



MEMORANDUM

TO: JOINT PERSONNEL COMMITTEE
FROM: VALTER VIOLA, CORTEX
SUBJECT: EVOLVING THE CEO AND CIO PERFORMANCE EVALUATION PROCESS AND METRICS
DATE: MARCH 27, 2023
CC: ROBERTO PENA (CEO); PRABHU PALANI (CIO); BARBARA HAYMAN (COO AND DEPUTY DIRECTOR)

Cortex has been working with the Joint Personnel Committee (“JPC”) to review the recently implemented system for executive leadership (CEO & CIO) performance evaluation.

At the last JPC meeting, Cortex reviewed the feedback regarding the evaluation metrics and the overall process; this feedback was provided using a survey that was completed by members of the JPC as well as the CEO, CIO, COO and Deputy Director, and Cortex.

Cortex has developed several recommendations for the JPC and staff to consider based on the above survey feedback and discussions at the last JPC meeting, as well as further discussions between Cortex and staff.

Appendix 1 describes the 10-step process for evaluating the CEO and CIO.

Appendix 2 has the survey findings, presented last meeting, which informed the recommendations in this memo.

Appendix 3 compares the questions in the Climate Survey to those in the City Engagement Survey.

Endnotes at the end of this memo provide more details and are cross-referenced to the main document.

Memo Contents

Observations and Recommendations..... 2

 1. Metrics and Weights 2

 2. Processes for Gathering the Information 6

 3. Processes for Evaluating the Information..... 7

Appendix 1: 10-Step Process 8

Appendix 2: Survey Findings 9

Appendix 3: Comparison of Climate Survey and City Engagement Survey Questions..... 10

Endnotes 13

OBSERVATIONS AND RECOMMENDATIONS

Recommendations cover three areas:

- 1. metrics and weights used in the evaluations;
- 2. processes for gathering the information; and
- 3. processes for evaluating the information.

1. METRICS AND WEIGHTS

Issue	Observations	Recommendations
INVESTMENT PERFORMANCE	<p>44% of Survey Respondents believe Investment Performance is relevant for the CEO, while 56% believe it is not.</p> <p>The weight to Investment Performance for the CEO's evaluation is currently 10%, well below the weight for the CIO (60%).</p>	<p>JPC should discuss:</p> <ul style="list-style-type: none">• the relevance, for the CEO's evaluation, of investment performance; and• the appropriateness of the weight in the CEO's evaluation (currently 10%).
INVESTMENT PERFORMANCE – PERFORMANCE OF PRIVATE MARKET PORTFOLIO VS. APPROPRIATE PRIVATE MARKET BENCHMARK (TBD)	<p>An appropriate private market benchmark is to be determined.</p> <p>In last year's evaluations, performance was shown vs. MSCI ACWI IMI + 100bps.</p>	<p>JPC should consider whether “MSCI ACWI IMI + 100bps”, reported last year, is an appropriate private market benchmark to use or whether an alternative benchmark should be considered.</p>
BENEFIT ADMINISTRATION COST-EFFECTIVENESS	<p>CEO Procedures state that benefit administration cost-effectiveness shall be evaluated using Administration Cost-per-Member (ACPM) by “comparing the ACPM ... to benchmarks approved by the JPC ... No benchmark ... will be established for FY 2021/22. Instead, the JPC will work with the CEO ... to develop ... benchmark. In developing the benchmark, the JPC will consider ..., if available, peer cost data”.</p> <p>ACPM is to be measured on a 3-year rolling basis.</p> <p>As part of the annual budget process, staff currently collects cost data from a 22-member peer group (e.g., personnel and admin costs).</p>	<p>For the ACPM metric, JPC should consider:</p> <ul style="list-style-type: none">• the comparability* of peer data;• timeliness** of peer data; and• deferring the development of a benchmark until FY 2023/24, after which time one or more 3-year rolling ACPM metrics will be available – giving the JPC an opportunity to inform their judgement based on a review of this data. <p>* To be comparable, peers’ cost data should be aggregated consistently (i.e., same inclusions/exclusions). Peer membership data (denominator) should also be calculated consistently (e.g., include or exclude retired members).</p> <p>** Peer data should generally be in the public domain (e.g., annual reports). A 3-year rolling ACPM for peers would not be available by the Summer of 2023 (deadline for FY 2022/23 evaluations).</p>

Issue	Observations	Recommendations
MEMBER SERVICE – MEMBER SATISFACTION	<p>CEO Procedures state that the JPC “shall work with the CEO to develop additional member service quality metrics over time”.</p> <p>Current metrics are:</p> <ul style="list-style-type: none"> • benefit delivery (timeliness of pension payments, notifications, etc.); and • member satisfaction (survey results from Group Counselling Sessions, ORS website visitors, and ORS member portal visitors). <p>CEO Procedures currently outline three metrics for measuring member satisfaction:</p> <ol style="list-style-type: none"> 1. Group counselling session survey results; 2. ORS Website visitor survey results; and 3. ORS Member Portal visitor survey results. <p>Last year, the ORS <u>Website</u> visitor survey included only 5 responses and the ORS <u>Member Portal</u> visitor survey included only 8 responses (i.e., small samples).</p> <p>Both of the above surveys asked only two questions:</p> <ol style="list-style-type: none"> 1. Were you able to find the information you needed; and 2. How satisfied are you with the overall user-friendliness? <p>Staff indicated that a survey is requested from members after their retirement is “set up”; this is a potential source of information regarding member satisfaction, but it is limited to a small group (i.e., members retiring in the year).</p> <p>It is Cortex’s understanding that a broader membership survey is not used now, and that member satisfaction data is not being requested/captured after members initiate a communication with staff.</p>	<p>JPC should assess the importance of the metrics currently being used to assess member satisfaction, which are survey responses from:</p> <ol style="list-style-type: none"> 1. members attending group counselling sessions; 2. visitors to the ORS Website (some of whom may not be members); and 3. members accessing the ORS Member Portal. <p>JPC should consider requesting staff to develop a Member Quality Service Index (“QSI”) that:</p> <ul style="list-style-type: none"> • increases the coverage of members; • includes key attributes of member satisfaction (e.g., reliability, responsiveness, etc.); and • captures members’ feedback on ways to improve member service quality.

Issue	Observations	Recommendations
STAKEHOLDER RELATIONS	<p>In last year’s evaluations, no information regarding stakeholder relations was provided to Cortex.</p> <p>The possibility of completing a “360° Review” has been discussed; some elements of a 360° Review exist now in different surveys, but the questions may not be the same across different surveys/audiences.*</p> <p>* e.g., Trustees complete a Leadership/Management survey while staff complete a Climate Survey; the questions differ between these surveys.</p>	<p>JPC should consider the various surveys that are used and determine whether the development of a <u>common</u> set of questions, posed to <u>different</u> groups, could serve multiple purposes.</p>
OPERATIONS MANAGEMENT	<p>CEO Procedures state that the “operational management skills of the CEO shall be assessed by reviewing the CEO’s annual workplan and associated status reports”.</p> <p>The Procedures identify these metrics:</p> <ol style="list-style-type: none"> 1. Quality of annual workplan; 2. Progress on annual workplan; and 3. Appropriateness of any mid-year adjustments. 	<p>JPC should clarify its expectations regarding the evaluation of the CEO’s operational management skills.</p> <ol style="list-style-type: none"> 1. Is a more rigorous process needed? 2. Confirm that the workplan should cover only <u>operational</u> objectives (i.e., exclude any of the CEO’s <u>personal development</u> objectives). <p>To facilitate the JPC’s review of the quality of the workplan and the progress towards its completion, staff should:</p> <ul style="list-style-type: none"> • clearly relate the accomplishments of the Operations Group (e.g., Accounting, Benefits, IT, etc.) to the workplan’s deliverables; and • provide an overall summary of the workplan’s completion (“status”).
HUMAN RESOURCES MANAGEMENT – CLIMATE SURVEY RESULTS/CITY ENGAGEMENT SURVEY RESULTS	<p>Last year, 43 staff were asked to participate but only 28 responses were provided (65%); this was substantially lower than the 85% participation rate from the prior year.</p> <p>Cortex understands that the lower response rate last year was due to a miscommunication regarding the individuals expected to participate.</p>	<p>All staff should be reminded that their participation in the employee climate survey is important and that 100% participation is sought.</p>
	<p>33% of Survey Respondents believe Climate Survey/City Engagement Survey results are <u>not</u> relevant for the <u>CIO</u>.</p>	<p>JPC should discuss:</p> <ul style="list-style-type: none"> • the relevance, for the <u>CIO’s</u> evaluation, of i) Climate Survey and ii) City Engagement Survey; and • the appropriateness of the weight in the <u>CIO’s</u> evaluation, and potential assignment of a “sub-weight” for the <u>CIO’s</u> evaluation.
	<p>Staff indicated that the City Engagement Survey was last done in 2019.</p> <p>Appendix 3 compares the questions in the Climate Survey to those in the City Engagement Survey; it shows there is little overlap between the two surveys.</p>	<p>JPC should discuss whether the City Engagement Survey should be retained as a metric.</p> <p>If so, staff should enquire about the Survey’s availability (i.e., frequency and timing of Survey findings).</p>

Issue	Observations	Recommendations
ENTERPRISE RISK MANAGEMENT	<p>There is 100% agreement that the Enterprise Risk Management (“ERM”) criteria below are relevant for the CEO’s evaluation, but some respondents (22% - 44%) disagreed regarding the relevance of ERM for the CIO’s evaluation.</p> <p>5 ERM Evaluation Criteria:</p> <ul style="list-style-type: none">a) Financial audit resultsb) Quality of internal audit Planc) Internal audit resultsd) Compliance report findingse) Quality of management’s responses to above <p>Procedures state that both the CEO and CIO have a 40% weight to Management Methods (which includes ERM), and that there are no “sub-weights” for metrics within this broad group. (See table 2 in the endnote¹, from CEO Procedures.)</p>	<p>JPC should discuss the <u>relevance</u> of ERM in the <u>CIO’s</u> evaluation.</p> <p>JPC should consider what <u>weight</u> ERM should have in the <u>CIO’s</u> evaluation, given the relevance above, and whether the ERM weight should be given a “sub-weight” (< 40%) for the <u>CIO</u>.</p>

2. PROCESSES FOR GATHERING THE INFORMATION

Issue	Observations	Recommendations
MEMBER SERVICE	Staff indicated that compiling data in a timely way after the fiscal year end (June 30) is challenging and a complete set of data is not available until July.	JPC should consider revising the evaluation period for certain metrics (e.g., 12 months ending May 31, rather than June 30), or using 11 months (i.e., exclude June). Staff recommended that the JPC consider changing the CEO Procedures as shown in the footnote below ¹ .
HUMAN RESOURCES MANAGEMENT – CODE OF CONDUCT VIOLATIONS	One metric for evaluating the CEO includes “reported violations of the code of conduct”. “Code of conduct” should be interpreted to apply to <u>all</u> employees, not just the CEO. “Code of conduct” is vague. The City, for example, has a Code of Ethics with which staff should comply (Cortex’s assumption). ²	JPC and staff should confirm: 1. What is covered under “code of conduct” (e.g., City of San Jose Code of Ethics? Other?); and 2. How a summary of violations can be provided (e.g., nature and number of violations), while preserving any needed confidentiality, or whether this metric should be removed.

1

22) In the case of deferred vested and non-member DRO retirements, inception shall be deemed to have occurred without cash flow interruption when:

a) The member submits an initial application in the month the member becomes eligible for retirement, **and** the first pension payment is issued no later than the followingsecond month following the month of application; or

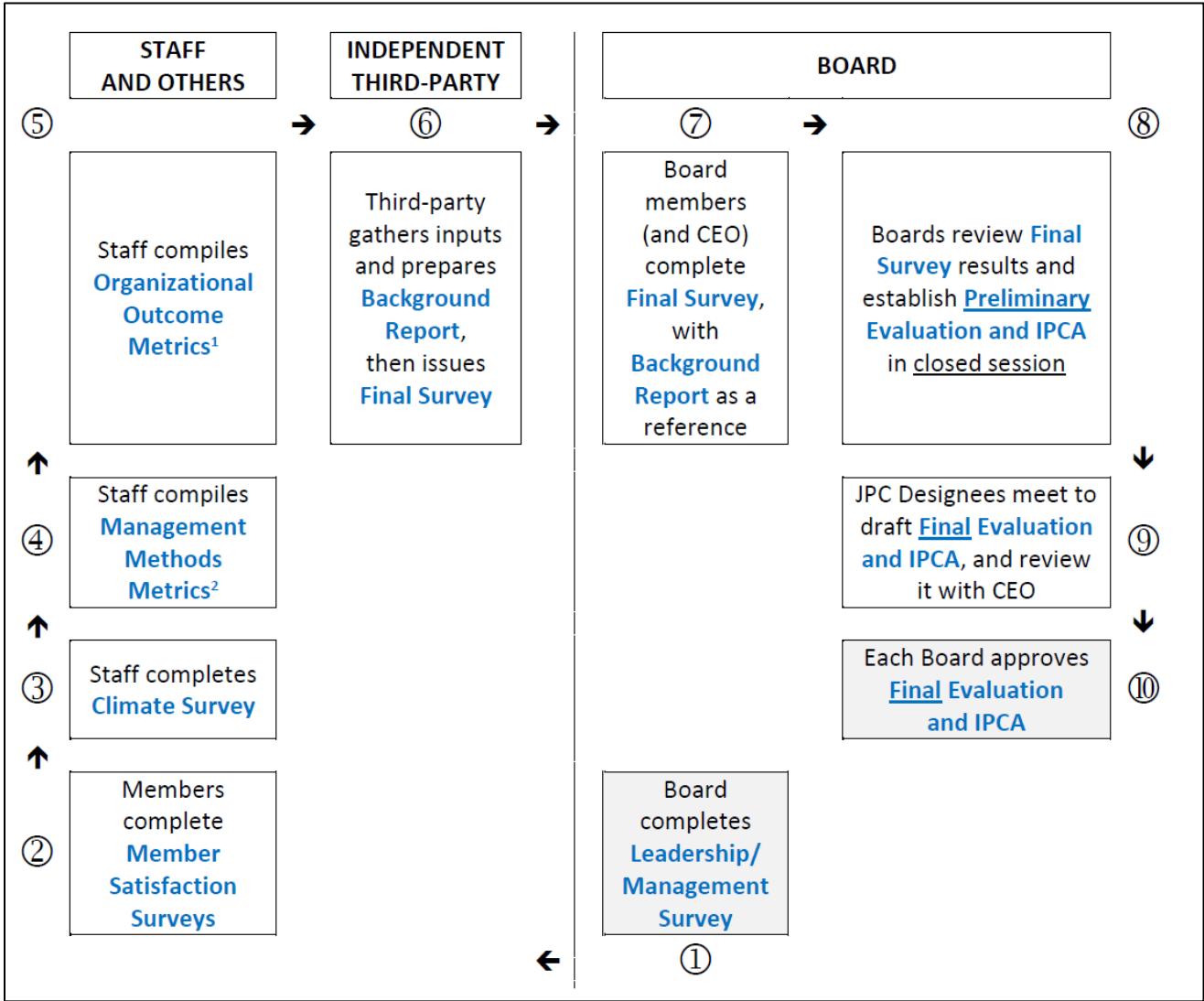
b) The member submits an initial application prior to the month in which the member is eligible for retirement, **and** the first pension payment is issued in the month/the month after the member becomes eligible for retirement.

3. PROCESSES FOR EVALUATING THE INFORMATION

Issue	Observations	Recommendations																								
DUAL BOARD STRUCTURE	There is no method or mechanism for resolving any disagreements between the two boards regarding their evaluations of the executives.	JPC should discuss the pros and cons of having a more formal/structured mechanism for resolving disagreements between the two boards.																								
SCORES AND ADJUSTMENTS TO COMPENSATION	<p>CEO Procedures describe award parameters in a table (below), noting that they “are not intended to restrict the Boards’ ability to exercise their discretion to award higher or lower IPCA and Executive Leave reflecting relevant factors and circumstances such as the magnitude of the year’s out-performance or under-performance, the amounts awarded in prior years, peer practices, etc.”.</p> <table><tr><th colspan="4">TABLE 3</th></tr><tr><th>ORGANIZATIONAL OUTCOMES RATING (60% WEIGHT)</th><th>MANAGEMENT METHODS RATING (40% WEIGHT)</th><th>BASELINE IPCA AWARD (%)</th><th>BASELINE ADDITIONAL EXECUTIVE LEAVE (DAYS)</th></tr><tr><td>Outstanding</td><td>Outstanding</td><td>> 3%</td><td>5</td></tr><tr><td>Commendable</td><td>Commendable</td><td>2% - 3%</td><td>4</td></tr><tr><td>Satisfactory</td><td>Satisfactory</td><td>1%</td><td>2</td></tr><tr><td>Needs Improvement</td><td>Needs Improvement</td><td>0%</td><td>0</td></tr></table> <p>It is Cortex’s understanding that the Boards <u>did</u> exercise their discretion to award higher or lower IPCA and Executive Leave (i.e., the scores on the left did not “map” necessarily to the award on the right).</p>	TABLE 3				ORGANIZATIONAL OUTCOMES RATING (60% WEIGHT)	MANAGEMENT METHODS RATING (40% WEIGHT)	BASELINE IPCA AWARD (%)	BASELINE ADDITIONAL EXECUTIVE LEAVE (DAYS)	Outstanding	Outstanding	> 3%	5	Commendable	Commendable	2% - 3%	4	Satisfactory	Satisfactory	1%	2	Needs Improvement	Needs Improvement	0%	0	<p>JPC should confirm that the Procedures, as written, for the CEO and CIO have the right “balance”:</p> <ul style="list-style-type: none">the table provides a “default” mapping from score to IPCA award; andBoards can exercise their discretion to award different IPCA and Executive Leave that reflect other relevant factors and circumstances. <p>JPC should consider revising the specific IPCA Award % to a relevant percent of IPCA Baseline.</p>
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Satisfactory	Satisfactory	1%	2																							
Needs Improvement	Needs Improvement	0%	0																							

APPENDIX 1: 10-STEP PROCESS

The 10-step Process is summarized below, starting with the Leadership/Management Survey completed by Board members. (The Process below relates to the CEO; the Process is similar for the CIO.)



APPENDIX 2: SURVEY FINDINGS

The survey asked for opinions on the following metrics, rating their utility and efficacy on four points:

- its relevance to executive performance, distinguishing between its relevance for the CEO’s evaluation and its relevance for the CIO’s evaluation;
- its measurability (is it quantifiable);
- whether the data can be collected in a timely manner (relative to the August/September evaluation deadline to complete the evaluation); and
- its cost effectiveness, which encompasses the ease of data collection, the resources, personnel, and time required to collect the data.

The table below shows the results from the survey, which was discussed at the last JPC meeting. It shows the current weights for evaluating the CEO and CIO (blue middle columns) and the level of agreement regarding the above criteria.

Percentage (%) of Respondents Saying “Yes”									
I. ORGANIZATIONAL OUTCOMES		Row	Relevant for		% Weight		Meas	Time	Cost
			CEO	CIO	CEO	CIO			
Investment Performance	a) Net Fund Performance vs. Investable Benchmark Portfolio	1	44%	100%	10	60	100%	67%	89%
	b) Performance of private market portfolio vs. appropriate private market benchmark (TBD)	2	44%	100%			78%	33%	89%
	c) Total Fund Sharpe Ratio vs. comparable peer Ratio	3	44%	100%			100%	67%	78%
Benefit Administration Cost-effectiveness	Administration Cost-per-Member (ACPM) (3-year rolling basis)	4	100%	11%	5		100%	100%	89%
Member Service	a) Benefit Delivery:								
	• Timeliness of monthly pension payment	5	100%	0%	5		100%	89%	100%
	• Timeliness of pension notifications of payment	6	89%	0%			89%	78%	89%
	• Timeliness of pension inceptions (normal, deferred vested, survivors and non-member DROs)	7	100%	0%		17.5	89%	78%	67%
	b) Member Satisfaction:								
	• Group counselling session survey results	8	78%	0%	22.5		78%	67%	56%
	• ORS Website visitor survey results	9	78%	0%			89%	67%	78%
	• ORS Member Portal visitor survey results	10	89%	0%			100%	67%	67%
II. MANAGEMENT METHODS		Row	Relevant for		% Weight		Meas	Time	Cost
			CEO	CIO	CEO	CIO			
Enterprise Risk Management	a) Financial audit results	11	100%	67%	40	40	89%	100%	89%
	b) Quality of internal audit Plan	12	100%	56%			56%	67%	67%
	c) Internal audit results	13	100%	56%			78%	78%	78%
	d) Compliance report findings	14	100%	78%			67%	78%	78%
	e) Quality of management’s responses to above	15	100%	78%			33%	67%	67%
Human Resources Management	a) Employee turnover rates	16	100%	100%			100%	89%	89%
	b) Code of conduct violations	17	100%	100%			100%	67%	78%
	c) Climate survey results/City engagement survey results	18	100%	67%			78%	67%	56%
Stakeholder Relations	a) Stakeholder interview findings	19	89%	89%			67%	56%	44%
Operations Management	a) Quality of annual workplan	20	89%	67%			78%	67%	78%
	b) Progress on annual workplan	21	100%	67%			89%	78%	67%
	c) Appropriateness of any mid-year adjustments	22	78%	56%			78%	78%	78%
Leadership/ Management	a) Leadership/Management survey results	23	89%	100%			67%	67%	67%
	b) Other	24	22%	22%			11%	0%	0%

APPENDIX 3: COMPARISON OF CLIMATE SURVEY AND CITY ENGAGEMENT SURVEY QUESTIONS

The table below compares the 36 questions in the Climate Survey (left) to the 12 questions in the City Engagement Survey (right). The City Engagement Survey questions were “mapped”, as much as possible, to the Climate Survey questions on the left to highlight any overlap in the surveys. There is minimal overlap; any overlap is limited to the “Culture” and “Goals & Obstacles” elements below.

Climate Survey	City Engagement Survey
Culture	
1. Management of my division(s) demonstrates high ethical standards.	
	At work, I have the opportunity to do what I do best every day. (#3)
2. Management of my division(s) strives to comply with laws/regulations affecting ORS.	
3. The performance targets in my division(s) are realistic and obtainable.	
4. Employees in my division(s) have the knowledge, skill, and training to perform their job adequately.	
	My associates or fellow employees are committed to doing quality work. (#9)
5. My division(s) learns from its mistakes.	This last year, I have had opportunities at work to learn and grow. (#12)
6. Personnel turnover has not impacted my division’s ability to effectively perform its function.	
7. Integrity of financial and operational results always takes priority over reporting acceptable performance targets in my division(s).	
8. Employees in my division(s) are treated fairly and justly.	In the last seven days, I have received recognition or praise for doing good work. (#4)
	My supervisor, or someone at work, seems to care about me as a person. (#4)
	At work, my opinions seem to count. (#7)
	I have a best friend at work. (#10)
9. Employees in my division(s) do not have to take unnecessary safety risks to perform their job.	
Goals & Obstacles	
10. I have sufficient resources, tools, and time to accomplish my objectives.	I have the materials and equipment I need to do my work right. (#2)
11. In my division(s), the processes supporting new products, services, technology, and other significant changes are adequately managed.	
	There is someone at work who encourages my development. (#6)
	The mission or purpose of my company makes me feel my job is important. (#8)
	i know what is expected of me at work. (#1)
12. For the coming year, I am accountable for defined, measurable objectives.	In the last six months, someone at work has talked to me about my progress. (#11)

Climate Survey	City Engagement Survey
Information & Communication	
13. Our information systems provide management with timely reports on my division's performance relative to established objectives.	
14. Mechanisms and incentives are in place for me to provide recommendations for process improvements.	
15. The interaction between senior management and my division(s) enables us to perform our jobs effectively.	
16. The communication across division boundaries enables my division to perform its job effectively.	
17. I have sufficient information to do my job.	
18. A communication channel exists for reporting suspected improprieties.	
19. Persons who report suspected improprieties are protected from reprisal.	
20. If I report wrongdoing to my supervisor(s), I am confident that the wrongdoing will stop.	
21. I know what action to take if I become aware of unethical or fraudulent activity.	
22. My supervisor reviews my performance with me at appropriate intervals.	
Policies & Procedures (a)	
23. The policies and procedures in my division(s) allow me to do my job effectively.	
24. Employees who steal from ORS (physical property, money, information, time) will be discovered.	
25. Employees who steal from ORS and are discovered will be subject to appropriate consequences.	
26. Employees who break laws and regulations affecting ORS will be discovered.	
27. Employees who break laws and regulations affecting ORS and are discovered will be subject to appropriate consequences.	
Policies & Procedures (b)	
28. In general, I refer to ORS's formal, written policies and procedures to do my job.	
COVID-19 - Workplace Preferences	
29. What is your preferred workplace arrangement? <ul style="list-style-type: none"> • Home; exclusively • Home; office, if necessary • No preference • Office; home when necessary • Office; exclusively 	
COVID-19 – Level of Concern	
30. How concerned are you about working at the office given the threat of COVID-19, including its variants, and/or other contagious diseases?	
IT Security (a)	
31. When was the last time you received mandatory training on information security policies and procedures or practices?	
32. *** DELETED IN PUBLIC REPORT – GOVERNMENT AUDITING STANDARDS SEC. 9.61 – 9.67***	
IT Security (b)	
33. *** DELETED IN PUBLIC REPORT – GOVERNMENT AUDITING STANDARDS SEC. 9.61 – 9.67**	
IT Security (c)	
34. Over the past year, how often did you use your own computer (of any type) at home to work on information from your work computer, network, or applications? <ul style="list-style-type: none"> • Almost every day • At least once a week • At least once a month • At least once • Never 	

Climate Survey	City Engagement Survey
35. *** DELETED IN PUBLIC REPORT – GOVERNMENT AUDITING STANDARDS SEC. 9.61 – 9.67**	
IT Security (d)	
36. Over the past year, do you feel that you've had sufficient information technology equipment and resources to do your work remotely?	

ENDNOTES

¹ ERM metrics are below; they are included in the 40% weight for evaluating both the CEO and CIO.

TABLE 2 - MANAGEMENT METHODS (TOTAL WEIGHT IN OVERALL EVALUATION: 40%)		
MANAGEMENT METHODS	METRICS	WEIGHTS & SCORING SCALE
Enterprise Risk Management	1. Financial audit results 2. Quality of internal audit Plan 3. Internal audit results 4. Compliance report findings 5. Quality of management’s responses to above	No sub-weights shall be established for each Metric 40% weight is applied using the following scale: • Outstanding • Commendable • Satisfactory • Needs improvement
Human Resources Management	1. Employee turnover rates 2. Code of conduct violations 3. Climate survey results/City engagement survey results	
Stakeholder Relations	1. Stakeholder interview findings	
Operations Management	1. Quality of annual workplan 2. Progress on annual workplan 3. Appropriateness of any mid-year adjustments	
Leadership/ Management	1. Leadership/Management survey results 2. Other	

² Code of Ethics: <https://www.sanjoseca.gov/home/showpublisheddocument/17849/637139261512530000>