



INTERNAL AUDIT REPORT FOR

Performance Appraisals

Gwinnett County Government
Audit Plan Year 2022

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GWINNETT COUNTY
INTERNAL AUDIT DIVISION

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Table of Contents

Background & Scope.....	4
Assessment.....	5
Recommendations.....	5
Other Considerations.....	9
Exhibit A: Summary of Audit Procedures	10
Exhibit B: Audit Samples.....	11

Background & Scope

The Department of Human Resources (HR) maintains a Salary Administration Program that consists of a job classification structure based on job duties and qualifications. The program includes a corresponding compensation plan that provides competitive and equitable remuneration to employees based on Board of Commissioners (BOC) human resource objectives. The compensation plan consists of a basic salary schedule by job class and discretionary components that may include cost-of-living, market, and pay-for-performance adjustments. The pay-for-performance component, the primary focus of this audit, awards and encourages high performance through an appraisal process. Employees may receive predetermined percent increases to their basic salaries based on job criteria and annual appraisals by management of their past performance. Those whose performance meets or exceeds expectations receive pay increases. The BOC must approve the relationship between the final rating and the amount of increase or lump sum payout each year. In addition to performance compensation, the appraisal process provides an avenue for providing objective feedback and addressing, if applicable, developmental needs. The County awarded approximately \$14 million in performance pay increases during the audit period of January 2021 to April 2022.

HR is responsible for implementing and maintaining the performance appraisal system for all County employees. The Human Resources Management Policies document, revised July 18, 2022, (the Policy) contains guidelines that govern the County's performance appraisal activities. Each department is responsible for completing annual employee performance appraisals per guidelines. Departmental liaisons assemble completed appraisal forms and upload appraisal scores into SAP for HR processing. They digitize signed hardcopies and archive them. Based on the submitted scores, HR manually updates employee compensation records in SAP by prescribed percentage points or payout amounts when applicable. HR also independently validates SAP entries on a sample basis and monitors delinquent appraisals for resolution. The following are key business objectives or policy guidelines for completing performance appraisals:

- BOC approves prescribed pay increases or payouts for employee appraisal scores as a part of the annual budget adoption.
- Supervisors conduct appraisals with HR-approved forms and class specifications.
- Employee performance ratings are based on objective criteria.
- Employees and all necessary management personnel sign appraisal forms.
- Departments submit forms to HR 20 days prior to employee anniversary dates.
- Only authorized HR personnel update SAP payroll records.

The purpose of this audit was to evaluate departmental compliance with the guidelines and evaluate the effectiveness of management's control activities that provide reasonable assurance of compliance. Internal Audit (IA) interviewed employees, observed certain control activities, and reviewed performance appraisal documents on a sample basis for the audit period. We believe the evidence provided a reasonable basis for our assessment and recommendations. See **Exhibit A** for summary of audit procedures. Except for the Sheriff's Office, we excluded agencies and courts from the scope of the audit.

Assessment

Overall, we found no material or pervasive departmental noncompliance with key guidelines for completing performance appraisals. HR accurately provisioned performance pay in SAP only after receipt of appraisal forms or other authoritative documents with few exceptions. We found no evidence of abuse or improprieties associated with appraisal documents and performance pay. However, there were certain instances of noncompliance and control activities that needed improvement to achieve HR's objectives, particularly regarding the timetable for completing appraisals. The following are our observations and recommendations to improve the employee performance appraisal system.

Recommendations

1. Performance appraisals were not always completed within prescribed timeframes.

Supervisors must complete employee appraisals each year and submit appraisal documents to HR at least 20 days prior to review (anniversary) dates. HR will not enter employee performance pay in SAP payroll without a performance score. The prescribed timeframe provides HR with enough time to update payroll records, so employees receive performance pay beginning with the pay period immediately after their anniversary date. BOC, County Administration, and Department Directors are responsible for meeting this timetable. HR monitors departmental compliance each month by generating an aging report of incomplete appraisals and sending them to their respective liaisons. HR will also contact liaisons for remediation plans if appraisals become significantly past due.

IA evaluated departmental compliance with prescribed timeframes for performance appraisals and the effectiveness of oversight procedures (delinquency reporting and remediation) by reviewing processing times during the audit period. We compared evaluation anniversary dates from recent appraisal documents to corresponding SAP performance pay entry dates for a judgmental sample of 240 employees (see **Exhibit B** for Audit Samples). Over half received appraisals and performance pay increases on or before their anniversary dates. An additional 43% on average received performance pay increases 10 days past their anniversary dates which is reasonable since employees retroactively receive performance pay if SAP updates are late. There were a few outliers in our sample, mostly directors and executive leaders, with appraisals outstanding 120 days or more. HR currently sends aging reports to liaisons or executive assistants for remediation of delinquent appraisals. Stronger oversight from individuals with sufficient authority to manage compliance should improve outcomes because an administrative liaison may be reluctant to convey urgency with the BOC and County Administration.

RECOMMENDATION

The HR Director or Assistant Director rather than an administrative liaison should oversee performance management compliance for the BOC and County Administrator. Also, HR should send aging reports to directors each quarter to augment current oversight reporting. HR and the County Administrator should agree on escalation procedures for resolving significant delays in completing performance appraisals by the BOC and County Administration. Consider reporting

delays in performance pay adjustments that are a year or more outstanding to appropriate BOC members.

Management Response

The HR Director / Deputy Director(s) will oversee compliance for the BOC and County Administrator performance evaluations. HR will start including directors on aging report emails for those that are past due two months or later. HR will create a policy / procedure for resolving significant delays and notify CA Administrator / BOC member of those that are delayed three months or more.

2. Performance appraisals were incomplete or used nonstandard forms.

The Policy requires supervisors to conduct appraisals using an HR-approved appraisal form. This requirement is important because appraisal forms provide a standard way to give feedback about job performance and documentation for future reference. The appraisal forms also contain spaces for employee acknowledgments and management approvals of rating scores used to derive performance pay. HR currently has six standard performance appraisal forms. Form content and applicability varies based on employee job classifications and grades.

IA reviewed recent appraisal forms for a sample of 240 employees to confirm management used standard forms according to job grades. We also verified forms contained appropriate acknowledgment and approval signatures. Departmental supervisors or raters used approved appraisal forms except for County Administration which relied on memorandums for 12 (5%) directors and staff members. The memorandums contained appropriate authorization for employee performance pay at BOC-approved rates. However, the Policy is unclear as to the applicability of the use of the standard performance appraisal forms for employees not in the classified service.

There were 59 (25%) Police and Sheriff performance appraisal forms that contained employee and immediate supervisory signatures but lacked director signatures even though there were spaces for them. Directors delegated authorization to deputies or division directors. Directors for the remaining departments, including Fire and Water, signed performance appraisal forms completed during the audit period. Policy and form guidelines do not preclude delegation. The Policy requires all necessary management personnel sign appraisal forms without specifying requirements by position. Also, appraisal forms contain no direction in terms of mandatory department signatures.

RECOMMENDATION

The County Administrator and HR Director should amend the Policy to make clear that, unless otherwise specified, forms are inapplicable to county officers or employees not in the classified service. The HR Director should update the Policy to reference exhibits with examples of approved performance appraisal forms with a brief description of their applicability. Consider adding notations on the forms that indicate whether signatures by position are mandatory or optional. HR should also place copies of approved forms on their website for easy access by supervisors. To promote compliance, the HR Director should notify all agency heads and directors about form requirements and locations. The County Administrator, Department Directors and HR should evaluate benefits of mandatory director approvals or delegation. This should include consideration of other oversight alternatives for directors such as periodic performance summaries by position. The HR Director should revise the Policy based on results.

Management Response

HR will update the templates to include notation of signatures that are mandatory (all) and provide a brief description of each template. The approved forms are in SAP (where the liaison can download). We would not want to add to website as any updates to the form would be captured in SAP. HR will consider creating a memo template for alternative to performance appraisal which will include a section for performance summary.

IA Comment

We concur with management's remediation plans. Regarding approved forms in SAP, the Policy and other written guidance lacked examples which made it difficult for us to validate whether SAP forms were official and current. The Policy does not refer to SAP as the official repository. It was also difficult to assess whether administrative liaisons used correct forms based on Fair Labor Standards Act (FLSA) status and job grade. Supervisors, directors, and liaisons should all be involved in compliance which is dependent on written guidance. However, we defer to management's judgment regarding cost-benefits of this recommendation.

3. Performance pay was sometimes based on midpoint rather than base salaries.

HR typically derives performance pay by applying the BOC-approved percentage to employees' base salaries on their anniversary dates. HR sometimes applies the approved percentage to the job grade's midpoint instead of the employee's base salary. The Policy does not reference this pay practice. Although the marginal increase is immaterial, HR should describe the performance pay practice in the Policy and submit it for the County Administrator's approval.

RECOMMENDATION

HR should update the Policy to include performance pay practices for employee salaries below midpoint. The County Administrator should authorize the performance pay plan.

Management Response

Costing is based on the midpoint to ensure that our budget for the following year is calculated correctly. HR will update the policy to include the performance pay practices for employee salaries below midpoint and seek CA approval.

4. Compensation plan detail aggregated for BOC budget approval (Previously Identified by Management).

For annual pay-for-performance compensation plans, the Policy requires the BOC to approve the relationship between final rating and the amount of salary increase or lump sum payout each year. This requirement is inconsistent with current BOC governance procedures for appropriations. The BOC approves compensation plans through adoption of appropriation categories or spending plans contained in the County's annual budget.

Management aggregates specific compensation plans in the Personal Services appropriations category for adoption and reporting purposes. Although aggregated for reporting purposes, the BOC considers compensation plans such as pay-for-performance in formulating budgetary initiatives, and they are frequently referred to in year-over-year changes in Personal Services on adopted budget reports. The County Administrator is well suited to approve specific compensation

plans, justify or support target amounts, and ensure they are consistent with BOC priorities within this framework.

RECOMMENDATION

HR should submit pay-for-performance compensation plans with applicable justifications for pay increases or payouts to the County Administrator for approval. Plan descriptions should also include the relationship of final ratings to compensation. HR should update the Policy for the modified approval process.

Management Response

HR will work with Finance during the budget process and throughout the year to prepare a compensation plan for County Administrator approval.

5. Could not evaluate the effectiveness of SAP HR user access controls.

HR employees require, depending on their responsibilities, access to various data within the SAP HR system. Their responsibilities or roles include the ability to modify employee records often with monetary impact, e.g., changing pay components in employee records, revising employee effective dates, and initiating retroactive changes to employee records, among others. HR and Information Technology Services (ITS) use SAP role-based access restrictions to reduce the likelihood of abuse or errors. They create HR system roles or profiles with privileges based on job responsibilities. HR also authorizes access requests, which users initiate through ITS Help Desk tickets, for associated profiles. Based on approved user access information, ITS assigns the profile to the user and provisions SAP access. In addition to these activities, HR should periodically review all active HR system user profiles with related privileges to correct any historical provisioning errors. This may include terminated employees, changes in job assignments, and incorrect or incompatible privileges due to risk of fraud. IA requested results from HR's most recent review of user access profiles for the SAP HR system, including all user IDs and their related profiles with emphasis on permissions that allow modifications to employee records. Our intended scope went beyond compensation to include all users, profile libraries, and associated privileges for completeness. We received no evidence of past user access reviews or a comprehensive list of provisioned users in the SAP HR system to confirm their validity.

ITS provided a limited list of users with the ability to update employee records for changes in compensation. Four employees in Finance had access to employee records with data modification privileges. This may be inappropriate and could represent a segregation of duties issue since they work in payroll processing. Lastly, an HR user made a BOC-approved cost-of-living adjustment to their own record without any evidence of supervisory oversight such as a workflow approval. This type of capability is prone to abuse without sufficient oversight.

RECOMMENDATION

HR should perform periodic reviews of SAP HR system access, including roles, for errors or stale data. Reviews should be comprehensive and account for all provisioned users and privileges within the SAP HR system. Based on results, correct user access and privileges for terminations, transfers, segregation of duties conflicts, and other errors. At a minimum, HR should perform user access reviews once a year. Also, either change system configurations to prevent users from updating their own records or require workflow approvals.

Management Response

HR is currently working with the Department of Information Technology Services (DoITS) on an access review. It is our understanding that DoITS will conduct these reviews several times a year as a basic part of cybersecurity to ensure permissions accurately reflect the minimum of what a person needs to do their job. We will continue to work in conjunction with DoITS to ensure regular review of access is completed. In addition, we require that certain roles complete HIPAA training in order to maintain access to protected health information. We will also explore the possibilities of preventing users from updating their own records with DoITS.

Other Considerations

IA observed opportunities to improve certain business activities based on best practices and included advisory comments for management consideration only. Management is not required to provide written responses or corrective action plans. The advisory comments are as follows:

- Technicians manually derive and update over a thousand SAP employee master file records each year for performance pay. The manual procedures are inefficient and susceptible to errors. HR should automate calculations, updates, and workflows for performance pay and similar transactions with SAP Enterprise.
- HR expects departments to place employees who do not meet expectations on performance improvement plans (PIP). We reviewed PIP documentation for all employees who met this criterion during the audit period and noticed content varied by department with little or no evidence of HR or director oversight. Also, based on the available documentation, we were unsure whether HR required departments to complete PIPs prior to progressive discipline. HR should update PIP guidance to improve oversight and standardization.
- HR authorized six forms for completing employee performance appraisals. Applicability primarily depends on employee management and FLSA status. Although form content must vary based on job requirements, we observed a few opportunities to standardize form content for efficiency. The Policy indicates ratings should be based on three levels of performance: (1) does not meet expectations, (2) generally meets expectations or (3) often exceeds expectations. Three forms for management appraisals contain five rating levels. The remaining forms use three rating levels. HR should use one scale for appraisals to promote standardization and compliance with Policy. Also, the minimum acceptable score allows employees to receive the entire performance pay for the year. All other ratings above minimum acceptable are superfluous in terms of compensation. In addition, the forms contain, on average, 18 performance attributes that supervisors must rate. They vary by form and range from 13 to 25. HR should compare goals and attributes on each form to reduce preparation effort.

Exhibit A: Summary of Audit Procedures

- Interviewed HR management to identify key compliance issues and control activities. Walked through key activities to confirm understanding and validate procedures.
- Reviewed recent results from an HR audit of technician updates to employee compensation during the audit period. Assessed sample coverage and evaluated effectiveness through reperformance.
- Reviewed SAP aging report for overdue performance appraisals. Ensured significantly older items were explained or resolved by management.
- Compared employee anniversary dates to pay increase dates for a judgmental sample of 35 employees over a five-year period to assess timeliness (**Recommendation 1**).
- Selected most recent performance appraisal forms for a judgmental sample of 240 employees eligible for a pay-for-performance increase during the audit period. Reviewed documents to confirm compliance with the following Policy guidelines:

Management authorized performance pay, and amount met applicable criteria.

HR entered performance pay after appraisals and employees did not receive performance pay twice in a year.

Departments used approved performance appraisal forms (**Recommendation 2**).

Employees received performance pay increases or payouts per BOC authorized amounts (**Recommendation 3**).

Appraisal forms contained assessments consistent with job descriptions.

Departments used appropriate descriptions and language for appraisals.

Employees and supervisors signed appraisal forms.

- Reconciled appraisals in FileNet to SAP appraisal scores and content to confirm employees and applicable members of management signed forms.
- Reviewed BOC agenda for approval of pay-for-performance terms (**Recommendation 4**).
- Confirmed employees with appraisals below minimum acceptable performance rating were on an improvement plan.
- Reviewed SAP user access privileges for validity (**Recommendation 5**).

Exhibit B: Audit Samples

Agency or Department	Population	Sample Size
Communications	18	2
Community Services	286	20
Corrections	94	5
County Administration	39	35
Financial Services	106	4
Fire & EMS	844	45
Human Resources	41	2
Information Technology Services	94	3
Law	12	1
Planning & Development	91	4
Police Services	835	41
Sheriff	594	29
Support Services	124	6
Transportation	135	7
Water Resources	519	36
Grand Total	3,832	240