Resources, Economic Development, and Education.

How Effective Is The Performance Evaluation System At Distinguishing Between Different Levels of Performance?

The current evaluation system was implemented in fiscal year 1981 to provide a more objective appraisal of employees' performance. A Department of Administration task force commissioned in 1977 found that the old system did not evaluate actual performance or define what duties were required.

To correct this situation and to comply with federal regulations requiring evaluations, the Department's Division of Personnel Services developed and the Legislature approved a system requiring employees and supervisors to jointly develop a list of major duties and responsibilities at the beginning of the evaluation period.

Under this system, performance standards have to be developed for each major responsibility. Each responsibility must be weighted according to its importance, or the percent of time spent on that task. The standards are to be written in specific and measurable terms so that, at the end of the evaluation period, the employee's performance can be objectively rated against them. Employees can receive one of five evaluation ratings: unsatisfactory, below standard, standard, above standard, and outstanding.

Personnel regulations now require annual evaluations of permanent employees. In addition, new employees are to be evaluated twice during the first year; once at the end of the six month probationary period, and again after the second six months. Regulations also require that performance evaluations be completed only for classified State employees, but the Governor's policy generally has been to require evaluations for all unclassified employees in executive agencies as well.

The auditors concluded that the current system appears to be well designed and, if used as intended, is capable of distinguishing between different levels of performance. However, as the following sections of the report explain, a review of actual evaluations in personnel files revealed that performance standards were oftentimes not written in specific or measurable terms, and they generally did not differentiate between levels of performance. Further, ratings above standard were often not adequately justified, and performance improvement goals were almost never provided. Closer monitoring of agencies' implementation of the system would help ensure that the evaluation system becomes more effective.

Performance Standards Themselves Appeared to be Reasonable and Logical, But They Were Not Always Specific or Measurable

The auditors' review of personnel files covered 97 employees in the six agencies. Virtually all the standards on the forms examined by the auditors appeared to be reasonable and logical when compared with job descriptions for those positions. However, they were sometimes not written in measurable terms, and the specificity varied widely between departments and supervisors. A standard not written in measurable terms is more difficult to rate objectively and reliably. For example, the level of performance for the standards, "Review staff correspondence for accuracy and content," and "Compose and type correspondence, type letters and memoranda," cannot be readily measured. To the greatest degree possible, standards should measure the expected quality, quantity, and timeliness of each major job responsibility.

The auditors also found that 77 of the 97 evaluations reviewed did not have separate standards established for different levels of performance. Thus, employees may not know how well they must perform their jobs to be performing at the "standard," "above standard," or "outstanding" levels. By contrast, the following example, taken from an employee's evaluation form, allows the level of performance to be easily and objectively rated: "Documents submitted with: 4-6 errors--standard, 1-3 errors--above standard, no errors--outstanding." Although some tasks do not lend themselves to such clearcut distinctions, differentiations between performance levels are an important aspect of the evaluation system's design.

Above Standard Performance Ratings Were Not Clearly Justified In Nearly Half the Evaluations Reviewed, and Performance Improvement Goals Were Almost Never Provided

The rating given for each major responsibility is to be justified in the "Actual Work Performed" section of the evaluation form. The supervisor's handbook requires this rating to be supported with a statement of how the performance standard for that responsibility has been met, exceeded, or unfulfilled.

Altogether, 42 of the 97 evaluations reviewed by the auditors lacked justification for the non-standard ratings given. Of the remaining 55 evaluations, six appeared to have justifications only for some ratings, and 49 appeared to have adequate justification for all ratings. The non-standard ratings that lacked adequate justification generally had statements reiterating the performance standards. In other words, those statements appeared to be describing work performed at the "standard" level rather than work performed at the "above standard" or "outstanding" levels. For example, an employee received an "above standard" rating on the standard, "Maintain accurate accounting records on current basis; monthly reconciliation a minimum." The justification statement for this rating was, "Accounting records have been maintained accurately. The records have been reconciled on a monthly basis."

The final section of the evaluation form, "Performance Improvement Goals," gives supervisors the chance to formally document ways an employee can improve his or her performance during the coming evaluation period. The auditors found that this section was almost never used by five of the six agencies in the sample. The one exception: about half the evaluations reviewed at the Corporation Commission had improvement goals listed, although they tended to be very general. The Chairman of the Commission apparently had stressed the use of this section to his supervisors and managers.

Most Employees Thought The Evaluations Covered Their Major Job Responsibilities, But Fewer Thought the Evaluations Accurately Measured Their Performance

During their on-site visits to the six agencies in their sample, the auditors administered a questionnaire to a total of 474 employees. Among other things, the questionnaire addressed several issues relating to the evaluation system's effectiveness in identifying different levels of performance. A summary of the questions and responses is listed in Appendix A.

Altogether, 82 percent of the employees surveyed thought the responsibilities listed on their evaluations covered the most important aspects of their jobs. Responses to other survey questions, however, indicated a sizable number of employees did not participate in developing those responsibilities, as the system calls for, or were skeptical of the evaluation results. Thirty-one percent of the employees reported they had not worked with their supervisors in determining what was expected of them, and 38 percent did not think their evaluation ratings presented a fair and accurate picture of their performance.

In sum, the problems with performance standards and the lack of justification for non-standard ratings discussed in these sections can limit the evaluation system's effectiveness in accurately identifying different levels of performance. Closer monitoring of the system, perhaps in a centralized way by the Division of Personnel Services, could help address this problem. Although the Division of Personnel Services did monitor agencies' distribution of merit increases for fiscal year 1982, to date it has not systematically reviewed their implementation of the evaluation system to determine how job responsibilities and performance standards have been developed and whether the system is being used as intended. The Division's Director indicated to the auditors that such reviews should begin sometime during the coming year.

To What Extent Is The Performance Evaluation System Consistently Applied?

For the evaluation system to be consistently applied, the people performing the evaluations must be taught how to administer evaluations correctly and must follow the same general guidelines regarding rating an employee's level of performance. There will always be some variations in how supervisors rate performance because of individual differences among raters--some are "tough" evaluators while others are more lenient. However, this variation can be minimized by consistent directions from the Department of Administration and from agency heads on how to rate employees.

The auditors determined that all supervisors had received some training on administering the system before it was implemented. However, nearly 40 percent of the 127 supervisors surveyed by the auditors indicated they thought the training had been inadequate. Several of the six agencies in the auditors' sample either have conducted or are planning to conduct follow-up training sessions, but more may need to be done in this area. The auditors also discovered that formal or informal policies among the six agencies on rating employees were not uniform, in part because of mixed signals they received from the Department of Administration. These differences appear to have contributed to the wide variations among those agencies in the percent of employees rated at the higher levels.

Many Supervisors Feel the Training They Received On the Evaluation System Was Inadequate

Nearly 40 percent of the supervisors responded this way. The Division of Personnel Services had trained all supervisors in the use of the system in 1980. Its staff conducted the training sessions in several of the larger agencies and universities, but because of time and staffing constraints had to train individuals in the remaining agencies to administer those sessions. The initial training package covered such topics as the importance of the evaluation process, development of observable and achieveable performance standards, and the evaluation conference interview. Some of the potential problems in doing evaluations were also discussed. This training material has been incorporated into the State's standard 50-hour supervisory training program.

Managers from four of the six agencies in the audit sample--the Corporation Commission and the Departments of Human Resources, Transportation, and Education--told the auditors that their agencies had conducted further formal training for their supervisors beyond that provided by the Division of Personnel

Services. But, as noted earlier, problems in developing and implementing the evaluation system have persisted even in those agencies. The Corporation Commission has reported it plans to conduct additional training beginning in early 1984.

Because of the steps involved in developing and measuring job standards and documenting employees' performance, the current evaluation system can be fairly complex to administer. Adequate training in each of these areas is necessary for the system to be administered as consistently as possible from agency to agency. The Director of Personnel Services indicated that the rush to implement the system in 1980 and the need to train additional trainers because of limited staff resources may have had an effect on the quality of the initial training sessions. Additional training would be useful, he said, and should be the joint responsibility of the agencies and the Division of Personnel Services.

The auditors also noted potential problems with the handbook developed by the Division of Personnel Services as a reference manual for supervisors to use in conducting performance evaluations. On the whole, the instructions relating to performance standards in the "Employee Performance Evaluation Handbook for Supervisors and Managers," are not written in clear and totally understandable terms. For example, objective performance standards are defined as falling into three major categories--"historical, engineered, and comparative"--which can be expressed in three different ways--"positive terms, negative terms, and zero terms." And while the handbook states that measurable standards should be written for each job responsibility, it does not specifically address the use of separate standards for different performance levels, a problem discussed earlier in this report. More straightforward and specific directions in such areas would make the handbook a more useful reference tool for those supervisors and managers who conduct performance evaluations.

Differences in Agency Policies and Attitudes Regarding Evaluation Ratings Have Contributed to Wide Variations in the Distribution of Those Ratings

Despite the change to a new evaluation system in fiscal year 1981, the average distribution of evaluation ratings Statewide among the five rating categories has changed very little since 1977. As the accompanying table shows, 67 percent of State employees were rated in the top two categories

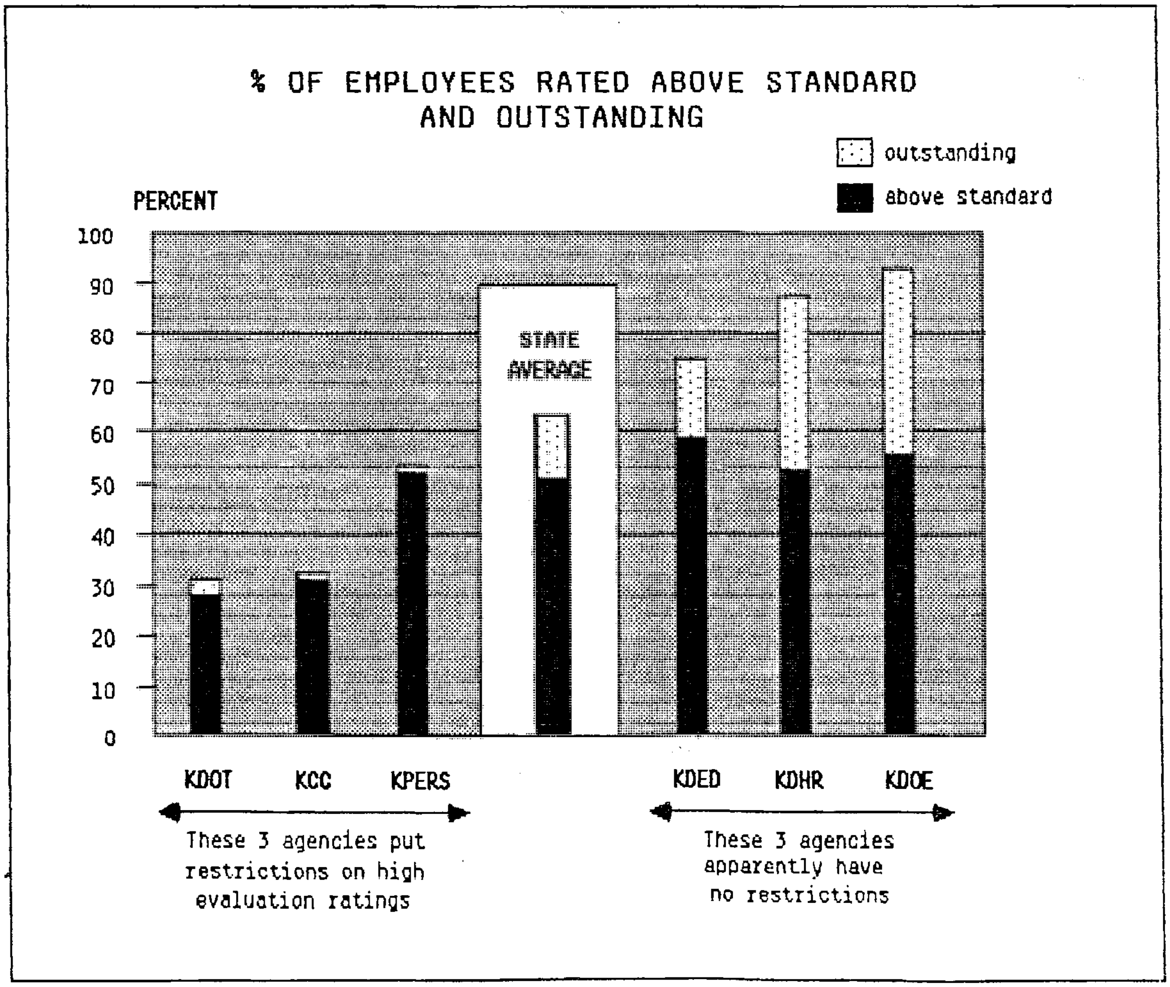
Statewide Performance Evaluation History
Fiscal Years 1977-1983

	Unsatis-factory	Below Standard	Standard	Above Standard	Outstand-ing	Above Standard + Outstanding
1983	.4%	1.4%	35.2%	49.7%	13.3%	63.0%
1982	.4%	1.6%	33.6%	51.3%	13.1%	64.4%
1981	.2%	1.0%	36.0%	52.0%	10.8%	62.8%
1980 (a)	.5%	1.7%	29.8%	55.9%	12.1%	68.0%
1979	.5%	1.6%	29.0%	56.9%	12.0%	68.9%
1978	.6%	1.7%	29.7%	56.5%	11.5%	68.0%
1977	.5%	1.6%	30.9%	53.6%	13.4%	67.0%

(a) Rating categories for fiscal years 1977-1980: Unsatisfactory, Fair, Satisfactory, Very Good, Outstanding under the old system in 1977, while in 1983, 63 percent were rated in those two categories.

There are, however, wide differences among agencies in the distribution of ratings. For example, the Board of Agriculture rated 82.5 percent of its employees as "above standard" or "outstanding" in 1983; at the Department of Transportation only 31.1 percent of the employees were rated that high. These compare with the Statewide average of 63 percent. A breakdown of ratings for each agency for fiscal year 1983 is listed in Appendix B.

Of the six agencies in the auditors' sample, three were below the Statewide average of employees rated as "above standard" or "outstanding," while three others were considerably above that average. The following figure compares the "above standard" and "outstanding" ratings for these six agencies for 1983 with the Statewide average. The full range of rating distributions for these agencies is shown in the table at the top of the next page, and Appendix C lists these ratings for fiscal years 1981-1983.



The fact that a large percentage of employees at the Department of Transportation, the Corporation Commission, and the Retirement System is

Rating Distributions of the Six Agencies in the Auditors' Sample Fiscal Year 1983

	Unsatis-factory	Below Standard	Standard	Above Standard	Outstand-ing
KDOT	.6%	1.3%	67.0%	27.5%	3.6%
KCC	--	2.6%	65.3%	30.8%	1.3%
KPERS	--	--	46.4%	51.8%	1.8%
KDED	--	--	25.5%	58.8%	15.7%
KDHR	.5%	1.5%	11.2%	51.4%	35.4%
KDOE	--	--	7.2%	55.1%	37.7%

rated as "standard" reflects policies in those agencies about evaluation ratings. The heads of these agencies have strongly discouraged high ratings and closely monitored supervisors' evaluation ratings and justifications. This situation was especially apparent at the Corporation Commission and the Department of Transportation, where formal memoranda were sent to supervisors and managers on the subject. The three agencies with higher percentages of employees rated above standard generally appeared to have no official policies discouraging those ratings.

The directives agencies received from the Department of Administration regarding evaluation ratings have been somewhat mixed. Even before the new performance evaluation system was implemented in fiscal year 1981, executive and legislative officials were expressing concerns that evaluation ratings not be inflated with the intent of giving extra pay increases. As the system was designed, employees rated as "standard" were eligible for a one-step merit pay raise, those rated "above standard" were eligible for a one-or two-step increase, and those rated "outstanding" were eligible for a one-, two-, or three-step increase. Each step ranged from 2.5 percent to 3.75 percent, with the higher percentages occurring in the upper salary ranges. Awarding merit raises was not seen as automatic; the system was designed to allow for changes in available moneys and in the number of employees falling into the high rating categories.

The Governor issued a memorandum to all State agencies in October 1980 emphasizing the need to eliminate inflated ratings and stating that a "standard" rating was a good rating. The Secretary of Administration reiterated this message in a June 15, 1981, memorandum to agency heads, noting that a trend toward high ratings would create high salary costs. A second memorandum on June 23, however, advised that ratings should not be adjusted downwards just to stay within budget limitations. Agencies were instructed to retain the ratings given to employees but to give a lesser number of merit increase steps based on budgeted funds.

For fiscal year 1983, the Legislature provided funding (which later had to be frozen because of tight fiscal conditions) for merit salary increases

Employee Comments on the Performance Evaluation System

About one-third of the 474 employees surveyed by the auditors thought the evaluation system was good, either in practice or theory, but most of those had reservations about how well it was working. The remaining two-thirds of the employees surveyed were very negative about the current evaluation system. Their most common complaints centered on the lack of merit funding, perceived quotas that limit high ratings, objections to being labeled "standard," and evaluations that were unfair or too subjective. A sample of their comments in each of these areas is presented in the boxed profiles on the following pages.

averaging about 1.4 percent of agencies' base employee salaries. Following the Legislature's expressed intent in this area, agencies were to be bound by the limits of the pool of money awarded to them in granting merit increases. In other words, employee ratings would have no real impact on the amount agencies budgeted and received but would make a difference in the way merit pay was distributed within each agency.

The percentage increase for 1983 was based on Division of the Budget assumptions that five percent of the workforce would get "outstanding" ratings and merit increases not exceeding three steps, and 15 percent of the workforce would get "above standard" ratings and merit increases not exceeding two steps. In a May 25, 1982, memorandum from the Secretary of Administration explaining this new policy, agencies were told these numbers should not be viewed as quotas but rather as guidelines. The memo also pointed out that agencies could give merit increases to a larger proportion of employees than the Division's computation assumed by giving fewer step increases to employees rated "above standard" and "outstanding." For fiscal year 1983, however, approximately 63 percent of the workforce was rated "above standard" or "outstanding." The 1.4 percent amount for merit pay would not have been sufficient to give all of these employees even a one-step merit increase.

This series of memos and directions, while not explicitly contradictory, did give agencies mixed signals. Further, the Department's decision for the fiscal year 1983 budget to disallow merit pay increases for "standard" rated employees seemed to send a contradictory message to State employees regarding the desirability of obtaining a "standard" rating.

Attempts to lower ratings have resulted in negative attitudes among employees. As early as 1981, problems were noted with the practice of trying to restrict high ratings. The Secretary of Administration's memorandum for June 23, 1981, reported that restrictions on high ratings because of a lack of funds were apparently causing a morale problem in some agencies. The auditors' employee survey confirmed that the same reaction persists, especially at the Corporation Commission and the Department of Transportation, the two agencies that have the strongest policies against high ratings. Their policies have indeed worked to lower ratings. Between fiscal years 1981 and 1983, the percentage of employees rated as "standard" at the Corporation Commission rose from 43.2 percent to 65.3 percent, while at the Department of Transportation, those percentages rose from 38.2 to 67 percent.

Employees surveyed at these two agencies expressed strong feelings that their evaluation ratings were imposed by "quotas" from higher-level management. Only 42 percent of the Department of Transportation's employees and 51.7 percent of the Corporation Commission employees surveyed said they thought their rating was a fair and accurate picture of their performance. By contrast, in the other four agencies an average of 70.3 percent of the employees surveyed thought their evaluations were fair.

Similar differences of opinion surfaced on questions relating to several related issues--how hard employees would work to be one of a few people (defined as 10-20 percent) who could get merit raises, how effective the evaluation system was at communicating what is expected of an employee, and whether the system should be retained in the absence of merit money. To each of these questions, the responses of employees from the Department of Transportation and the Corporation Commission were decidedly more negative. Specific figures for these questions can be found in Appendix D.

In sum, the performance evaluation system has not been consistently applied, partly because of training inadequacies but also because of broadly different agency approaches to rating employees. It appears that evaluation ratings can be lowered through management restrictions, but at the expense of employees' satisfaction with the system. High ratings may breed less employee discontent about ratings, but may raise false expectations about merit increases. With a limited merit pool, there might not be enough money in agencies with many highly rated employees to give all of those employees even a one-step raise. Consistent policy decisions by the Department of Administration are needed in these areas to help ensure the evaluation system is applied more uniformly.

How Effective Is The Performance Evaluation System In Reinforcing Good Performers and Either Strengthening Poor Performers or Removing Them From the State System?

The evaluation system was tied closely to the State's merit-based pay plan to provide a monetary incentive for better than average performance. Thus, the primary reward for good performance was to be merit pay. Better communication about what an employee was expected to do and how well he or she was performing that task was also intended to act as a reinforcement measure.

The auditors determined that the evaluation system has not been very effective in reinforcing good performers, partly because of the lack of funding for merit pay the past two years and partly because of other employee frustrations and misgivings about the way the system has been administered. On the other hand, the evaluation system has been fairly effective in addressing the problems of employees rated "below standard" or "unsatisfactory."

Employee Dissatisfaction Is High Over The Lack of Merit Funding

Because of recent shortages in State revenues, merit pay has not been funded since fiscal year 1982. That year, State agencies received an average of five percent of their base employee salaries to apply toward merit raises.

Sample of Employee Comments on the Performance Evaluation System

Lack of Merit Funding

"...If you can't figure a way to administer a fair merit plan, consider a more equitable cost of living."

"...After eight years of above standard and working like a dog to strive for outstanding, I made the outstanding. Only to be told there wasn't any money to compensate my efforts...Before talking about redoing the merit system, compensate those of us that already have attained the outstanding!!"

"...Merit should not be given for a job done, but for a job well done!"

"...I suspect merit pay causes more dissension than increased motivation."

"...It is demoralizing not to get any kind of reward or recognition for one's efforts whether it be in pay increases, extra benefits or vacation days. For me, I have been promoted regularly...but what about my colleagues that couldn't get that opportunity and are just as deserving?"

Perceived Quotas Limiting High Ratings

"...This evaluation system had great potential, but has been ruined by the way it is being administered...There is something wrong, when as a rater I feel that I cannot rate people based on their performance, but instead I have to consider that 'most' people are to be rated 'standard.' This becomes more unfair when other agencies are using laxer guidelines..."

"...This evaluation system has not worked well due to the statement that under this system only 5% is outstanding and 15% is above standard, which has resulted in reducing morale...In our office only 2 out of 10 can qualify for a raise per year, which means one raise in five years per person, and if there is no money available then no raise at all."

"...I guess it (the evaluation system) is okay, but rate the person honestly. Don't rate them standard when they should be rated outstanding, just because they don't have the money to give them a raise...You don't have to downgrade a person for that reason."

"...The ratings are predetermined at the top and dictated down...Forced 'standard' ratings feed directly into the layoff formula and could end up being much more expensive to the employee than just no raise."

The auditors' survey addressed several issues relating to the merit funding aspect of the evaluation system. About two-thirds of the employees surveyed said the evaluation system was not good. Many cited the lack of merit pay as the major reason. They pointed out there was no motivation to work harder because there was no difference in rewards for those who worked hard and those who just "got by." A number of employees said that they were motivated by factors other than money--such as self-esteem, job security, and the like--but that they were nonetheless angered and frustrated at the lack of merit pay for good performance.

Most managers interviewed by the auditors expressed some reservations that merit pay would motivate people to work harder, even if it were consistently funded. Managers at only two agencies thought merit pay would motivate workers, but they added that funding levels must be sufficient to give at least all employees rated "above standard" or "outstanding" a merit increase.

When asked whether they would work harder for at least a one-step merit increase, nearly three-fourths of the employees surveyed responded that they would. About two-thirds of the employees indicated they would work harder to be one of the people who received a merit increase if there were limits on the number who could get them. However, nearly 60 percent of the employees said no merit increases should be given to anyone if there were not enough money to reward at least everyone rated above standard or outstanding. The other 40 percent answered that under those circumstances, merit increases should be given to the small number of people (10-20 percent) considered most outstanding by the supervisors.

The Evaluation System Apparently Has Improved Communication, But Employee Misgivings About the Way They Are Rated and Scored And Other Problems Have Diminished the System's Effectiveness

Most of the agency managers interviewed by the auditors said they thought evaluations have increased communication between supervisors and employees, and have improved employees' understanding of what is expected of them. And all of them thought the system was worth keeping even without the merit pay portion for these same reasons. In addition, 66 percent of the supervisors surveyed responded that the evaluations are a useful management tool in helping employees improve their performance.

Despite these positive responses, several factors were uncovered in the audit that work to hamper the system's goals. Employee involvement in developing job duties, responsibilities, and standards is the key element in this system to increasing communication and understanding, yet 31 percent of the employees said they were not involved in this effort. Timely evaluations are also important in increasing communication and improving performance, but Statewide about five percent of the evaluations are at least four months overdue. In some agencies this figure is much higher--20 percent at the Corporation Commission, for example.

In their responses and comments on the survey questionnaire, State employees expressed considerable dissatisfaction with other aspects of the system. Briefly, these are as follows:

--**A large number of employees feel that evaluations are not worth keeping because merit is never funded.** This was the most common complaint on the surveys.

--**Many employees and supervisors are adamantly opposed to quotas which limit the high ratings.** Other than lack of merit pay, this was the most common complaint on the surveys. As already noted, employee attitudes are more negative in agencies which have perceived quotas.

--**Many employees object to the word "standard."** Employees dislike being labeled "standard." Some suggested alternatives were "competent," "good," and "satisfactory," although each is likely to have its critics.

--**Many employees thought the evaluations were unfair or subjective.** There were many comments on the surveys about "pets" getting all the high ratings.

The Evaluation System Does Allow Supervisors to Address Problems With Poor Performers, But Few Evaluators Specify Needed Improvements On the Evaluation Form

Identifying and formally documenting poor performance on the job is an important function of the current evaluation system. Many agency officials and legislators had felt such problems could not be properly addressed and resolved under the former system.

Poor performers rated "below standard" or "unsatisfactory" represent a very small percentage of employees Statewide. In fiscal year 1983, only 1.4

pecent were rated "below standard" and .4 percent were rated "unsatisfactory." This distribution is almost identical to the distribution of low-rated employees under the previous evaluation system.

To determine the types of actions taken to strengthen poor performers or remove them from State employment, the auditors examined the files of 19 of the 59 poor performers identified in their six sample agencies. (Only three agencies had employees in this category.) Their review covered 12 employees rated "below standard" and seven rated "unsatisfactory."

All but one of these performance ratings appeared to be adequately justified. (For the one evaluation, there was not sufficient explanation as to why the performance was below standard.) Often the justifications listed areas that needed improvement, but only one-fourth of the evaluations had entries in the "Performance Improvement Goals" section. It would seem that this section would be valuable in showing poor performers specifically how to improve their performance by the next evaluation period.

Most of the employees had been re-evaluated one or more times before their annual evaluation was due to document their progress, if any, at improving their performance. However, one employee rated "unsatisfactory" both at the end of her probationary period and at the end of a one-month extension did not receive a timely notice of her status at the end of her extended probationary period. In accordance with State regulations, she became a permanent State employee by default.

Of the 19 employee evaluations reviewed, 16 showed some evidence of action being taken, as shown on the following page:

Sample of Employee Comments on the Performance Evaluation System

Unfair or Inaccurate Evaluations

"...The current system is very labor intensive and of questionable benefit because of minimal training and experience of individuals required to make up standards and evaluate (employees)."

"There is a tremendous amount of discrepancy in standards and rating of performance for essentially the same job. May not be good or bad--but causes problems"

"...Since evaluations are so crucial to pay increases and job retention or advancement, they need to be done very fairly. This is unlikely since they are so subjective and supervisors differ in how lenient or strict they are in performance ratings. Unfortunately, they are often done hurriedly, late, and rather haphazardly, and with favoritism toward some employees.

"...In essence, the rating indicates the quality of my work, but is based on work I do not do."

"...I think the evaluation system does not work--because some people have personality conflicts and are not given a fair shake because of this--not because of their work. Those that mix outside the office and are friends with the boss or supervisor do get preferred treatment! Not fair at all! Some places its not what you do or how well you do it but who you are."

Objections to Being Labeled "Standard"

"Every employee should be able to move through the steps of his position with a standard rating. We are constantly being told how 'great' being standard is! Multi-step raises could be given (to employees rated above standard) when funds were available."

"...The ratings of standard and above standard is viewed by many as a wide gap. As such, oftentimes a standard is viewed as a poor rating by employees. They do not realize that they are seen as performing their duties as they should but rather as being only as good as is necessary to continue in their position."

"...By calling everyone standard, standard is all you will get, for what is the incentive to do more if it is not recognized as such."

"...We've heard, 'If everyone works extra hard and serves lots of overtime, then that becomes standard.' Makes no sense!"

--four employees were dismissed
--one employee retired early
--four employees were still being counseled
--four employees' ratings were brought up to standard
--one employee was put on extended probation
--one employee resigned for a job in another State agency
--one employee was made permanent by default and was transferred to another location within that agency

The files for three employees--two rated as below standard and one as unsatisfactory--had no evidence of the action taken to either improve performance or remove the employee.

In sum, the evaluation system appears to be fairly effective at addressing the problem of poor performance for those employees rated below standard or unsatisfactory. On the whole, the quality of the documentation for ratings is much higher in these evaluations, and it appears that supervisors are making an effort to improve the performance of poor workers.

What Actions Could Be Considered for Changing or Improving the Evaluation System?

Seventy percent of the employees surveyed said the evaluation system was not worth keeping if there were no merit money to fund it. But 66 percent of the supervisors said evaluations were a useful management tool in helping employees improve their performance, and agency officials in all six sample agencies agreed that some system for setting job standards and evaluating employees' performance was needed. Also, 68 percent of the employees responded that the State should not return to automatic one-step increases.

Employee dissatisfaction with the evaluation system is related largely to the lack of funding for merit increases and restrictions on high ratings. As a result, there appears to be a strong need either for the system to be funded at some level, or for changes to be made so that employees' expectations do not continually go unfullfilled. If the decision is made for the third year in a row not to fund merit pay, the performance evaluation system may lose the effectiveness it does have as a management and communication tool.

Given this situation, the Legislature may want to consider the following options:

1. Consistently fund the performance evaluation system at least at a level that allows some differentiation in rewards for different levels of performance. To make merit funding economically more feasible, the Legislature could consider directing the Department of Administration to retain the merit pool concept and to amend State regulations by removing standard-rated employees from eligibility for a merit-pay increase and lowering the number of merit steps for which employees rated "above standard" would be eligible. This option requires few modifications to the system, and still retains the elements necessary for motivation. It also results in a merit-based

system that rewards high performance as opposed to just rewarding performance.

2. Consider separating merit pay from the evaluation system. The evaluation forms would continue to be used, as they are now, to develop and measure job standards and record employees' performance. Employees could also be tangibly rewarded for high performance in other ways. Some of the suggestions the auditors received were giving bonuses, granting paid days off, and issuing commendations or awards to outstanding performers. Under this option, other changes to the system may have to be considered as well, including condensing the salary ranges and reducing the number of rating categories. Such measures would require careful study before any specific actions could be taken.

Regardless of the decision on merit pay, the Department of Administration and its Division of Personnel Services need to address the problems noted in this report regarding performance standards, supervisory training, and inconsistent agency policies about employee evaluation ratings. Improvements in these areas will help ensure that employee evaluations are administered and implemented as intended and that they serve as useful tools in communicating job expectations and measuring employees' levels of performance.

Recommendations

To help ensure that employee performance evaluations more adequately differentiate between different levels of performance and are more consistently applied, the Department of Administration and Division of Personnel Services, following any legislative directives in this area, should take the following actions:

1. Work with agency personnel officers to identify training needs for supervisors conducting performance evaluations, and to develop and put on additional training sessions as needed.
2. As part of their effort to identify training needs, review and consider any needed changes to the "Employee Performance Evaluation Handbook for Supervisors and Managers" to ensure its directions are clear, precise, and understandable.
3. Periodically review performance standards set for particular jobs, both within and across agencies, to ensure they are reasonable, specific, measurable, and justified.
4. Develop and distribute to all State agencies a consistent policy about employee evaluation ratings.
5. Periodically monitor the timeliness of evaluations completed by State agencies.

APPENDIX A

Summary of the Results of the Employee Survey

The auditors visited the six agencies in their sample to administer a questionnaire asking employees their opinions about the performance evaluation system. Altogether, 474 employees were surveyed, including 79 employees from the Salina offices of the Departments of Human Resources and Transportation. The responses to the questionnaire are summarized below.

Survey Questions	Agree	Disagree
1. My supervisor and I jointly decided what I have to do to get a good evaluation.	69.2%	30.8%
2. The responsibilities listed on my evaluation cover the actual important parts of my job.	82.1%	17.9%
3. My performance rating represents a fair and accurate picture of my job performance.	62.5%	37.5%
4. Assuming that merit pay increases would be funded I would work harder to improve my performance if I thought it would result in a:		
1-step increase	72.9%	27.1%
2-step increase	79.6%	20.4%
3-step increase	79.7%	20.3%
5. If there were a limit on the number of people who could get merit pay increases, I would work harder to try and be one of those people who get the extra money.	67.2%	32.8%
6. If there is not enough money available to give merit pay increases to everyone rated as above standard or outstanding, I would prefer to:		
A. Give merit increases to a small number of people (10 or 20 percent) considered most outstanding by the supervisors	41.2%	58.8%

	B. Give merit increases to no one	58.8%	41.2%
7.	Everyone should receive a one-step raise every year regardless of performance.	32.1%	67.9%
8.	The current evaluation process is worth keeping even if there is no money for pay increases based on merit.	30.0%	70.0%
		Agree	**Disagree**
(Supervisors Only)			
9.	The training I have been given in conducting employee evaluations is adequate.	60.4%	39.6%
10.	Employee evaluations are a useful management tool in helping employees improve their performance.	66.2%	33.8%

Salary Ranges of respondents

Range	10 or below	23.0%
	11-20	32.5%
	21-25	20.4%
	26-44	24.1%

APPENDIX B

Distributions of Fiscal Year 1983 Ratings For All Agencies With 50 or More Employees

The following agencies are listed in descending order by percentage rated "above standard" and "outstanding."

Agency	Unsatisfactory	Below Standard	Standard	Above Standard	Out-standing
Dept. of Education	0.0%	0.0%	7.2%	55.1%	37.7%
Pittsburg State University	.4	0.0	9.0	46.2	44.4
Dept. of Human Resources	.5	1.5	11.2	51.4	35.4
Reception and Diagnostic Center	0.0	0.0	14.1	73.2	12.7
Emporia State University	.2	.2	15.0	60.1	24.5
Historical Society	0.0	1.0	15.9	55.4	27.7
Board of Agriculture	.3	.6	16.6	48.6	33.9
Kansas State University	.2	1.1	17.8	52.6	28.3
Rainbow Mental Health Facility	0.0	1.0	18.8	69.8	10.4
Fort Hays State University	0.0	.5	20.1	58.8	20.6
Kansas Correctional Vocational Training Center	0.0	1.0	19.8	74.0	5.2
Dept. of Health & Environment	.4	1.1	21.7	63.7	13.1
Adjutant General	0.0	1.9	22.5	37.8	37.8
Dept. of Economic Development	0.0	0.0	25.5	58.8	15.7
Highway Patrol	.2	1.0	26.1	57.9	14.8
Univ. of Kansas Medical Center	.5	1.3	27.0	52.7	18.5
University of Kansas	.5	1.4	27.9	45.5	24.7
Grain Inspection Department	.6	2.3	30.1	60.8	6.2
Insurance Department	0.0	1.9	31.5	61.1	5.5
Park & Resources Authority	0.0	0.0	32.3	66.7	1.0
Fish & Game Department	.4	1.3	31.8	62.3	4.2
Industrial Reformatory	0.0	2.0	32.7	57.8	7.5
Osawatomie State Hospital	0.0	1.4	34.0	60.4	4.2
Department of Corrections	.5	0.0	35.4	53.8	10.3
State Average	.4	1.4	35.2	49.7	13.3
Parsons State Hospital	0.0	1.6	37.2	58.4	2.8
Attorney General/KBI	0.0	.6	38.3	56.5	4.6
Department of Administration	.3	2.4	37.3	51.5	8.5
Larned State Hospital	2.9	2.4	39.8	53.8	1.1
SRS	.3	1.4	41.9	50.3	6.1
Norton State Hospital	.3	1.3	42.2	52.3	3.9
Department of Revenue	.6	1.2	43.3	50.1	4.8
Kansas Neurological Institute	.7	3.7	44.0	44.8	6.8
KPERS	0.0	0.0	46.4	51.8	1.8
Topeka State Hospital	.5	2.1	44.7	45.0	7.7
Youth Center at Topeka	0.0	2.3	45.1	44.5	8.1
Correctional Institution at Lansing	1.3	5.0	45.0	36.2	12.5
Soldiers Home	0.0	4.3	49.1	38.8	7.8
Youth Center at Atchison	0.0	3.4	51.1	45.5	0.0
State Penitentiary	0.0	1.9	58.9	36.5	2.7
Corporation Commission	0.0	2.6	65.3	30.8	1.3
Department of Transportation	.6	1.3	67.0	27.5	3.6
Youth Center at Beloit	0.0	4.6	70.0	24.5	.9

APPENDIX C

Rating Distributions of the Six Agencies in the Auditors' Sample Fiscal Years 1981-1983

	Unsatis-factory	Below Standard	Standard	Above Standard	Outstand-ing
Department of Transportation					
1983	.6%	1.3%	67.0%	27.5%	3.6%
1982	.4	1.2	40.4	49.0	9.0
1981	.3	1.1	38.2	51.4	9.0
Corporation Commission					
1983	--	2.6%	65.3%	30.8%	1.3%
1982	1.2%	--	32.1	58.2	8.5
1981	--	1.2	43.2	46.9	8.7
Kansas Public Employees Retirement System					
1983	--	--	46.4%	51.8%	1.8%
1982	--	--	38.1	56.4	5.5
1981	--	--	47.8	34.8	15.2
Department of Economic Development					
1983	--	--	25.5%	58.8%	15.7%
1982	--	--	25.8	54.8	19.4
1981	2.2%	--	13.2	57.9	28.9
Department of Education					
1983	--	--	7.2%	55.1%	37.7%
1982	--	1.8%	18.7	52.0	27.5
1981	--	1.2	29.9	54.3	14.6
Department of Human Resources					
1983	.5%	1.5%	11.2%	51.4%	35.4%
1982	.2	1.4	14.4	53.6	30.4
1981	.1	1.0	21.9	55.5	21.5

APPENDIX D

Results By Agency of Selected Survey Questions Illustrating Poor Morale In Agencies Limiting High Ratings

High evaluation ratings were restricted in three agencies--the Department of Transportation, the Corporation Commission, and the Retirement System. The negative feelings resulting from such restrictions were reflected in several employee responses to the survey questionnaire, which are summarized below. Responses are boxed for employees from the Department of Transportation and the Corporation Commission--the two agencies with the strictest policies in this area.

	Strongly Agree	Agree	Disagree	Strongly Disagree
Question #1:	My supervisor and I jointly decided what I have to do to get a good evaluation.			
Survey Total	**11.4%**	**57.8%**	**23.6%**	**7.2%**
KDOT	4.7	53.3	32.7	9.3
KCC	7.1	50.0	28.6	14.3
KPERS	7.3	58.5	29.3	4.9
KDED	14.3	52.4	23.8	9.5
KDHR	15.2	64.4	18.2	2.3
KDOE	26.3	63.2	3.5	7.0
Question #3:	My performance rating represents a fair and accurate picture of my job performance.			
Survey Total	**9.3%**	**53.2%**	**28.8%**	**8.7%**
KDOT	1.3	40.7	46.0	12.0
KCC	0.0	51.7	31.0	17.2
KPERS	7.5	57.5	22.5	12.5
KDED	22.7	36.4	31.8	9.1
KDHR	14.9	71.6	12.7	0.7
KDOE	22.4	48.3	22.4	6.9

Question #5: If there were a limit on the number of people who could get merit pay increases, I would work harder to try and be one of those people who get the extra money.

	Strongly Agree	Agree	Disagree	Strongly Disagree
Survey Total	**23.1%**	**44.1%**	**24.0%**	**8.8%**
KDOT	13.2	43.7	31.8	11.3
KCC	19.2	46.2	30.8	3.8
KPERS	22.5	52.5	17.5	7.5
KDED	37.5	37.5	12.5	12.5
KDHR	29.8	47.3	14.5	8.4
KDOE	32.1	32.1	28.6	7.1

Question #8: The current evaluation process is worth keeping even if there is no money for pay increases based on merit.

	Strongly Agree	Agree	Disagree	Strongly Disagree
Survey Total	**2.1%**	**27.9%**	**35.2%**	**34.8%**
KDOT	1.3	16.2	35.1	47.4
KCC	3.5	26.3	33.3	36.8
KPERS	2.5	27.5	35.0	35.0
KDED	0.0	40.0	36.0	24.0
KDHR	3.0	38.3	36.8	21.8
KDOE	1.8	31.6	33.3	33.3

APPENDIX E

AGENCY RESPONSE

Department of Administration

STATE OF KANSAS

DEPARTMENT OF ADMINISTRATION
Office of the Secretary

JOHN CARLIN,
Governor
MARVIN A. HARDER,
Secretary of Administration

Room 263-E
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M E M O R A N D U M

RECEIVED
JAN 1 0 1984
DIVISION OF POST AUDIT

DATE: January 12, 1984

TO: Legislative Post Audit Committee

FROM: Marvin A. Harder
Secretary of Administration

SUBJECT: Legislative Division of Post Audit Report "Analyzing the Performance Evaluation System in Kansas"

The subject report, dated January 10, 1984, makes the following recommendations.

Each item in this response reflects action taken or to be taken by the Division of Personnel Services.

Recommendation:

1. Work with agency personnel officers to identify training needs for supervisors conducting performance evaluations, and to develop and put on additional training sessions as needed.

Action:

1. K.A.R. 1-8-6 defines the term "supervisor" which, in turn, determines which employees receive supervisor training, and it also provides for agency-developed training programs into which evaluation training material has been incorporated. Each agency, therefore, not only has the training in place, but is in the best position to determine whether or not this should be augmented to suit its individual needs. This training will be reviewed for coverage by the Division of Personnel Services during 1984 agency visits.

Recommendation:

2. As part of their effort to identify training needs, review and consider any needed changes to the "Employee Performance Evaluation Handbooks for Supervisors and Managers" to insure its directions are clear, precise, and understandable.

Action:

2. The Division of Personnel Services, author of "Employee Evaluation Handbook for Supervisors and Managers", has begun review and will revise this publication by April 30, 1984 to insure clarity and more effective application.

Recommendation:

3. Periodically review performance standards set for particular jobs, both within and across agencies to ensure they are reasonable, specific, measurable, and justified.

Action:

3. The Division of Personnel Services has already established as a priority item in the 1984 Planned Assistance Program (visits to all agencies) a review of the performance evaluation system. These visits are beginning in January 1984. Reports on each agency are made to the Secretary of Administration.

Recommendation:

4. Develop and distribute to all State agencies a consistent policy about employee evaluation ratings.

Action:

4. The Division of Personnel Services has initiated a specific review of the appropriate personnel regulations to establish a more definitive and consistent policy concerning evaluations. Input on regulations changes are regularly solicited from the agencies. Necessary changes will be proposed in the 1984 regulation review cycle of the Department of Administration.

Recommendation:

5. Periodically monitor the timeliness of evaluations completed by State agencies.

Action:

5. K.A.R. 1-7-10(b) specifies that an agency appointing authority is charged with having evaluations made for each employee at least annually and thus is charged with timeliness of evaluations. The Planned Assistance visits in 1984 will specifically review this area to determine agency practices and compliance.

The Division of Personnel Services has constantly and will continue to analyze the performance evaluation system for improvements. Such analysis is based on the experience and opinions of state managers and employees, the data reflecting what is occurring in the program, and on experience and proposals in state and federal jurisdictions on the subject.

MAH:NH:sj