



## High-Risk Update—Human Resources Management:

A Significant Number of State Employees Are Beginning to Retire, While Certain Departments That Provide Critical State Services Lack Workforce and Succession Plans

March 2009 Report 2008-605



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March 19, 2009

2008-605

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits (bureau) presents a review concerning the State's efforts to manage the risks associated with a large exodus of experienced employees due to retirement, which could threaten the ability of the State to deliver critical services. This review follows up on the discussion of human resources management as a statewide high-risk area in our May 2007 report titled *High Risk: The California State Auditor's Initial Assessment of High-Risk Issues the State and Select Agencies Face* (2006-601).

This review concludes that the State is poised to see a significant number of today's workers in leadership and rank and file positions retire within the next seven years, yet most departments are only in the beginning stages of preparing for this loss of institutional knowledge and expertise. Since the bureau issued its 2007 high-risk report, the Department of Personnel Administration (personnel administration) has hired a statewide workforce planning manager and, in partnership with the State Personnel Board, has offered departments extensive workforce and succession planning assistance. However, when we reviewed five departments that provide critical public health and safety services, we found that none of these departments had completed workforce and succession plans that address all of the steps in personnel administration's workforce planning model. Although departments are not required to follow this model, we believe it presents a thoughtful approach for developing workforce and succession plans. Despite lacking such plans, many departments have taken some steps to mitigate the effects of expected retirements, such as focusing on employee training and on efforts to improve the department culture and employee morale. While the current budget crisis may make it difficult for departments to initiate some programs, we identified several cost-effective strategies that departments can consider implementing, such as job-shadowing and mentoring programs.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

## Contents

Summary	1
Introduction	3
<b>Chapter 1</b>	
The State's Efforts to Address the Loss of Knowledge and Expertise of a Significant Number of Retirees Are Just Beginning	7
<b>Chapter 2</b>	
Certain Departments Facing Higher Rates of Retirement Either Lack or Have Incomplete Workforce or Succession Plans	21

## Summary

### Results in Brief

The State is currently facing, and will continue to face, the retirement of a significant number of today's workers in both leadership and rank-and-file positions. An aging workforce, coupled with an average retirement age of around 60, suggests that 42 percent of today's state employees in leadership positions—nearly 13,000—may retire over the next seven years. Given that these potential retirees likely have critical experience and institutional knowledge essential to running various departments, the State needs to adequately plan for these retirements and ensure that such knowledge is not lost. However, its ability to replace retiring leaders will probably be difficult since many rank-and-file employees—more than 20 percent, or over 38,000 employees—may also retire in the next seven years. Although these employees are near or at retirement age, it is unknown whether the developments in the worldwide and national financial markets and the State's actions to solve its budgetary problems will affect state employees' retirement plans. Regardless of the precise timing of these retirements, the fact remains that these employees will eventually retire and planning for these retirements is prudent to ensure continued delivery of state services.

Unfortunately, California is just in the beginning stages of such planning efforts, and our review found that other states have done more to develop their workforce and succession plans. For example, some states have instituted planning requirements and developed standardized planning tools to aid departments in their planning efforts. In 2008 California's Department of Personnel Administration (personnel administration) started providing guidance as some departments began planning for the retirement of their workers. Further, the State Personnel Board (personnel board) currently offers a one-day introductory class for developing workforce and succession plans, but enrollment in this class has declined over the years. Finally, although California is working to streamline its hiring process to better ensure it can bring new employees into state service, these efforts are not expected to conclude until fiscal year 2014–15. Thus, any resulting improvements may not be realized until many workers have already retired.

While large numbers of retirements and filling vacancies with quality staff present challenges to the State, these challenges are an even more immediate concern for certain departments that provide critical services. For instance, the majority of employees in leadership positions—and nearly half of the employees in rank-and-file positions—at the five departments

### Review Highlights . . .

*Our review of the State's progress in improving human resources management revealed the following:*

- » *Forty-two percent of today's state employees in leadership positions and more than 20 percent of rank-and-file employees may retire over the next seven years.*
- » *California is just beginning to develop workforce and succession plans while other states have done more to develop their plans.*
- » *Efforts to streamline the hiring process to bring new employees into state service are not expected to conclude until fiscal year 2014–15.*
- » *For certain departments that provide critical services, the challenges of filling vacancies due to large numbers of retirements is an immediate concern.*

we reviewed were age 50 or older as of June 30, 2008. Of greater concern is that most of the departments we reviewed generally believe it will be difficult to replace experienced employees due to a variety of factors, including the State's lengthy and complicated hiring process and lower salaries in the public versus the private sector.

Despite this, none of the departments we reviewed have developed workforce and succession plans that address all of the steps in personnel administration's workforce planning model, and some are just beginning to undertake formalized efforts to ensure they are retaining qualified staff and cultivating employees' skills to develop future leaders. Although state departments are not required to follow personnel administration's model, the planning steps outlined in this model present a thoughtful approach that considers factors such as the department's strategic plan, future staffing requirements, and how it will attract the people necessary to meet those requirements. Current fiscal constraints may make pursuing workforce and succession planning more difficult, however, some departments we reviewed are using cost-effective strategies to address future retirements. For example, the Department of Social Services (social services) has instituted quarterly question-and-answer meetings between senior leadership and those representing rank-and-file employees. Social services explained that the results of these meetings have improved communication and morale. Such efforts can lead to better employee retention and promote knowledge transfer.

Further, the Department of Transportation uses rotational assignments for its entry-level engineers, explaining that such assignments develop staff and serve as a key recruitment tool. Finally, state departments might consider taking steps to preserve institutional knowledge by routinely taking minutes at important meetings, updating procedure manuals, and videotaping experts as they demonstrate how to perform critical tasks.

# Introduction

## Background

Legislation effective in January 2005 authorizes the Bureau of State Audits (bureau) to develop a risk assessment process for the State and issue reports for improvement in high-risk areas. In May 2007 the bureau issued a report titled *High Risk: The California State Auditor's Initial Assessment of High-Risk Issues the State and Select State Departments Face*, Report 2006-601, which identified human resources management as a statewide high-risk area because any large exodus of experienced employees due to retirement could reduce the ability of state departments to perform their core missions efficiently and effectively, and could threaten the ability of state programs to deliver critical services. The bureau's May 2007 report cited conclusions from a June 2005 study by the Little Hoover Commission that found it is very difficult for individuals who do not already work for the State to get into entry-level positions and it is virtually impossible at the managerial level. This current report assesses the State's progress in improving human resources management as described in the bureau's May 2007 report.

### ***Workforce and Succession Planning Have Recently Gained Attention***

Recently, workforce and succession planning have gained attention with reports written by both the federal government and state entities. For instance, in 2001 the U.S. Government Accountability Office (GAO) identified strategic human capital management as a high-risk area and, since that time, has written several reports relating to the area. Most recently, in January 2009, the GAO issued an update to its high-risk report series indicating that ample opportunities continue to exist for federal agencies to improve their planning in response to human capital challenges. Specifically, the GAO cited the need for federal agencies to engage in strategic human capital planning to ensure they have the talent and skill mix they need from future employees, especially as the federal government faces a retirement wave. The GAO stipulated that as federal agencies are facing a workforce that is becoming more retirement eligible and finding gaps in talent, they need to strengthen their efforts and use of available resources to acquire, develop, motivate, and retain talent.

In addition, two noteworthy reports have recently been issued in California highlighting the difficulty the State faces in recruiting and hiring talented employees. Issued in 2004, the California

Performance Review<sup>1</sup> warns that the State must act immediately to avoid the human capital crisis created by the most significant and continuous exodus of retiring personnel in the State's history. The California Performance Review also identifies 15 areas needing significant improvement and updating, and provides recommendations that include having each agency develop a strategic plan and performance measures and a comprehensive workforce plan that aligns its workforce with its strategic business plan, and administering nonentry examinations on an open basis in order to gain access to outside talent. Similarly, in June 2005 the Little Hoover Commission issued a report titled *Serving the Public: Managing the State Workforce to Improve Outcomes*, which describes the difficulty agencies face in recruiting caused by the State's rules for hiring employees. Specifically, the commission reported that it is difficult for individuals who do not already work for the State as civil servants to get into entry-level professional positions, such as those in the staff services analyst series, and that it is even harder to break into state service at the managerial level.

### ***Two State Departments Set Policy and Oversee a Variety of Broad Personnel Issues***

Two departments within the state structure are responsible for setting policies and overseeing a variety of broad personnel issues: the State Personnel Board (personnel board) and Department of Personnel Administration (personnel administration). The personnel board is responsible for California's civil service system and disciplinary matters; it ensures that the system is free from political patronage and that employment decisions are based on merit. State departments can obtain a variety of services from the personnel board, such as assistance with recruitment, classification, and training. Personnel administration creates and administers compensation levels, benefit packages, training programs, and the State's classification plan; it also represents the State in negotiating labor contracts with various state employee labor unions. Personnel administration and the personnel board work together on workforce and succession planning efforts including the Human Resource Modernization project, which aims to streamline hiring, reward performance, and simplify the State's vast classification system.

<sup>1</sup> Created in part by Governor Schwarzenegger, the California Performance Review aimed to restructure, reorganize, and reform state government to make it more responsive to the needs of its citizens and the business community.

### ***Succession Planning Is an Important Subset of Workforce Planning, and Both Begin With Strategic Planning***

Personnel administration has stated that workforce planning addresses the people requirement of a strategic plan; the Department of Finance defines a strategic plan as a clear statement of the agency's mission and vision that identifies a set of goals and objectives and formulates key strategies that address those factors that are essential to the agency's success. In simple terms, personnel administration defines workforce planning as having the right number of people with the right skills working in the right jobs at the right time. This definition covers a process that assists agency leadership in making human resource decisions based on an agency's mission, strategic plan, budgetary resources, and desired job knowledge and skills. Workforce planning enables an organization to proactively plan for and address changes in the workforce.

Personnel administration has developed a workforce planning model that outlines seven steps, which are listed in the text box, to assist departments in developing their workforce and succession plans. Although departments are not required to follow this model, the seven steps shown in the text box present a thoughtful approach to developing workforce and succession plans. Personnel administration defines succession planning as an important subset of workforce planning that focuses on having the right leadership in place at every level of the organization. It maintains that succession planning mirrors workforce planning and that many of the same steps apply. For example, as in the workforce planning model, departments must evaluate and determine the readiness of a talent pool of current staff to assume the responsibilities of leadership positions, identify the competencies gap, and develop strategies for addressing these needs.

#### **Scope and Methodology**

Government Code, Section 8546.5, authorizes the bureau to establish a process for identifying state departments that are at high risk for potential waste, fraud, abuse, and mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness. This report provides an update on progress made by the State in the high-risk area of human resources management identified in the bureau's 2007 high-risk report.

#### **Seven Steps Identified in the Department of Personnel Administration's State of California Workforce Planning Model**

- Step 1: Review strategic plan.** Review your department's strategic plan mission, vision, and measurable goals and objectives, and time frames for accomplishing them.
- Step 2: Identify work functions.** Identify the work functions that must be performed in order to accomplish the strategic plan.
- Step 3: Identify staffing requirements.** Identify the staffing, both in number of staff and competencies, required to accomplish the work functions.
- Step 4: Project workforce supply.** Project your workforce, including numbers of staff as well as competencies, taking into account attrition, and assuming no management actions taken to replace staff lost through attrition.
- Step 5: Analyze workforce gaps.** Compare the staffing requirements in Step 3 with the projected workforce supply in Step 4 and determine the gap.
- Step 6: Develop priorities and implement solutions.** Analyze your workforce needs (the gap), establish priorities, and implement solutions for meeting those needs.
- Step 7: Evaluate the plan.** Assess what is working and what is not. Make adjustments as needed. Address new workforce and organizational issues.

Source: Department of Personnel Administration.

To gain a better understanding of the laws affecting workforce and succession planning, we analyzed relevant federal and state laws. We also interviewed key personnel at personnel administration, the personnel board, and the GAO. To assess the age demographics of the State's and selected departments' workforce, we obtained and reviewed personnel data provided by the State Controller's Office as well as retirement data provided by the personnel board. We focused our review on full-time permanent employees. In doing so, we reviewed employees in two personnel groups—those in leadership positions, which include managerial, supervisory, and career executive assignments, and those in rank-and-file positions.

Additionally, to determine what steps personnel administration has undertaken to support departments' workforce and succession planning efforts, we interviewed key personnel, attended one workforce planning conference, and reviewed various materials. To determine the personnel board's role in providing guidance to departments as it relates to workforce and succession planning, we interviewed key staff and reviewed the materials pertaining to its one-day training course on workforce planning. Further, we reviewed reports issued by the California Performance Review and the Little Hoover Commission. We researched the efforts of other states and the federal government and, in doing so, compared California's progress in this area to that made by others.

Further, to determine whether some departments have undertaken workforce and succession planning efforts, we focused our review on five departments with a large portion of their workforce age 45 and older that have a role in the public's health and safety: Department of Public Health, Department of Health Care Services, Department of Transportation, Office of Emergency Services, and Department of Social Services. We distributed a questionnaire to each that asked whether the department has developed formal workforce and succession plans. Additionally, we interviewed key personnel at each department and reviewed relevant documentation pertaining to any workforce or succession planning efforts they have undertaken.

# Chapter 1

## THE STATE'S EFFORTS TO ADDRESS THE LOSS OF KNOWLEDGE AND EXPERTISE OF A SIGNIFICANT NUMBER OF RETIREES ARE JUST BEGINNING

### Chapter Summary

If previous retirement trends continue, the State is potentially poised to see many of today's workers in both leadership<sup>2</sup> and rank-and-file positions retire within the next seven years. An aging workforce, coupled with an average retirement age of about 60, suggests that as many as 42 percent of today's state employees in leadership positions—nearly 13,000—may retire over the next seven years. Given that these potential retirees likely have unique perspectives and institutional knowledge critical to running various departments, the State needs to adequately plan for these retirements and ensure that such knowledge is not lost. The State will probably face challenges when replacing these retiring leaders since many rank-and-file employees are also retiring or approaching retirement age. Assuming again that prior retirement trends continue, nearly 23 percent of today's rank-and-file employees—over 38,000—will retire by fiscal year 2014–15. Although these employees are near or at retirement age, it is unknown whether they will choose to retire earlier or later given the current economic conditions in the State and the rest of the country. However, the fact remains that planning for these retirements is essential to ensuring continued delivery of state services.

Unfortunately, California lags behind other states' planning efforts; its efforts at planning for these future retirements are only in the beginning stages. In 2008 the Department of Personnel Administration (personnel administration) started providing guidance to state departments as some began to plan for the retirement of their workers. The State Personnel Board (personnel board) currently offers a one-day introductory class for those wanting to learn how to develop workforce and succession plans. While this information is helpful, other states have been engaged in workforce and succession planning since 2001, have developed specific planning tools, and require departments to have such plans. In California there is no statewide requirement for departments to engage in workforce and succession planning. Finally, California deserves credit for recognizing that it needs to streamline its hiring processes to better ensure it can bring new employees into state

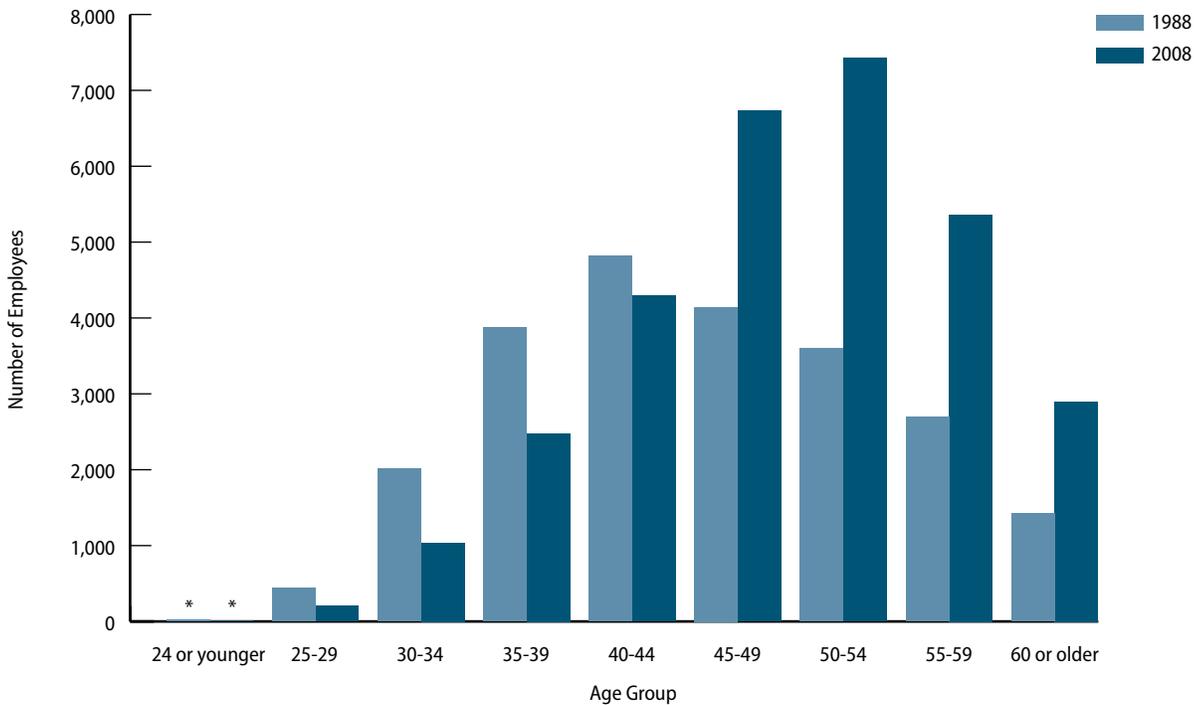
<sup>2</sup> In this report, we define employees in leadership positions as those individuals who are classified by the State Personnel Board as working in supervisory, managerial, or career executive assignment positions.

service. However, these efforts are not expected to conclude until fiscal year 2014–15, and any resulting improvements may not be realized until after many workers have already retired.

**Many in the State’s Workforce May Retire Within the Next Seven Years**

During the 20-year period between 1988 and 2008, the number of full-time permanent state employees has increased from roughly 136,700 to just over 200,000. During this same period, the age demographics of these workers have changed. The proportion of workers in older age groups has grown significantly compared to 20 years ago. Based on data provided by the personnel board, figures 1 and 2 compare the age distribution of state workers between June 30, 1988, and June 30, 2008. Figure 1 focuses on employees in leadership positions and Figure 2 targets those in rank-and-file positions.

**Figure 1**  
**Comparison of Ages of State Employees in Leadership Positions as of June 30, 1988 and June 30, 2008**

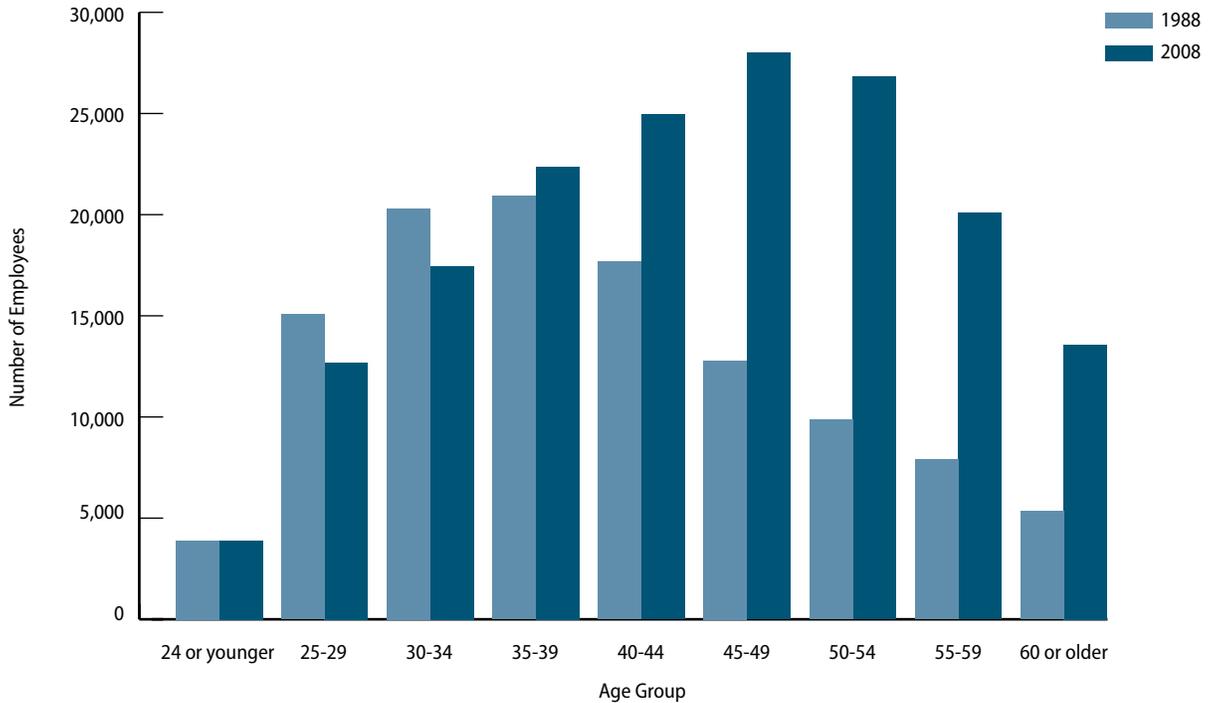


Source: Bureau of State Audits’ analysis of data provided by the State Personnel Board (personnel board).

Note: The data presented above only include civil servants who are full-time and permanent employees, or are serving in career executive assignment (CEA) positions. Further, the data are limited to those in leadership positions—those working in managerial, supervisory, or CEA positions. Finally, according to the personnel board, the data shown exclude certain state employees, including those working for the judicial branch, the legislative branch, and the California State University.

\* As of June 30, 1988, there were 22 employees working in leadership positions who were 24 years old or younger. By June 30, 2008, this number had fallen to six employees.

**Figure 2**  
**Comparison of Ages of State Employees in Rank-and-File Positions as of June 30, 1988 and June 30, 2008**



Source: Bureau of State Audits' analysis of data provided by the State Personnel Board (personnel board).

Note: The data presented above only include civil servants who are full-time and permanent employees. Further, the data excludes those employees working in managerial, supervisory, or career executive assignment positions. Finally, according to the personnel board, the data shown exclude certain state employees, including those working for the judicial branch, the legislative branch, and the California State University.

As the figures demonstrate, the age distributions for both leadership and rank-and-file employees have shifted to the right, reflecting the State's now older workforce. For example, data in Figure 1 shows that most employees in 1988 who were in leadership positions were between the ages of 40 and 44. However, by 2008, most state workers in leadership positions were between the ages of 50 and 54. Looking at the same data used to create Figure 1 in a slightly different way, as shown in the text box, it is apparent that the percentage of employees who are at least 50 years of age has dramatically increased. In 1988 about 33 percent of all employees in leadership positions were at least 50 years of age. By 2008 this percentage had increased to more than 51 percent.

POSITION TYPE	PERCENTAGE OF EMPLOYEES AGE 50 OR OLDER	
	JUNE 30, 1988	JUNE 30, 2008
Leadership	33.5%	51.5%
Rank-and-file	20.3	35.7

Source: Bureau of State Audits' analysis of data provided by the State Personnel Board.

Figure 2 demonstrates that the State has seen similar trends for its rank-and-file employees. In 1988 most rank-and-file workers were between the ages of 35 and 39. By 2008 most of these

employees were between the ages of 45 and 49. Similarly, as shown in the text box on the previous page, the percentage of rank-and-file employees in the workforce who are 50 years old or more has increased between 1988 and 2008. In 1988 this statistic was just 20 percent and by 2008 it had grown to more than 35 percent.

Although the State's employees are now proportionally older than they were 20 years ago, the average age at retirement for these workers has been relatively stable over roughly the same time period. As Table 1 demonstrates, the average age at retirement for employees in leadership and rank-and-file positions has been around 60 years of age. Further, the table shows that the average and median retirement ages have remained generally consistent based on our review of five selected years between fiscal years 1990–91 and 2007–08. Table 1 also provides information on the proportion of leadership and rank-and-file employees that retired in the indicated year. For example, in fiscal year 2007–08, 2.6 percent of all employees in rank-and-file positions retired, while 5.8 percent of all employees in leadership positions retired during that same year.

**Table 1**  
**Actual and Projected Retirement Rates for Selected Fiscal Years From 1990–91 Through 2014–15**

FISCAL YEAR	RANK AND FILE POSITIONS			LEADERSHIP POSITIONS		
	AVERAGE RETIREMENT AGE	MEDIAN RETIREMENT AGE	PERCENTAGE OF ALL THAT RETIRED	AVERAGE RETIREMENT AGE	MEDIAN RETIREMENT AGE	PERCENTAGE OF ALL THAT RETIRED
1990–91	60.1	61	0.9%	59.6	60	1.6%
1995–96	60.7	62	1.7	59.5	60	3.4
2000–01	60.1	60	2.6	59.1	59	6.4
2005–06	59.1	58	3.1	57.7	57	6.6
2007–08	59.4	59	2.6	58.4	58	5.8
<b>Projected Percentages of Retirees</b>						
2008–09			3.2			6.9
2009–10			3.2			6.5
2010–11			3.3			6.2
2011–12			3.3			6.0
2012–13			3.3			5.8
2013–14			3.3			5.5
2014–15			3.3			5.3

Source: Bureau of State Audits' analysis of data provided by the State Personnel Board (personnel board) and the State Controller's Office.

Notes: The information presented in the table for fiscal years 1990–91 through 2007–08 is based on retirement data provided by the personnel board. This data only include civil servants who are full-time and permanent employees or are serving in career executive assignment (CEA) positions. Those in leadership positions include employees working in managerial, supervisory, or CEA positions. According to the personnel board, these data exclude certain state employees, including those working for the judicial branch, the legislative branch, and the California State University.

The bottom portion of Table 1 projects the estimated retirement rate of employees in leadership and rank-and-file positions through fiscal year 2014–15. These retirement projections are based on estimations of how many employees in the 2008 workforce will retire in a given year. For instance, as shown in Table 1, 3.2 percent and 6.9 percent of employees in rank-and-file and leadership positions as of June 30, 2008, respectively, will likely retire in fiscal year 2008–09. The projected retirement rates do not account for new employees to leadership and rank-and-file positions. Instead, the projections only estimate the retirement rates of the remaining 2008 employees in a given year.

Even though Table 1 shows that on average, state workers retire as they approach 60 years of age, not all employees retire at this age. Using data from the personnel board covering five selected years between fiscal years 1990–91 and 2007–08, we prepared Figure 3 on the following page that shows, on average, the percentage of retirees in a given year who retire at specific ages. Figure 3 provides this information for both leadership and rank-and-file employees. While the median retirement age for leadership and rank-and-file employees is around the age of 60, distinctive peaks show up at the ages of 55 and 62. One possible explanation for these peaks is the way the California Public Employees' Retirement System calculates the retirement benefit for state employees who are not involved in law enforcement, fire suppression, or the protection of public safety. When these state employees reach the age of 55 and have 30 years of service, their unmodified monthly retirement benefit equals 60 percent of the highest average full-time salary earned over a consecutive 12-month<sup>3</sup> period. In this scenario, someone earning \$5,000 per month before retirement would receive approximately \$3,000 per month during retirement. Further, the peak at age 62 in Figure 3 coincides with the age when individuals can begin receiving retirement payments from Social Security.

Using the number of retirees presented in Figure 3 in a different way, we determined what proportion of all state employees—within certain age groupings—usually retire in a given year. The reader should note that the percentages in the text box cannot be seen in Figure 3, since that figure only shows what proportion of *all retirees* who decided to retire at specific ages. In contrast, when we included *all state employees* as our denominator, we were able to calculate how many state employees—within certain age groupings—retire each year. As shown in the text box, more than 30 percent

**Rate of Retirement by Age Group—State Civil Service Employees in Leadership Positions**

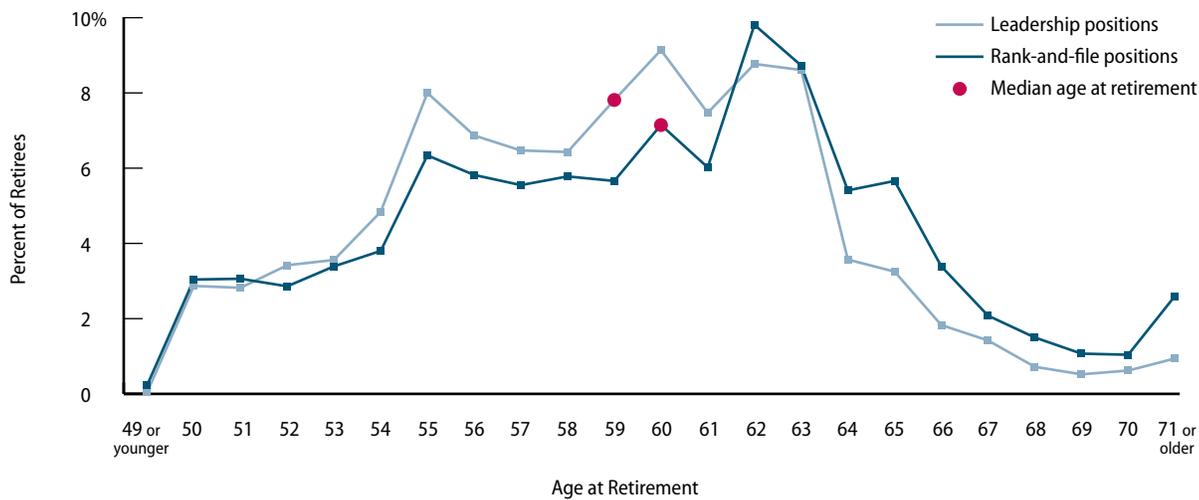
AGE GROUP	PERCENT OF GROUP WHO RETIRE EACH YEAR
Less than 50	Less than 1.00%
50 to 54	3.76
55 to 59	12.07
60 or older	30.57

Source: Bureau of State Audits' analysis of data provided by the State Controller's Office.

<sup>3</sup> Depending on their collective bargaining unit, most employees first employed by the State on or after January 1, 2007, have a 36-month (three-year) final compensation period.

of all workers in leadership positions who are at least 60 years of age retire each year. Similarly, 12 percent of these workers who are between the ages of 55 and 59 retire. Finally, nearly 4 percent of those in leadership positions and between the ages of 50 and 54 retire each year.

**Figure 3**  
Average Distribution of Retirement Ages for State Retirees



Source: Bureau of State Audits' analysis of data provided by the State Personnel Board (personnel board).

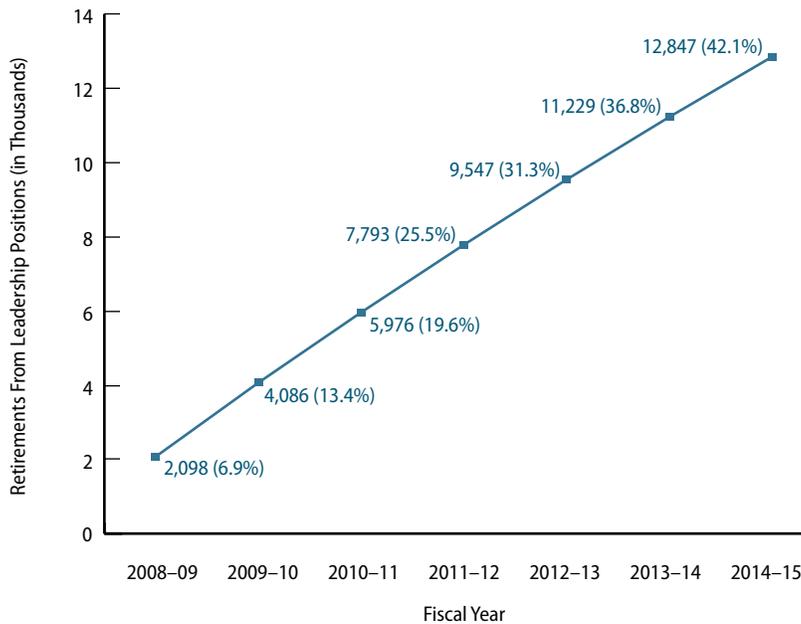
Note: The data presented above only include civil servants who are full-time and permanent employees, or are serving in career executive assignment positions. For each retirement age shown in the figure, the associated data points are based on a 5-year average of how many employees retired at the indicated age during fiscal years 1990–91, 1995–96, 2000–01, 2005–06, and 2007–08. Finally, according to the personnel board, the data shown exclude certain state employees, including those working for the judicial branch, the legislative branch, and the California State University.

Using these retirement rates by age group, we calculated the projected total 2008 retirement rates for employees in leadership positions as shown in Table 1. We followed a similar exercise for employees in rank-and-file positions. Finally, while Table 1 shows that 1.6 percent of those in leadership positions retired in fiscal year 1990–91 and 3.4 percent retired in fiscal year 1995–96, this statistic almost doubled to 6.6 percent by fiscal year 2005–06. This higher rate is projected to continue, and as shown in Figure 4, by fiscal year 2014–15, nearly 13,000—or about 42 percent—of 2008 employees in leadership positions could potentially retire, and therefore need to be replaced, in the next seven years.

Even though projections are estimates and actual retirements may differ from the projections shown in the figure, the fact remains that a substantial number of state employees are approaching retirement. Regardless of whether these employees retire within two years or 10 years, it is imperative for the State to have a plan

to deal with these retirements given the fact that they likely have unique perspectives and institutional knowledge critical to running various state departments and programs.

**Figure 4**  
**Cumulative Number of Potential Retirements From Leadership Positions**  
**Fiscal Years 2008–09 Through 2014–15**



Source: Bureau of State Audits' analysis of data provided by the State Personnel Board and the State Controller's Office.

Note: The projections shown in this figure are based on forecasts of when employees currently in leadership positions—those working in managerial, supervisory, or career executive assignment positions—might retire from state service. Our forecasts began with employees in state service as of June 30, 2008. For each projected year, we retired a certain percentage of these employees based on the historical retirement rates of those between the ages of 50 through 54, 55 through 59, and 60 or older.

**Personnel Administration Began Providing Guidance on Workforce and Succession Planning in 2008**

As described in the Introduction, in May 2007 the Bureau of State Audits (bureau) issued its first high-risk report in which it described that the State will soon face the consequences resulting from the retirement of a significant portion of its current workforce, including many of its top managers and key staff. The bureau noted that beyond its model on workforce planning, personnel administration had provided little direction to state departments in terms of succession planning. The bureau concluded that personnel administration's efforts fell short of what is needed to attract, train, and retain tomorrow's government leaders.

Since the issuance of the report, personnel administration has focused much of its efforts on workforce planning—it considers succession planning a subset of workforce planning—and on modernizing and streamlining the State’s human resource system to recruit, develop, and maintain a well-qualified, high-performance workforce. In April 2008 personnel administration hired a statewide workforce planning manager who has worked diligently to help educate departments about the urgency of workforce planning and the steps necessary to develop workforce plans. While its statewide workforce planning manager acknowledges that the State is relatively late in developing centralized workforce planning, personnel administration’s director has spoken about the need to elevate such planning as a management priority on a statewide level, and since April the statewide workforce planning manager has worked effectively to organize conferences and workshops, and to provide information to departments on how to conduct workforce and succession planning.

For example, in April 2008, personnel administration, in conjunction with the personnel board, offered a workforce planning conference directed at both human resource practitioners and agency directors. This conference, according to the statewide workforce planning manager, drew more than 300 participants representing over 100 departments. The conference was divided into a morning session at which a representative from personnel administration and other speakers discussed with agency secretaries and department directors the importance of workforce planning, and an afternoon session directed at human resources personnel that included presentations on how to apply personnel administration’s workforce planning model and conduct data analysis, and an overview of the first steps departments should follow when beginning the planning process.

#### **Selected Results From the Department of Personnel Administration’s Workforce and Succession Planning Survey of Departments**

**Workforce Planning:** 24 percent had not started, 35 percent had just begun, 32 percent were in process, and 9 percent were in the implementing and evaluating stage.

**Succession Planning:** 22 percent had not started, 30 percent had just begun, 32 percent were in process, and 16 percent were in the implementing and evaluating stage.

**Consultants:** Nearly 15 percent hired consultants to assist in the development of their plans.

**Source:** Department of Personnel Administration’s results of its July 2008 statewide workforce planning survey.

In July 2008 personnel administration published the results of a statewide survey it conducted to ascertain departments’ progress in their workforce planning efforts and how personnel administration could best help them. Personnel administration reported that it received a 91 percent response rate—104 out of the 114 departments surveyed provided a response. According to personnel administration, the results of the survey indicate that a majority of state departments are in the early stages of workforce and succession planning. Some of the survey’s statistics are summarized in the text box.

In August 2008, personnel administration hosted its first Workforce Planning Ad Hoc Group (ad hoc group) meeting, which, according to the statewide workforce planning manager, was attended by 80 people. In this meeting personnel administration addressed group logistics and also offered information about upcoming trainings as well as its workforce planning survey results.

According to the statewide workforce planning manager, personnel administration plans on holding ad hoc group meetings on a quarterly basis and, while these meetings are still taking shape, will probably include panel discussions and other forums for workforce planning practitioners to network and share best practices.

Additionally, in November 2008 personnel administration and the personnel board hosted a second workforce planning conference. This conference featured guest speakers, a panel discussion, and seven workshops that addressed specific issues, such as data collection, workforce analysis, knowledge transfer strategies, and best practices. Further, in December 2008 personnel administration hosted a second ad hoc group meeting, which provided participants with exposure to the succession plans, strategic frameworks, and staff development plans of various state departments, including the Department of Fish and Game, the California Public Employees' Retirement System, and the Department of Transportation. In January 2009 personnel administration rolled out its new workforce planning Web pages, which include resources and information about workforce planning, demographics and labor statistics, data collection resources, training and conferences, best practices, and strategies and solutions.

Personnel administration has other steps already planned. According to the statewide workforce planning manager, it is organizing a workforce planning task force, and as of December 2008 had 26 volunteers willing to participate. She explained that the tentative plan is for the task force to break up into several different work groups to address specific issues, including the broader topic of retention strategies along with several other workforce related issues.

Although not yet finalized, personnel administration also plans to institute a statewide workforce planning requirement in 2010 and, as part of this requirement, it plans to request copies of each department's workforce and strategic plans. The goal, according to the statewide workforce planning manager, is to use data from the department workforce plans to develop a statewide plan. Personnel administration has not yet decided how frequently—annually or biennially—it will request department reports or produce a statewide plan. The statewide workforce planning manager

*Although not yet finalized, personnel administration also plans to institute a statewide workforce planning requirement in 2010 and, as part of this requirement, it plans to request copies of each department's workforce and strategic plans.*

explained that by offering departments support now, personnel administration is helping to prepare them for a potential workforce planning requirement in the future.

While still in the early stages, personnel administration appears to be proactively helping state departments by providing them with the tools and resources to begin their workforce and succession planning efforts. Personnel administration has offered this extensive assistance without any additional budgetary funding, though it tried to secure funding for workforce planning in the past. Its fiscal year 2006–07 budget request included \$140,000 for one exempt employee who would assist departments with such planning; however, the Legislative Analyst’s Office did not recommend approval of this request because, it stated, hiring a single individual to provide consulting and assistance services to departments would be an ineffective response to addressing this issue. The statewide workforce planning manager explained that personnel administration created her position by redirecting existing resources and allowing her to use other personnel administration staff to support her efforts whenever necessary. It again attempted to obtain additional funding for fiscal year 2009–10 for one employee to assist the statewide workforce planning manager; however, the planning manager indicated that personnel administration declined to pursue this funding in light of the State’s poor fiscal condition.

#### Objectives of the State Personnel Board’s Workforce Planning Class

1. Articulate the importance of workforce planning as it relates to state service.
2. Understand the basic principles of workforce planning.
3. Identify common deterrents to effective workforce planning and brainstorm for solutions.
4. Influence others within the organization to support the workforce planning initiative.
5. Comprehend the steps of a successful workforce plan.
6. Demonstrate understanding of several different workforce planning models.
7. Determine which workforce planning model best fits the respective needs of the organization.
8. Initiate an action plan for the next steps needed to develop a workforce plan.
9. Identify and utilize resources for creating, implementing, and maintaining a successful workforce plan.

Source: State Personnel Board.

#### The Personnel Board Offers a One-Day Introductory Class on Workforce and Succession Planning

In addition to partnering with personnel administration on the delivery of the State’s recent workforce planning conferences, the personnel board offers a one-day training course that it plans to expand in the near future. Currently, the course is designed to be introductory and includes an overview of personnel administration’s workforce planning model—a model that, as described in the Introduction, contains many steps that personnel administration maintains can be applied to succession planning—and covers the objectives shown in the text box. Since the course’s inception in March 2006, 160 participants have attended the training representing more than 50 departments.

Participant feedback was generally positive from a class held in March 2008, but the course instructor stated that the one-day format does not provide a sufficient amount of time to give state

personnel the training they need to adequately begin to create a workforce and succession plan to meet their departments' needs. However, this conclusion does not come from an independent observer but rather the instructor who is contracted to teach the class and may have a vested interest in expanding it. After conducting four classes within the first year, interest in the course has declined. Since March 2006 only eight classes have been held and another six classes have been cancelled. The personnel board's director of statewide training speculated attendance has dropped because departments are getting enough information from the conferences recently held by personnel administration and the personnel board, from using internal subject matter experts, hiring consultants, or going elsewhere for training.

Although class attendance has declined, the personnel board's director of statewide training plans on expanding the course to cover not only personnel administration's workforce planning model but also to include topics such as data collection, knowledge management strategies, succession planning, and creating and using reliable demographics. She anticipates that the two-day class will start in the spring of 2009, after the contract is competitively bid and awarded and curriculum for the course is developed. The expansion of the course may come at a good time as most departments are at the beginning stages of workforce planning.

### **Unlike Some Other States, California Does Not Require Departments to Develop Workforce and Succession Plans**

While California recently began its centralized workforce planning efforts, other states began their efforts several years ago, and some, as well as the federal government, have instituted certain planning requirements. For example, we reviewed three states—Virginia, Texas, and South Carolina—that received a rating of “strength” from the Pew Center on the States (Pew) in strategic workforce planning in 2008. According to state personnel and a review of state laws, each state began its planning efforts at least seven years ago. In contrast, Pew gave California a “mid-level” rating, noting the State's lack of an overarching assessment of agency efforts and the fact that it is unclear how many departments actually do workforce planning. Virginia, Texas, and South Carolina's early start has given those states the time to educate their departments and to develop robust workforce planning resources. For example, Virginia's state workforce planning Web site includes tools that departments can use quickly to create agency-specific or statewide demographic data reports. Further, Pew lauded South Carolina for its strong workforce planning tool kit. This kit informs departments

*The Pew Center on the States gave California a “mid-level” rating, noting the State's lack of an overarching assessment of agency efforts and the fact that it is unclear how many departments actually do workforce planning.*

how to identify and analyze recruitment and retention data, which can be used to develop both agency-specific and statewide workforce plans.

Virginia and Texas also require departments to periodically develop strategic plans, which are a key resource for workforce and succession planning. The GAO states that an organization's human capital strategies need to be aligned with its strategic plan, which considers not only current but also its emerging mission and goals. Similarly, the *2008 State of California Workforce Planning Model and Guide*, developed by personnel administration, stipulates that workforce planning depends upon, compliments, and logically follows strategic planning.

On the federal level, the Government Performance and Results Act of 1993 requires each executive agency to submit to the Office of Management and Budget, and to Congress, a strategic plan that covers a period of not less than five years and is required to be updated and revised at least every three years. Yet, California does not impose a statewide requirement for departments to engage in either strategic, workforce, or succession planning. In 1994 the State enacted the State Government Strategic Planning and Performance and Review Act, which required those departments annually identified by the Department of Finance after consultation with the bureau and the Legislative Analyst's Office, to develop strategic plans and report on their progress to the Legislature. However, the Legislature repealed some provisions of this law in 2001 with a bill recommended by the Legislative Analyst's Office, which deleted from law, among other things, the requirement that the Department of Finance annually identify those departments for which it was recommending a strategic plan. Nevertheless, personnel administration's workforce planning model specifies that workforce planning begins with reviewing a strategic plan, followed by determining the staffing needs to follow through on the plan. This may put departments at a disadvantage to fully develop workforce and succession plans because they have not determined the types of services and workforce needs they will have in the future.

Workforce planning requirements in Texas have resulted in many departments producing a workforce plan every two years since 2002. Of the three states we reviewed, Virginia put workforce planning requirements into effect in 2003, and Texas adopted such requirements in 2001. In contrast, personnel administration does not plan to institute a workforce planning requirement for California until 2010. In 2007 Senate Bill 721 was introduced to require all state agencies to establish and implement succession plans by 2010, and to report to the Legislature on the success or failure of their plans by 2012; however, the bill did not advance beyond the Assembly Appropriations Committee. Without a

***Although other states adopted workforce planning requirements in 2001 and 2003, personnel administration does not plan to institute such requirements for California until 2010.***

workforce planning requirement, some of California's departments may not make workforce planning a high priority, particularly as agency budgets shrink and resources become even more scarce as a result of the current fiscal crisis.

### **Efforts at Streamlining the State's Hiring Process May Not Be Fully Implemented Until 2015**

As discussed further in Chapter 2, departments we surveyed pointed to the State's lengthy hiring process as a major impediment to replacing employees who retire. In an attempt to address this problem and other statewide human resources issues, personnel administration and the personnel board are working on the Human Resource Modernization (HR-Mod) Project. HR-Mod is an ambitious, far-reaching project with workforce planning, compensation, classification, recruitment/selection, and performance management components. One of HR-Mod's goals is to streamline the State's hiring process. For example, it has made certain exams for state employment continuously available online, such as those for attorneys. Similarly, those working on HR-Mod plan to add online exams for various other types of workers, including managers, sometime in 2009. Using such online testing strategies would seem to offer greater opportunities to speed up the hiring process since potential candidates would not have to wait to get tested at a state testing center.

According to the director of personnel administration, the HR-Mod Project has made changes to the recruitment, selection, and hiring process, such as revising the entrance requirements and increasing the starting salary for Staff Services Analysts, and conducting an open Staff Services Manager exam. He explained further that personnel administration has delegated authority to departments to approve various position allocations, fill overlapping executive level positions for knowledge transfer, and approve special compensation requests. He stated that this has helped eliminate paperwork, reduce processing time, and accelerate approvals. The director claimed that by putting these modernization efforts in place now and over the next several years, the HR-Mod Project will have a huge impact on the ability of departments to deal with the wave of projected retirements.

However, according to HR-Mod's deputy project director for systems automation, some of HR-Mod's Project initiatives will take a significant amount of time to complete due in part to statutory and administrative requirements. She explained, for example, that changes to classifications currently involve formal documentation and approval by the five-member personnel board. Further, compensation changes generally require the State to give employee

unions notice and an opportunity to negotiate over such proposed changes. The HR-Mod Project formally began work in fiscal year 2007–08 and will end with the final rollout tentatively planned for fiscal year 2014–15. Given this time frame, it is uncertain whether HR-Mod’s efforts to streamline the hiring process will come in time to benefit state departments as they try to replace retiring employees now and over the next few years.

## Chapter 2

### **CERTAIN DEPARTMENTS FACING HIGHER RATES OF RETIREMENT EITHER LACK OR HAVE INCOMPLETE WORKFORCE OR SUCCESSION PLANS**

#### **Chapter Summary**

As described in Chapter 1, the State likely will be faced with a large proportion of its workforce retiring over the next several years; however, the condition is worse for some important departments that provide services relating to the public's health and safety. In fact, the majority of employees in leadership positions—and just under half of employees in rank-and-file positions—at the five departments we reviewed were age 50 or older as of June 30, 2008. The retirement of these employees is apt to place a great burden on departments as they lose knowledgeable and experienced staff. Thus, to the extent that these departments have not already undertaken workforce and succession planning efforts, they could inadvertently place the public as well as the State at risk of not delivering services that fulfill their statutory purposes.

The departments we reviewed generally find it has been and will continue to be difficult to replace experienced employees due to a variety of factors, including the State's time-consuming hiring process and noncompetitive pay. However, none have developed workforce and succession plans that address all of the steps in the workforce planning model of the Department of Personnel Administration (personnel administration). In fact, some are just beginning to undertake efforts to retain and train staff to fill the pipeline of future leaders. Although departments are not required to follow this model, we believe the model presents a thoughtful approach for developing workforce and succession plans. One agency, however, has instituted a formal training program that it points to as key in retaining and cultivating the skills of its staff. Such programs may be difficult to institute given the current fiscal crisis, but departments can implement other cost-effective strategies that could prove beneficial for those who have not fully assessed their workforces.

#### **Some Departments Face Much Higher Retirement Rates Than Those on a Statewide Level**

While the projected retirement rates presented in Chapter 1 define the problem of the loss of knowledge and expertise on a statewide level, the condition is worse for some important departments that provide critical services to the public. As shown in Table 2 on the following page, the proportion of employees age 50 or older in

leadership positions at each of the five departments we reviewed, which have a role in the public's health and safety, range from a low of 55 percent at the Department of Transportation (transportation) to a high of 66 percent at the Department of Social Services (social services)—exceeding the statewide average of 52 percent.

**Table 2**  
**Age of State Employees in Leadership Positions for Selected Departments as of June 30, 2008**

DEPARTMENT	NUMBER OF EMPLOYEES IN LEADERSHIP POSITIONS	EMPLOYEES IN LEADERSHIP POSITIONS AGE 50 OR OLDER							
		50 THROUGH 54		55 THROUGH 59		60 OR OLDER		TOTAL	
		NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
Department of Public Health	597	137	23%	144	24%	108	18%	389	65%
Department of Health Care Services	495	112	23	117	24	73	15	302	61
Department of Transportation	3,494	944	27	649	19	331	9	1,924	55
Office of Emergency Services	81	26	32	14	17	10	12	50	62
Department of Social Services	587	155	26	158	27	77	13	390	66
All state employees in leadership positions	30,442	7,425	24	5,363	18	2,898	10	15,686	52

Source: Bureau of State Audits' analysis of data provided by the State Personnel Board (personnel board).

Note: The data presented above only includes civil servants who are full-time and permanent employees, or are serving in career executive assignment (CEA) positions. Further, the data is limited to those in leadership positions—those working in managerial, supervisory, or CEA positions. Finally, according to the personnel board, the data shown exclude certain employees, including those working for the judicial branch, the legislative branch, and the California State University.

Similarly, as shown in Table 3, the five departments have a high proportion of employees age 50 or older in rank-and-file positions, ranging from 41 percent at transportation to 51 percent at the Department of Public Health (public health)—substantially surpassing the statewide average of 36 percent. Even with the unknown effects of the worsening worldwide and state economies, the data presented in tables 2 and 3 are sobering and further underscore the need for departments to evaluate the age of their workforce and undertake efforts to mitigate this potential loss of knowledge and expertise.

Further, Table 4 on page 24 demonstrates that the departments will have to replace larger proportions of their employees in leadership positions than those retiring from rank-and-file positions. For instance, public health would likely experience the loss of significant institutional knowledge and expertise if more than 10 percent of its employees in leadership positions actually decide to retire as projected during fiscal year 2008–09. However, of greater concern is that more than half, or 54 percent, of its leadership workforce will potentially retire within the next seven fiscal years, or by fiscal year 2014–15. In fact, it is likely that the Department of Health Care Services (health care services) and social services will also need to plan on how to replace over half of their leadership staff during

**Table 3**  
**Age of State Employees in Rank-and-File Positions for Selected Departments as of June 30, 2008**

DEPARTMENT	NUMBER OF EMPLOYEES IN RANK-AND-FILE POSITIONS	EMPLOYEES IN RANK-AND-FILE POSITIONS AGE 50 OR OLDER							
		50 THROUGH 54		55 THROUGH 59		60 OR OLDER		TOTAL	
		NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
Department of Public Health	2,475	494	20%	457	18%	308	12%	1,259	51%
Department of Health Care Services	2,295	443	19	347	15	244	11	1,034	45
Department of Transportation	17,342	3,261	19	2,315	13	1,620	9	7,196	41
Office of Emergency Services	395	78	20	61	15	35	9	174	44
Department of Social Services	2,984	517	17	445	15	323	11	1,285	43
All state employees in rank-and-file positions	169,572	26,817	16	20,082	12	13,577	8	60,476	36

Source: Bureau of State Audits' analysis of data provided by the State Personnel Board (personnel board).

Note: The data presented above only includes civil servants who are full-time and permanent employees, or are serving in career executive assignment (CEA) positions. Further, the data excludes those in leadership positions—those working in managerial, supervisory, or CEA positions. Finally, according to the personnel board, the data shown exclude certain state employees, including those working for the judicial branch, the legislative branch, and the California State University.

this same time period. By comparison, as discussed in Chapter 1, the average proportion of employees in leadership positions statewide who will likely retire in fiscal year 2008–09 is about 7 percent, while public health, health care services, and social services can expect to lose between 9 percent and 10 percent of their leadership that same year. To the extent that they have not already undertaken succession and workforce planning efforts, particularly for those positions that impact the public's health and safety directly, the departments could inadvertently place the public, as well as the State, at risk of not delivering services in accordance with their respective statutory purposes.

**Although Concerned About Their Ability to Replace Retiring Workers, Departments We Reviewed Either Lack or Do Not Have Complete Workforce and Succession Plans**

It is too early to project whether the developments in the worldwide and national financial markets and the State's actions to solve its budgetary problems will affect state employees' retirement plans. Nevertheless, given the large proportion of employees near or at retirement age, the need for departments to adequately prepare for the retirement of the State's most experienced staff in both rank-and-file and leadership positions has grown no less important. In fact, most of the five departments we reviewed generally believe it will be difficult to replace experienced employees due to a variety of factors, including the State's lengthy and complicated hiring process and the lower salaries in the public sector versus the private sector. Despite these factors, none of the departments we reviewed

have developed thorough written workforce and succession plans that address all of the steps in personnel administration's workforce planning model. In fact, most are just beginning to undertake formalized efforts to ensure they retain qualified staff and cultivate employees with the skills needed to fill the pipeline of future leaders. Although departments are not required to engage in workforce or succession planning, and are similarly not required to follow personnel administration's model, the model itself presents a thoughtful approach to developing such plans.

**Table 4**  
**Cumulative Projected Retirements of State Employees From Selected Departments**  
**Fiscal Years 2008–09 Through 2014–15**

DEPARTMENT	TOTAL NUMBER OF EMPLOYEES	FISCAL YEAR													
		2008–09		2009–10		2010–11		2011–12		2012–13		2013–14		2014–15	
		NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
<b>Employees in Leadership Positions</b>															
Public Health	597	62	10.4%	116	19.4%	165	27.6%	210	35.2%	252	42.1%	289	48.4%	323	54.0%
Health Care Services	495	45	9.1	87	17.5	124	25.1	160	32.3	193	39.0	223	45.0	250	50.6
Transportation	3,494	246	7.0	481	13.8	710	20.3	933	26.7	1,147	32.8	1,351	38.7	1,548	44.3
Emergency Services	81	6	7.8	12	15.0	18	21.7	23	28.7	29	35.2	33	41.3	38	47.0
Social Services	587	56	9.5	109	18.7	159	27.2	205	35.0	247	42.1	286	48.7	322	54.8
<b>Employees in Rank-and-File Positions</b>															
Public Health	2,470	121	4.9	240	9.7	360	14.6	477	19.3	591	23.9	702	28.4	811	32.8
Health Care Services	2,293	96	4.2	193	8.4	288	12.6	383	16.7	475	20.7	567	24.7	658	28.7
Transportation	17,164	637	3.7	1,273	7.4	1,914	11.2	2,559	14.9	3,209	18.7	3,860	22.5	4,512	26.3
Emergency Services	394	16	4.1	33	8.3	49	12.5	65	16.6	81	20.5	97	24.6	113	28.6
Social Services	2,976	124	4.2	244	8.2	365	12.3	486	16.3	603	20.3	718	24.1	830	27.9

Source: Bureau of State Audits' analysis of data provided by the State Personnel Board and the State Controller's Office.

Note: The data presented for fiscal years 2008–09 through 2014–15 are projections based on forecasts of when those in state service—as of June 30, 2008—might retire. For each projected year, we retired a certain percentage of these employees based on the historical retirement rates of those between the ages of 50 through 54, 55 through 59, and 60 or older.

While some efforts may not be rolled out promptly enough to effectively address vacancies due to retirements, transportation has instituted formal leadership and staff development programs that it points to as key in retaining and cultivating the skills of those in rank-and-file positions, as well as developing the future leaders of tomorrow. Such programs may be difficult to institute given the current fiscal crisis, but it is something departments can consider for the future as they undertake their workforce and succession

planning efforts. Departments can consider implementing other cost-effective strategies, such as developing employee mentoring programs or job shadowing and rotational assignments, which can broaden employees' knowledge and abilities concerning a variety of work tasks and can further develop their expertise. Such strategies could prove effective for departments that have not fully assessed their need for workforce and succession planning, particularly since the age distribution of employees within many of these departments places an increasing urgency on the importance of such planning efforts.

***Departments Point to Various Factors They Believe Will Cause Difficulty in Replacing Retiring Employees***

Most of the departments we reviewed agree that they will have difficulty replacing retiring employees in both rank-and-file and in leadership positions. They cited various factors that contribute to these difficulties, including the State's lengthy hiring process and its lower salaries. For example, the manager of social services' office of professional management development and succession planning (planning office) explained that the State's hiring processes are challenging, lengthy, and not geared to younger workers who are Internet savvy and want instant results. The chief of transportation's staff development and workforce planning division echoed these sentiments when she cited the length of the State's hiring process as one of the obstacles to finding replacements for retirees.

Three of the five departments we reviewed also explained that their ability to replace retirees with new employees is affected by how well they can compete with the private sector and its ability to offer higher salaries. For example, the chief of human resources for public health stated that many of her department's job openings require extensive experience and that public health uses the same candidate pool as the private sector where pay and benefits packages are higher. Further, its chief of human resources explained that even when public health is able to hire someone, employee retention is a problem. Many scientists begin their careers in a public lab but then leave once they are trained—working for private-sector firms such as Kaiser Permanente or a biotech lab. The chief of social services' human resources services branch also voiced concern over salary inequities, indicating that both the private sector and county governments pay more than the State does for work that requires employees to have advanced educational degrees, such as a master's degree. Finally, the chief of transportation's staff development and workforce planning division indicated that salary parity issues with the private sector made recruiting employees difficult, especially in locations such as the Bay Area and Southern California where the cost of living is higher. Further, she commented that while professional

***Most departments we reviewed find that the State's hiring process and salary inequities are obstacles to finding replacements for retirees. One department indicated that both the private sector and county governments pay more than the State for some positions.***

positions within its engineering classifications have recently received compensation increases that are more closely aligned with similar positions in outside industry, other professional positions have not. According to transportation's division chief, fields such as surveying and planning have not received comparable increases, making it difficult to recruit and retain managers in these fields.

One department we reviewed also voiced concern over its ability to replace retiring managers due to salary compaction with rank-and-file employees. The personnel and labor relations officer with the Office of Emergency Services (emergency services) explained that staff in rank-and-file positions frequently receive overtime pay and, as a result, can earn more than managers and supervisors who are not eligible to receive overtime. Further, according to the personnel and labor relations officer, some rank-and-file staff, those in positions that affect the public's safety, enjoy a better retirement plan than their managers and supervisors. The personnel and labor relations officer stated that as a result, it is sometimes difficult to entice rank-and-file staff into management roles.

The ability to address salary inequities will likely be affected by the State's current fiscal concerns. For instance, transportation indicates it has submitted data and salary recommendations to personnel administration for its consideration in the collective bargaining process; however, the State is unlikely to raise salaries in the current economic climate. Similarly, emergency services indicated it approached personnel administration about amending retirement benefits to make managerial positions more attractive to rank-and-file employees, but was told that such changes would not be considered until the state budget improves.

***Departments state that they face significant risk of not being able to replace retirees in specific job classifications that could affect the public's health and safety.***

Public health, social services, and emergency services stated that they face significant risk of not being able to replace retirees in specific job classifications that could affect the public's health and safety. We selected for further analysis three of the classifications emergency services believes to be at high risk. We noted that employees in classifications that typically replace those in leadership—feeder classifications—were often older than those in the leadership classifications. This places emergency services at risk of not being able to fill its leadership vacancies. Specifically, as of June 30, 2008, there were three employees in the chief senior coordinator fire and rescue services classification. Two of these employees will reach retirement age within the next five years. Because seven of the nine employees in the feeder classification are nearing or at retirement age, emergency services may have difficulty replacing those employees in the corresponding leadership classification. To the extent these positions are left vacant, or are filled by unqualified individuals,

the public's health and safety potentially could be at risk. Such demographics emphasize the importance of quickly undertaking workforce and succession planning efforts.

***Many of the Departments We Reviewed Have Taken Steps to Address Potential Worker Shortages, Although None Have Complete Written Plans***

Although California does not impose a statewide requirement for departments to engage in either strategic or workforce and succession planning, we believe that developing workforce and strategic plans in light of the baby-boomer retirements is a necessary and prudent business practice. Most of the departments we reviewed generally have current strategic plans, but none have written workforce and succession plans that address all of the steps in personnel administration's workforce planning model. A summary of these department's planning efforts is shown in Table 5 on the following page.

The Health and Human Services Agency (health and human services), which is an umbrella agency over many departments including three that we reviewed—social services, public health, and health care services—has facilitated some agency-wide activities to address expected retirements. One such activity, according to the assistant secretary of health and human services, was to develop an open-hiring exam for the staff services manager classification. The purpose behind having the open exam was to bring in new state employees at the managerial level. Once completed, health and human services used the exam for over 3,500 job applicants at 12 different testing locations throughout the State. According to the assistant secretary, of those that applied, more than 2,600 passed the exam and as of March 2009, 156 candidates had been appointed to the staff services manager classification. She explained that the personnel board granted health and human services exclusive rights to use this exam for six months. Further, in 2006 health and human services launched a supervisors' academy that holds three sessions annually consisting of no more than 30 employees each. In 2007 the agency launched its leadership development academy, which educates a group of 25 mid-level managers during nine days of training offered over a 10-month period. According to the assistant secretary, both academies cover the core leadership competencies that health and human services believes are critical to its future.

**Table 5**  
**Summary of Selected Departments' Responses and Efforts Regarding Workforce and Succession Planning**

DEPARTMENT	LEADERSHIP RANK-AND-FILE EMPLOYEES 50 OR OLDER PERCENTAGE*	BELIEVE REPLACING RETIRING EMPLOYEES WILL BE DIFFICULT?	REASONS FOR DIFFICULTY IN REPLACING RETIRED EMPLOYEES	COULD RISK OF NOT REPLACING RETIREES BE SIGNIFICANT TO THE PUBLIC'S HEALTH AND SAFETY?	STAGE IN THE WORKFORCE PLANNING PROCESS?	STAGE IN THE SUCCESSION PLANNING PROCESS?	START OF WORKFORCE OR SUCCESSION PLANNING EFFORTS?	COMPLETE WORKFORCE OR SUCCESSION PLAN?†	FACTORS DEPARTMENTS BELIEVE CONTRIBUTE TO SUCCESSFUL WORKFORCE OR SUCCESSION PLANNING
Department of Social Services	66%	Yes	● ● ● ●	Yes	Implementing and evaluating	Implementing and evaluating	1997	No‡	1) Highest level of leadership must be committed. 2) Healthy work culture that attracts qualified workers, promotes their staying in our department, and supports productivity.
Department of Public Health	51	Yes	● ● ○	Yes	Just begun	Just begun	2007	No	1) Invest/redirect staff resources to efforts. 2) Achieve results to maintain momentum. 3) Flexibility within existing human resources system to implement solutions. Executive support.
Health Care Services	61	No§		No	Just begun	Just begun	2008	No	Executive support and establishment of a leadership training program.
Emergency Services	62	Yes	●	Yes	Just begun	In process	2007	No#	1) Accurate workforce age and attrition data. 2) Improved recruitment capabilities. 3) Adequate pay increases for those promoting to managerial assignments.
Transportation	55	Yes	● ●	Unknown**	In process	In process	1999	No	4) Adequate training program to prepare employees for their current level and to assume responsibilities at higher levels.

Sources: Department responses to the Bureau of State Audits' questionnaire, interviews with department personnel, personnel data provided by the State Personnel Board (personnel board), and the Department of Personnel Administration (personnel administration).

- = The state hiring process is not timely.
- = State salaries are below those offered in the private sector.
- = Difficult to hire additional staff when the State faces fiscal challenges.
- = Many positions require extensive experience or specialized degrees.
- \* This data only includes civil servants who are full-time and permanent employees, or are serving in career executive assignment (CEA) positions. Further, the data is limited to those in leadership positions—those working in managerial, supervisory, or CEA positions. Finally, according to the personnel board, the data shown exclude certain state employees, including those working for the judicial branch, the legislative branch, and the California State University.
- † An entry of Yes in this column indicates the department has a written workforce or succession plan that addresses all of the steps in personnel administration's December 2008 workforce planning model.
- ‡ In its response to our questionnaire, social services indicated that it had workforce and succession plans and provided us with materials that it asserted was its plan. Our review of these materials found that social services only addressed two of the seven steps outlined in personnel administration's workforce planning model.
- § Health care services explained that it anticipates achieving success in replacing its leadership and rank-and-file employees because such efforts are seen as top priority within the department.
- || Health care services asserts it is actively engaged in workforce planning efforts and risks related to replacing employees when they retire have been mitigated.
- # During the audit, emergency services indicated that it had a succession plan. We asked emergency services to provide us with its plan; however, the document it provided only described the key first steps to developing a succession plan.
- \*\* Transportation indicated that it needs to complete its succession and workforce plans to determine if future retirements would adversely impact the public's safety.

According to social services' manager of its planning office, the department has undertaken an overall workforce management initiative that includes a succession planning component. She explained that although social services does not have workforce and succession plans in a formal report format, it does have a long-term strategy. Further, social services has identified workforce development, which includes proactively addressing their higher rates of impending retirements, as one of its top six department-wide best practices. In response to our survey, social services provided us with materials that it asserted were its workforce and succession plans. Our review of these materials indicates that they address some of the planning steps established in personnel administration's workforce planning model, including projecting the workforce supply and developing solutions to address retirements; however, the materials did not indicate whether social services reviewed its strategic plan or identified the future work functions and staffing requirements needed to achieve the goals in its strategic plan.

The manager of its planning office stated that social services launched its workforce and succession planning efforts in 1997, beginning with a professional management development program that not only supports improved leadership performance but aids social services' succession needs by helping to prepare future leaders. She explained that over time, social services began collecting workforce data, which helped launch a larger effort into workforce management beyond leadership development. This focus on workforce management has added programs over the years that deal with the full spectrum of strategies—such as recruitment, retention, and development of all employee groups—not just the narrow area of leadership succession. For example, to address retention, social services offers a training DVD that teaches managers about how to improve the quality of their relationships with their employees. To develop leaders and to transfer knowledge from experienced leaders to current leaders, social services established a mentoring program that partners current experienced and recently retired managers with current departmental managers and supervisors. Social services also strives to be an “employer of choice” and a widely recognized “great place to work,” with a reputation as a workplace that focuses on employee satisfaction and retention. According to the manager of its planning office, the single most important factor for success in succession and workforce management, is the need to create a healthy work culture that attracts qualified workers, promotes their staying in the department, and supports productivity.

In contrast, public health's chief of human resources acknowledges that her department is in the early stages of workforce and succession planning. In July 2007 public health officially became

*For one department, the focus on workforce management has added programs over the years that deal with the full spectrum of strategies including recruitment, retention, and development of all employee groups.*

its own department after splitting from the former Department of Health Services. The chief of human resources explained that public health's transformation team—which was responsible for building the infrastructure of the new department—identified the need for a comprehensive approach to workforce and succession planning. In October 2008 public health hired a consultant to help develop a new Office of Leadership and Workforce Development that would be responsible for the department's planning efforts. The chief of human resources indicates that this new office is currently in the early development stages and, although no formal document exists that defines the form or function of the new office, public health is reviewing proposed organizational charts depicting the new office's structure. According to the chief deputy director of operations, effective April 1, 2009, the department hired its first chief to manage the Office of Leadership and Workforce Development. Public health intends for staff assigned to this new office to work closely with the consultant to develop and implement the department's workforce and succession plans. According to public health's chief deputy director of operations, the department will complete its first plans no later than the summer of 2009.

Health care services is the other newly formed department following its split from the former Department of Health Services. Health care services established its own Workforce Planning and Development Office (planning office) in July 2008. One of its first tasks was to interview health care services' executive staff to identify the human resources challenges the department is facing. In October 2008 the planning office reported on its findings and made several recommendations aimed at improving the training of new and experienced employees. One of these recommendations was to establish an experienced worker program, which would identify a pool of experienced former workers who would be willing to come back to work as retired annuitants on a part-time basis. These retired annuitants would be used to coach and train current employees. In addition to these activities, health care services' chief deputy director explained that her department has sent promising employees to multi-session executive training classes sponsored by the California State University, Sacramento, and indicated that health care services' staff participate in various committees and workgroups associated with the Human Resource Modernization Project. Looking ahead, the chief of the planning office expects health care services to have finalized its succession and workforce plans by May 2009.

Similar to some of the other departments we reviewed, transportation does not have workforce or succession plans; however, it has created a specific unit within the department—the Division of Staff Development and Workforce Planning (development and planning division)—that will focus on developing

these plans in the future. The current chief of the development and planning division assumed her role in October 2008 and indicates that nearly 20 employees have attended the personnel board's one-day introductory class on workforce planning. The development and planning division is currently engaged in a pilot project for workforce planning that targets transportation's maintenance program, which consists of 4,000 employees in 12 different job classifications located in transportation's 12 district offices. According to the chief of the development and planning division, the tentative timeline is to complete the pilot plan in six months and develop a workforce planning process that can be used in other divisions within transportation. However, transportation does not have an estimate for when it will complete its department-wide workforce plan.

Although its efforts to develop workforce and succession plans are ongoing, it appears that transportation has recognized the need for succession planning and employee training for some time. In 2001 transportation hired a consultant to address the topic of succession planning. Among other things, the consultant's report recommended that transportation take steps to ensure that it provides appropriate leadership and career development training to its supervisors and managers. Our review noted that transportation has a robust training program for various employees, offering six different training programs that focus on different management levels within the organization. At the highest level, transportation offers an 18-month training assignment for managers with executive-level potential, which includes rotational assignments within the department's various divisions and the director's office.

Emergency services does not have a workforce and succession plan and intends to use a consultant to help develop these documents. In February 2007 emergency services hired a consultant to provide the framework for the department to develop its succession plan. In February 2008 the consultant issued a report, which noted that it undertook the project in the absence of emergency services having an operating strategic plan, descriptions of the current and future competencies needed for selected leadership positions, analyses of current and future work functions and staffing requirements, or an operable management development strategy. In the end, the consultant's report was limited to recommending some first steps emergency services could take as it develops a final succession plan.

One of the recommendations the consultant made was to institute individual employee development plans. Specifically, the consultant maintained that a state agency's succession plan should provide employees with additional information about how the necessary knowledge, skills, and abilities required for advancement may be acquired, but that it is up to the employee to pursue those

***Most departments we reviewed do not have workforce or succession plans, however, they created specific units within the departments that will focus on developing plans in the future.***

opportunities. The consultant noted that an employee's pursuit of those opportunities could be expressed in an individual development plan. According to emergency services' personnel and labor relations officer, her department has a two-year plan for increasing completion of individual development plans and intends to provide training to its supervisors on how to work with their staff to develop these plans.

Nevertheless, emergency services still seems far from being in a position to develop a workforce and succession plan. The limitations cited in the consultant's report are critical components to such planning, and many are discussed in personnel administration's workforce planning model. According to its deputy director of administrative services, emergency services is challenged by large planning projects such as workforce planning because the nature of its work means that staff are continually positioned to drop everything in order to confront a state emergency. The deputy director explained that, as a result, it can be difficult to get the right people together at any given time since schedules frequently change to address the State's emergency issues. The deputy director indicated that emergency services plans to hire the same consultant to begin work in February or March 2009 on a comprehensive workforce plan.

#### ***Departments Need to Proceed With Caution in Using Consultants to Develop Their Workforce and Succession Plans***

***Although consultants can offer expertise and assist with decision making, it is imperative that departments retain ownership for the ultimate success or failure of their planning efforts.***

The use of consultants by state departments such as emergency services, transportation, and public health may not be uncommon, but still warrants some caution. Although consultants can often bring expertise that departments may lack and can help facilitate the decision-making process associated with planning, it is imperative that departments retain ownership for the ultimate success or failure of their planning efforts. It seems reasonable that no consultant would have a better understanding of a state agency and its needs than the people that manage that agency on a daily basis. In fact, the U.S. Government Accountability Office emphasizes the need for involvement of top management and other stakeholders in developing and implementing workforce and succession plans.

The State's current fiscal condition is another consideration. In a period of limited fiscal resources, departments should critically consider whether they are getting a good return on their investment of public funds. Consultant contracts can vary greatly in cost depending on the scope of work. For example, emergency services' contract with its consultant was nearly \$61,000, while public health's contract was for more than \$200,000. Given the urgency to

adequately prepare for upcoming retirements and the State's limited fiscal resources, departments should question whether using consultants is a more cost-effective approach than taking advantage of personnel administration's workforce planning model.

***Social Services and Transportation Are Using Low-Cost Planning Strategies That Other Departments Might Consider Adopting***

Some strategies for recruiting, retaining, and developing staff—such as adjusting pay to make it comparable to other sectors or instituting formal training programs—may be fiscally out of reach in the State's current economic climate. Yet, some departments have implemented low-cost solutions that could be useful for others to consider as they implement their workforce and succession planning efforts. For instance, as a retention strategy, social services has organized quarterly group discussions between staff-level division representatives and their chief deputy director. Prior to the meeting, staff are encouraged to submit questions to the staff-level representatives, anonymously or signed. During the meeting, the chief deputy director discusses and responds to the questions. Following the meeting, social services distributes the questions and answers via e-mail and makes them available on its internal communication system. According to the manager of social services' planning office, staff have expressed their strong appreciation of the program and value the positive changes they have seen within their own divisions, including improved communication, a higher degree of trust in their managers, increased concern from the supervisors, actual revisions to policies, and other tangible and intangible improvements.

As another retention strategy, social services has an employee recognition program and a Web site that provides employees with information about the program as well as online nomination forms. The employee recognition Web page also includes resources and ideas for how to recognize employees and a tool kit for managers. Finally, the manager of social services' planning office explained that the human resources office conducted an employee satisfaction survey in 2007, which provided the department's leadership with feedback and direction to further improve their operations and culture. The manager of social services' planning office attests that employee satisfaction surveys are ultimately aimed at creating cultures that produce high employee engagement, which in turn creates higher performance and productivity. Social services is planning a second employee satisfaction survey in the spring of 2009.

***Low-cost strategies for workforce planning and developing employees exist and include pro bono consultants, mentoring programs, job shadowing, and rotational assignments.***

To augment and sustain its efforts, social services has been resourceful in seeking external help. For example, according to the manager of its planning office, the department contacted the former president and CEO of Vision Services Plan to ask for his voluntary assistance in improving social services. She explained that the former president and CEO's leadership of Vision Services Plan led to it being recognized by *Fortune Magazine's* list of the "100 Best Companies to Work For." Vision Services Plan, which is based in Rancho Cordova, California, became the nation's largest provider of eye care wellness benefits. He is now an ongoing pro bono consultant to the department and serves on its Employer of Choice Advisory Board. Other departments could benefit from the advice of individuals with expertise in organizational improvement similar to that of the former president and CEO of Vision Services Plan and, to the extent they have not already done so, could seek similar advice.

Numerous other low-cost strategies for developing employees also exist. To begin with, creating an individual development plan for each employee provides direction for future development opportunities. According to CPS Human Resource Services, a consulting firm that studied various succession planning activities, low-cost options that may develop employees include mentoring programs, job shadowing, site visits to observe and learn about different job assignments, and rotational assignments. For instance, according to the chief of transportation's staff development and workforce planning division, the department has a long-established rotation program for entry-level engineers, which not only develops staff but is also a key recruitment tool. Low-cost strategies for ensuring that department knowledge is captured also might include routinely taking minutes or recording meetings, updating procedures manuals, and videotaping an expert as she or he demonstrates how to complete a critical task. Following such strategies deserves consideration from departments, particularly in light of today's fiscal constraints.

We prepared this report under the authority vested in the California State Auditor by Section 8546.5 of the California Government Code.

Respectfully submitted,



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