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Does state agency director's new job violate post-employment rules?

By William Melhado

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Katie Hagen, the director of the Department of Industrial Relations, is leaving to become the CEO of a joint powers authority that has an extensive contracting history with the agency. David Middlecamp
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The director of the state Department of Industrial Relations plans to step down next month and assume an executive position with a Sacramento-based agency that has an extensive contracting history with the department.

In July, Katie Hagen will begin a new role as CEO of [CPS HR Consulting](#). The firm is a joint powers authority, which is made up of several public entities that pool together resources to more efficiently provide consulting services to nonprofits and government agencies, such as DIR.

In the five years Hagen has led the labor law enforcement department, DIR has awarded over 20 contracts to CPS HR Consulting, which total more than \$8.5 million. CPS HR Consulting has provided human resources services to DIR for over two decades.

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While Hagen's move to CPS HR Consulting doesn't violate state hiring laws, the contracting history between two public entities creates troubling optics, government ethics experts said.

"It's reasonable for the public to take a look and say, 'That doesn't seem right,' " John Pelissero, the director of government ethics at Santa Clara University's Markkula Center for Applied Ethics, said in an interview.

With a budget of over \$1.3 billion, DIR is responsible for enforcing California's myriad employment laws governing wages, healthcare for injured employees and workplace health and safety. Hagen has led the 3,000-person department since

March 2020. She held a string of executive positions prior to leading DIR, most recently as the chief deputy director of the California Department of Tax and Fee Administration.



Director Katie Hagen has led the Department of Industrial Resources since March 2020.
California Department of Industrial Relations

CPS HR Consulting, with approximately 110 employees, is a smaller public entity that specializes in providing recruitment, classification and general human resource services to over 1,200 clients, public and nonprofit organizations, across the U.S. and Canada. The firm said its operating expenses are completely funded by charges and service fees.

CPS HR Consulting has worked with DIR on various projects studying department employees' responsibilities. For example, in 2020, the firm produced a workload study of industrial hygienists and safety engineers, classifications that work within DIR's California Division of Occupational Safety and Health.

Pelissero said avoiding the appearance of conflicts of interest is why the California Fair Political Practices Commission established rules such as the one-year ban that prohibits government officials from communicating with their former agency in an attempt to influence decisions or certain proceedings, such as contracts.

The FPPC did not respond to multiple emailed questions sent last week about whether the one-year ban applies to Hagen.

Daniel Lopez, a DIR spokesperson, said Hagen's move is permitted under state hiring rules.

Lopez likened the job change to taking a position with the University of California system because CPS HR Consulting is another public entity. The UC system has a budget of over \$53 billion and employs over 250,000 people.

The department did not make Hagen available for an interview. Hagen's last day with DIR is July 6, the department said. An acting director to fill in for Hagen has not been announced.

While the arrangement lends itself to potential conflicts of interests, it is legal, confirmed Dan Schnur, the former chairperson of the Fair Political Practices Commission.

Despite that, "it's important to remember that campaign and political law should be thought of as a floor, not a ceiling," Schnur said.

A history of contracts

Before Gov. Gavin Newsom appointed her director of DIR in March 2020, Hagen had an extensive career as a human resources professional, both with the state and as a University of San Francisco adjunct faculty member. She previously worked as the California Department of Human Resources' deputy director of operations and the chief human resources officer for CalPERS, the state's largest public pension plan.

CPS HR Consulting said it has contracted with DIR since 2000. Contracts with joint powers authorities, such as CPS HR Consulting, are exempt from the competitive bidding process, according to [state government code](#).

Joint powers authorities are the product of two or more public agencies, which combine efforts to provide public services more efficiently and in a more cost-effective manner. The California Secretary of State certified CPS HR Consulting's joint powers agreement in 1985. The firm is composed of seven member agencies across the country, including the city of Anaheim and Sacramento County.

When she [assumed the director position](#), Hagen's salary was \$195,708. Last year, she made \$222,242, according to state payroll records. CPS HR Consulting said Hagen's salary would be \$275,000.

The department said that Hagen has "no relationship with CPS HR's board or leadership and was vetted independently by an executive search firm."

The department noted that the Department of General Services independently reviewed and approved DIR's contracts with CPS HR Consulting.

When asked if CPS HR Consulting worked with Hagen since she took helm of the department, a spokesperson said, "our team does not work regularly with Katie Hagen. All interactions are with project managers or division chiefs."

The best thing Hagen can do, Schnur said, is to make an extra effort to be as transparent as possible, particularly in all interactions with DIR in the future.

Moving forward, Pelissero said that if there's a contract up for renewal or if the department hopes to tap CPS HR Consulting for a new contract, Hagen shouldn't be involved in that because of her relationship with DIR.

"It would be unfair for her to have contact with them based on the fact that she used to run that agency," Pelissero said.

An oft-audited department

Hagen took over the department after former DIR Director Christine Baker left amid scrutiny that she pressured DIR employees to skirt state rules to secure a job for her daughter.

A [2019 report](#) by the California State Auditor found Baker attempted to undermine the audit while helping her daughter quickly move up the department ranks.

The department, which is tasked with investigating employers in the state and enforcing California's labor laws, has long struggled to meet adequate staffing levels. Current and former employees say that has put [workers in California at risk](#).

Those issues are the subject of an upcoming report by the state auditor, the findings of which are [expected to be published](#) this summer. Hagen's departure is not related to the audit, the department said.

Lopez said the department has reached some of the lowest vacancy rates in years as a result of Hagen's hiring and recruitment efforts. He noted DIR's overall vacancy rate dropped from 26 percent to 14 percent this year.

"With nearly three decades in public service, Director Hagen has consistently championed the needs of Californians through her leadership and commitment," Lopez said in a statement. "DIR is deeply grateful for Director Hagen's leadership

and decades of public service.”

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