



Performance Audit:

Succession Planning

Durham County Internal Audit Department

October 19, 2016



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Mr. Wendell Davis,
Durham County Manager

Dear Mr. Davis:

The Internal Audit Department has completed its review of the status of succession planning within Durham County Government. The review focused on how processes within the County compared to published best practices.

We found that directors have an array of ideas about how succession would take place within their departments. However, their ideas are not formalized. Internal audit believes succession planning would be improved if plans were formal, written, and approved.

Internal Audit's recommendation is that Directors develop formal, written succession plans, using established best practices, submit them to approving authorities for consideration and approval, review and update them consistently, and keep them on record for use as necessary.

The Human Resource Director has reviewed this report. The Director's comments are found in appendix 2 at the end of this report.

Sincerely,

Richard Edwards,
Internal Audit Director

CC: Audit Oversight Committee
BOCC

INTRODUCTION

The Audit Oversight Committee approved this audit in the fiscal year 2017 Annual Audit Plan. The audit reviews the County's vulnerabilities regarding operational continuity upon termination or leave of critical departmental leaders.

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

Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to gather information regarding the status of succession planning within Durham County Government. The purpose was to provide management with information in its efforts to address succession-planning issues as it moves forward with its strategic planning efforts. To conduct our engagement, we:

1. Researched best practices for succession planning.
2. Surveyed each department to obtain information regarding their succession planning efforts.
3. Compared best practice concepts with survey results.

Audit fieldwork was conducted between June 8, 2016 and August 8, 2016.

BACKGROUND

Efficient and effective succession planning is imperative to the continuity of County operations upon the voluntary or involuntary turnover of employees in key or critical positions. According to information provided by Department Directors (Directors), at least 160 employees, including themselves, serve in key or critical positions within their respective departments. Succession planning acknowledges

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington D.C.: U.S. Governmental Accountability Office, 2011, p.17.

that staff will not be with an organization indefinitely and it provides a plan and process for addressing the changes that will occur when they leave. Succession planning also addresses hiring, recruiting, and training employees for critical positions for current and future leadership positions.

Business, industry, and government have been discussing succession planning for many years. In February 2011, a Government Financial Officer Association article pointed out that "Many governments face the challenge of ensuring continuity and consistency of service delivery due to employee turnover. In instances where large numbers of government employees are eligible to retire, there is a concern that not enough qualified or available workers will be prepared to replace them." The article went on to suggest strategies and approaches to remedy the risk of not having employees in place when needed.

As the County moves into its "Managing for Results" business model, personnel management is a major consideration. This aspect of managing for results requires that the best people are hired and trained to run effective and efficient operations. The focus must be on continuing a high level of operations when turnover occurs and to achieve that result, having people ready to ascend seamlessly into key and critical positions when positions become available is a requirement.

Durham County management has shown an interest in succession planning and the Human Resources (HR) Department has obtained a computer module to facilitate succession planning. In HR's model, the opportunity exists for employees to enter their training and job experiences so management can readily identify employees that are moving in a direction that leads to elevated positions or employees that have skills to fill specified positions. Additionally, the County has formal conduits for leadership training such as the Leadership Academy, Lunch and Learn Sessions, and the Innovation Academy. These sources provide training for those interested in enhancing their skills and moving into positions of greater responsibility.

Best practices suggest that the efforts above be incorporated into a formal approach to succession planning. For example, best practices suggest that succession planning focus on a three- pronged approach; capacity and needs assessment; developing and implementing a formal written plan; and monitoring and managing the plan.

FINDINGS AND CONCLUSIONS

Succession planning is a recognized method to assure that competent staff is assigned to fill vacant positions. It incorporates hiring, training, performance evaluation, and retention practices. Directors within the County are largely responsible for those activities and we found that they have a substantial amount of foundational knowledge of the personnel risks and succession needs of their departments. They also have ideas of how succession would proceed if they were

no longer available and most had ideas of how key positions under them will be filled. However, most Directors (1) do not have a formal, written plan, (2) appear to be unaware of how to prepare a formalized succession plan, and (3) how to get one approved. Many of the ideas expressed by Directors were based upon years of experience and precedent within County government. While their ideas were feasible, they do not meet the standards of best practice for formal succession planning. Therefore, the ideas held by Directors may not provide the type of organized, informed, decision-making that a formal succession plan, that has been reviewed and approved, would provide.

This audit report discusses the status of departments in regards to succession planning best practices. The best practices we will discuss are:

- A written, formal plan,
- Capacity and needs assessment,
- Retention risk assessment,
- Identifying successors to critical positions, and
- Development of internal successors.

Need for a formal succession plan

For the most part Directors have not developed formal succession plans. Four of 20 Directors responded that they have prepared a formal succession plan. The reasons stated by Directors for not having a plan varied. The reasons given were (1) they are unaware of how to create a succession plan, (2) they have not been requested or required by higher management to create a succession plan, (3) they do not have the authority to create a succession plan, or (4) they are currently working on one.

Directors have informal ideas about how succession will take place in their departments. Directors generally believe their deputies or top assistants will take their positions temporarily until a permanent person is appointed. However, that has not always been the case. For example, an opening for a Human Resources Department Director was temporarily filled by an employee outside the department, as was the case when a department director vacancy occurred in the Engineering Department.

Formal succession plans tends to provide order to the succession process. In a formal plan, risks and strategies are identified, thereby providing a guiding framework for specific succession initiatives, including how employees are eligible to participate and what being part of the succession plan means. Plans that have been thoughtfully articulated and communicated to the organization are more likely to be successful according to best practices. Additionally, formal plans

indicate organization and leadership commitment to succession management, which is critical for leadership transitions.

Capacity and needs assessment

Directors said they have considered succession needs within their departments. All Directors that responded to a survey conducted by Internal Audit indicated that they understand the needs of their departments. Directors said they (1) understand and know the needs of their departments in cases of succession, (2) have identified positions critical to carrying out departmental missions and reaching organizational goals, and (3) have determined what base competencies are needed for a successor to perform efficiently and effectively in key or critical positions.

Although Directors have assessed needs within their departments, these assessments were not made formal through a plan as suggested by best practices. Internal audit did not attempt to determine if departmental plans, either formal or informal, considered all the aspects suggested in best practices. However, a formal plan may be more effective and efficient. Best practices state that formal plans provide a framework for persons other than the department's leader to understand succession needs in a systematic way so they can be executed systematically. Without a formal plan that includes needs assessment, appointing authorities may not have access to information suggesting the best person for the position. Although Directors have a good sense of personnel needs according to their survey responses, a formal plan would create a more orderly and reasoned approach.

Retention risk assessment

Approximately 90% or 18 of 20 Directors that responded to the survey assessed the retention risks associated with each critical and key position within their departments. The Directors that had not assessed risk said they are aware of the likelihood of personnel changes in regards to key positions.

One of the two Directors that failed to complete a retention risk assessment stated they have not completed one because they did not believe key employees were going anywhere soon because they are career employees who are not eligible for retirement any time in the near future. The other Director said he was not knowledgeable in methods to conduct an assessment.

Best practices recommend that entities identify which individuals are likely to leave and when they may leave because of retirement and other employment terminations. Failure to assess retention risk, as it relates to key and critical positions within each departments, may result in the inability to operate efficiently

and effectively in times of succession, especially when vacancies occur sudden or are unplanned.

Identifying successors to critical positions

According to survey responses, 60% of Directors had identified potential candidates to serve as internal successors for all key and critical positions. However, 40% or 6 of 20 Directors have not identified potential candidates to serve as successors for all key/critical positions although they have identified candidates for some positions. Best practices recommend identification of all key positions critical to carrying out the organizations missions.

Department Directors said they have not identified all potential succession candidates for various reasons. They provided reasons such as (1) individuals who possess adequate skills lack interest in assuming critical positions, (2) the talent pool is inadequate, (3) the critical position is an elected position, or (4) the department is in the process of hiring new personnel.

The reasons provided for not identifying staff for critical positions indicates that additional training and discussions regarding the need for succession planning may be warranted. The reasons also contradict best practices designed to assure orderly transition that facilitates unabated continuation of mission and goal attainment.

Development of internal successors

More than half or 60 percent of survey respondents said they have begun to develop their employee's leadership skills through training, coaching and mentoring, and performance evaluations for potential succession to higher positions. This approach is pragmatic and supported by best practices even when formal succession plans are not in place. This practice by Directors is based upon their management experience and ideas about responsible management practices.

While more than half (12 of 20 respondents) have begun to develop staff, eight Directors have not begun to develop staff for succession purposes. Directors are aware of the need to develop staff because most had done some form of risk assessment but they provided various reasons for not developing staff for succession. Some of the responses were (1) they have not been able to identify their successors, (2) they are still in the process of developing a plan, and (3) successors have been encouraged to take up additional training but have not followed through.

The failure to develop internal successors can result in having successors that lack the required skills and experience to step in and serve. In cases where internal

successors have not been identified, we believe additional emphasis from an organizational perspective is needed.

Governmental hiring and promotion practices are complex

Although succession planning is essential to seamlessly transitioning to new leadership and continued operational leadership, governmental competitive processes can be complex. Durham County's competitive processes provide direction and guidance regarding job advertisements and postings, length of advertising period, number of persons to be interviewed, definition of skills for specific positions, and specify how interviews will be conducted, among other constructs. The same holds true for promoting employees to higher responsibility. These steps are in place to assure that the process is fair and merit-based. Complaints are generally lodged that the process is long and arduous.

However, a comprehensive and systematic succession planning and management program is designed to be a merit-based selection system. If incorporated with effective performance appraisal systems, succession planning is intended only to ensure that internal candidates can be competitive when promotional opportunities arise and that qualified candidates are hired and trained appropriately. Internal audit believes a formal succession planning is the most feasible method to assure that personnel transfers are effective and efficient. Our recommendations to achieve seamless transitions are stated below.

RECOMMENDATION

Succession planning is considered by business managers to be one of the more important functions of leadership. Recognizing that having the right people in place at the right time, business analysts have developed best practices for succession planning to facilitate smooth transitions and operational continuity when leaders depart the organization. In line with business and industry best practices, internal audit makes the following recommendation:

Develop formal, written succession plans, using established best practices, submit them to approving authorities for consideration and approval, review and update them consistently, and keep them on record for use as necessary.

Appendix I: Best Practices for Succession Planning

Note: Internal audit reviewed various sources for succession planning best practices. The following compilation was excerpted from three sources named at the end of this section. Our analysis of the best practices resulted in dividing them into three functional areas, (1) capacity and needs assessment; (2) developing and implementing the plan; and (3) monitoring and managing the plan.

EXCERPTS OF BEST PRACTICES

Capacity and Needs Assessment

1. Identify Key positions for your organization
These include the executive director, senior management and other staff members, who would, for their specialized skills or level of experience, be hard to replace.
2. Review and list your current and emerging needs
This will involve examining your strategic and operational plans to clearly articulate priorities.
3. Determine your "Bench Strength"
To determine your organization's bench strength you must determine the base competencies the organization and key staff need to accomplish organization's objectives. The competencies must be aligned with any performance measurement and professional development process that your organization has.
4. Identify potential candidates for the key or critical positions
While still respecting competition in the process, the assessment of your "bench strength" allows you to determine where your knowledge gap exists and conduct professional development activities.
5. Identify which individuals are likely to leave and when
Making career planning discussion a part of regular and ongoing performance review process assists in assessing potential turnover. Department heads are good resources in helping to identify employees that may be planning to leave.

Develop and Implement a Plan

1. Secure senior management and board support in a succession planning process. This gives employees and staff an understanding of how important succession planning is to the organization.
2. Devise strategies targeted at improving institutional knowledge. The following list provides key strategies that organizations utilize to improve institutional knowledge:
 - a. Training - Training provides employees with information that can allow them to perform their current job duties in the most efficient way possible and can grow employees into new positions, duties, and responsibilities.
 - b. Coaching and mentoring - allows for seasoned veterans of your organization to work with the next generation to impart knowledge about organizational culture, work policies and procedures, and softer skills such as employee management.
 - c. Performance evaluation - To grow and develop your workforce, you must be able to accurately assess performance and ensure that it is strategically aligned with your competency framework. Additionally, where performance is deficient, you need to have plans for how to improve upon it.
 - d. Knowledge management - Focuses on retaining institutional memory and knowledge that can be lost when experienced workers depart organizations. Institutional memory encompasses what the members of an organization have learned as a direct consequence of living through experiences and participating in decision-making. An effective knowledge retention program can help mitigate potential skill shortages in key functions.
3. Develop written policies and procedures to facilitate knowledge transfers. Knowledge transfer is a critical component of succession management. There should be written procedures in place to formalize the knowledge transfer. A meeting should be held with departing staff to document job responsibilities.
4. Provide a formal or written succession plan. Without a formal plan, succession planning tends to take place in an un-systematized fashion. A formal plan identifies risk and strategies, thereby providing a guiding framework for specific succession initiatives, including how employees are eligible to participate. Plans that have been thoughtfully articulated and communicated to the organization are more likely to be successful. Additionally, having a formal plan indicates organization and

leadership commitment to succession management, which is critical for leadership transitions. Best practices show that the entity should work with the budget department and human resources to develop a successful succession plan.

5. Development of leadership skills.

When leadership development occurs, the organization benefits from developing a leadership pool for other positions. Professional development can include such wide ranging activities as formal education and training, workshops and seminars as well as less formal learning opportunities such as the chance to represent the organization at a consultation.

6. Provide adequate time to prepare successors.

The earlier they are identified, the easier it is on the individual, to be advanced, and on other employees within your organization who will know whether certain options are available to them.

Monitor and Manage the Plan

1. Review and update your succession plan regularly.

- a. As people leave and new people assume their responsibilities, the plan will have to be updated to identify the next person to be groomed for promotion and the requirements of his or her individual action plan. For organizations that engage in an annual (or regular) strategic planning process, the succession plan should be included in that discussion.
- b. Be prepared to address issues such as concerns of staff who have not been selected for career advancement. Ensure alternative paths are identified to allow all employees who are interested in career enhancement to be given some type of professional development opportunity.

References

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Appendix 2. Department Comments



Human Resources

October 17, 2016

Richard C. Edwards
Internal Audit Director
Durham County Government

Dear Mr. Edwards,

Human Resources is in receipt of your Performance Audit on Succession Planning, wherein you may specific Findings and Recommendations. The report has been reviewed by key members of the Human Resources Leadership Team and at the conclusion of a very thorough examination of the same, it is HR's plan to adopt the recommendations offered in the report in their entirety. Specifically, HR's short-term goals include the initiation and implementation of a Succession Planning Process, which includes:

1. The implementation of the SAP/Success Factors Succession Planning Module, which is designed to help increase employee engagement, foster professional growth and development, and maximize career opportunities for top talent. Additionally, it will assist with better aligning DCo's workforce to the critical needs of the Organization by using a complete skills and competency libraries;
2. Advocacy and support for the continuation of the Durham County Government Leadership Academy and the creation of other Professional Development Training Opportunities, with an emphasis on identifying top talent and readying these individuals for movement into key leadership roles; and,
3. The establishment of a process whereby HR will review and monitor the Plan annually and make modifications, as necessary, to ensure that the plan continues to align with the Organization's strategic plan.

Thank you for this opportunity to respond. If you have any questions regarding this response, please feel free to contact me.

With kind regards, I am

Sincerely,

Kathy R. Everett-Perry, Esq.
Chief Human Resources Officer - Director

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