

MEMORANDUM

TO: Governing Board

FROM: Allen Vann, Inspector General

DATE: May 22, 2001

SUBJECT: Follow-up to Report on FY98 Non-merit Salary Actions –
Report # 01-12

On May 6, 1999, we issued a *Report on Non-merit Salary Actions*, which expressed our concerns about the non-merit salary actions taken during Fiscal Year 1998. This is a follow-up to that report and it examines non-merit salary actions that took place during FY00.

Background

A review by the Office of Program Policy Analysis and Government Accountability that was issued in February 1998, concluded that the average compensation offered by the Water Management Districts was typical of the external market. The report recommended that the five Water Management Districts review their compensation practices and establish strong performance based pay systems.

In our previous review, we noted a high number of non-merit raises occurring during Fiscal Year 1998 at the District, many of which exceeded 10% per annum. We found numerous increases that exceeded the general guidelines set forth in the District's policy 3.40100 Salary Administration. For some types of personnel actions definitive salary guidelines had not been established.

Findings

Our analysis of FY00 non-merit salary actions revealed that for FY00 there were fewer non-merit salary actions taken resulting in an annual cost savings of \$481,000. However, while fewer actions were taken, the average yearly salary adjustment per action didn't change substantially (\$3,017 on average in FY98 compared with \$3,064 on average in FY00). Perhaps the greatest gains were made in the reductions of pay equity and multiple non-merit salary actions.

Follow-up to FY98 Non-merit Salary Actions

May 22, 2001

Page 2 of 8

Pay equity actions decreased significantly since FY98. The number of pay equity actions fell from 135 in FY98 to 18 in FY00. Likewise the annual salary impact of those actions was lessened. In FY98, the annual additional salary cost of pay equity actions was \$415,000 while in FY00, that number dwindled to just \$56,000, over 86% less.

Similar decreases were seen in the number of multiple non-merit salary actions awarded. In FY00 only ten employees received multiple actions compared to 23 in FY98. Further, the combined percentage of multiple actions for a single employee is half of what it was in FY98: down from 56.11% in FY98, to 27% in FY00. Finally, the corresponding dollar value of these multiple actions for a single employee decreased substantially from a high of \$22,339 in FY98 to a high of only \$14,872 in FY00.

The status of the recommendations made in our previous report are as follows:

- We advised HR to ensure that each non-merit salary action is adequately documented and approved in accordance with District policy. Our testing revealed instances of inadequate or missing documentation, misclassification of the action, and lack of the required approval.
- We also recommended phasing in large increases over several fiscal years. While this recommendation has not been implemented, we did note that the number and size of pay equity and reclassification adjustments decreased to reasonable levels without the establishment of a cap. Conversely, the number and size of promotional increases (in dollar terms) has increased (Page 3).
- Lastly, we recommended that HR be more definitive in how they classify non-merit salary actions and refrain from using the "Other" classification. HR implemented this recommendation and added nine new action codes to the system thus reducing the amount of actions in the "Other" category from 44 to 4.

Follow-up to FY98 Non-merit Salary Actions

May 22, 2001

Page 3 of 8

Since FY98, the number of non-merit salary actions has decreased over 35%. The table that follows provides a comparison between non-merit salary actions in FY00 and as previously reported.

Action	FY98	FY00
Promotions	197	206
Pay Equity	135	18
Reclassifications	80	16
Transfers	6	20
Demotions	2	2
Correction	--	1
Discretionary	--	2
Job Study	--	9
P/S Certification	--	9
Redirect	--	1
Salary Reduction	--	6
Temp. Assignment	--	6
Other	44	4
Total Actions	464	300

The annual fiscal impact of these personnel actions also decreased at a rate of 34%, from \$1.4 million in FY98 to \$919,402 in FY00. Note also, that since FY98, HR now provides greater detail as to the nature of the action taken. This is in response to a recommendation that was made in our prior report. While not presented separately in the table above, promotions are now classified as one of three distinct types. Following is an analysis of the more significant actions.

Promotions

District policy defines two types of promotions, in-class and organizational. An in-class promotion is when a person still performs the same function but is promoted to a higher level position, e.g. a Staff Administrative Resource Associate is promoted to Senior Administrative Resource Associate. An organizational promotion is when a person moves to a job that requires a different skill set, like moving from a Senior Administrative Resource Associate to a Financial Analyst. The District's Salary Administration policy provides for a maximum of 10% for in-class promotions and 15% for organizational promotions. In unusual circumstances a Department or Office Director may propose increases that exceed those limits. These increases are allowed only after review by the Director of Human Resources and approval by the Executive Director. The table that follows summarizes promotions.

Follow-up to FY98 Non-merit Salary Actions

May 22, 2001

Page 4 of 8

Promotions	FY98	FY00	Change
Number	197	206	+5%
Annual Salary Impact	\$685,651	\$793,874	+16%
Ave. Cost/Action	\$3,480	\$3,854	+11%
Actions > 10%	58 (29%)	63 (31%)	+9%(+2%)
Actions > 15%	22 (11%)	11 (5%)	-50%(-6%)
Range	2.01% - 39.82%	1.51% - 34.6%	
Highest Percent Increases	39.82% 33.08% 27.29% 24.29%	34.60% 26.21% 25.16% 24.12%	
Highest Annual Cost	\$22,110 \$12,251 \$11,232 \$10,691	\$25,126 \$20,571 \$14,206 \$14,082	

The number of promotions given increased 5%, and the average cost per promotion increased 11%. We noted that overall, the promotional raises in excess of 10% increased while those over 15% decreased. Also note that promotions in FY00 resulted in higher dollar increases to the top four employees, while during the same period the percentages of salary that the promotion represented decreased.

In order to ensure that promotions were adequately justified and in accordance with District policy, we reviewed a sample of the promotions given in FY00. Ten in-class promotions in excess of 10% (representing 37% of that population) and five organizational promotions in excess of 15% (100% of the population) were selected for review. These are the thresholds where Executive Office approval is required. We found that one employee received a 12% in-class promotion without Executive Office approval. We also noted another in-class promotion, this time for 15%, that didn't receive Executive Office approval.¹

¹ Further investigation revealed that this promotion should have been classified as an organizational promotion meaning that Executive Office approval is not required. However, the personnel file contained no documentation that this action was anything other than an in-class promotion. We also noted two other promotions that were misclassified: An in-class promotion and an organizational promotion both exceeded their respective thresholds for Executive Office approval, but did not receive such approval. In both instances, the increase resulted in the employee's salary being increased to the minimum of the new salary range. When this occurs, Executive Office approval is not required and these types of increases are normally classified as promotions to the minimum of the new salary range or PRM's.

Follow-up to FY98 Non-merit Salary Actions

May 22, 2001

Page 5 of 8

Pay Equity

Pay Equity adjustments are employee specific and occur when an employee's salary is not consistent with the employee's education, experience, skills, performance, contribution, and/or the external market place. Department requests for pay equity adjustments need to be accompanied by detailed documentation of the reasons for the request. Pay equity adjustments above the midpoint of the salary range require approval from the Executive Director. A table summarizing pay equity adjustments follows.

Pay Equity	FY98	FY00	Change
Number	135	18	-87%
Annual Salary Impact	\$415,189	\$56,472	-86%
Ave. Cost/Action	\$3,075	\$3,137	+2%
Actions > 10%	29 (21%)	3 (17%)	-90%(-4%)
Range	.92% - 25.16%	3.04% - 11.45%	
Highest Annual Cost	\$11,523 \$10,857 \$8,653	\$6,594 \$4,347 \$4,306	

As can be seen, the number of pay equity actions and their annual cost decreased dramatically from FY98. The annual salary impact per action increased slightly. Also note that actions greater than 10% decreased as well as the range and the highest annual cost of the top adjustments.

We reviewed 10 (56%) of the pay equity adjustments and found four instances where documentation was inadequate. The Salary Administration Policy requires that requests for pay equity adjustments include "detailed documentation" of the reasons for the request. Further, the policy requires Executive Director approval of adjustments above the mid-point of the salary range. For the most part, detailed memos justifying the adjustment were included with the requests. In one instance, no such memoranda were included. We also noted that in three instances we could not determine if the adjustment resulted in a salary over the mid-point. Further investigation revealed that one of these actions received Executive Director approval when it wasn't required, while another action that required such approval did not receive it.

Follow-up to FY98 Non-merit Salary Actions

May 22, 2001

Page 6 of 8

Reclassifications

Reclassifications are job specific and occur as a result of a job evaluation whereby it is determined that a grade level increase/decrease is warranted. The policy does not impose any limits as to the amount of the adjustment for reclassifications. The following table summarizes reclassification actions.

Reclassifications	FY98	FY00	Change
Number	80	16	-80%
Annual Salary Impact	\$229,112	\$20,738	-91%
Ave. Cost/Action	\$2,864	\$1,296	-55%
Range	(2.76%) - 38.27%	(10.07%) - 12.38%	
Actions > 10%	16 (20%)	2 (12%)	-88% (-8%)
Highest Annual Cost	\$14,768 \$10,795 \$7,717	\$5,658 \$4,742 \$3,640	

The number of reclassifications decreased dramatically as well as the overall range and annual cost. This resulted in a significant decrease average cost per action.

We reviewed 8 of the reclassification actions for adequacy of the supporting documentation and noted that one action had no support and another action was documented as being an organizational promotion.

Other

In the previous report, "Other" was used to describe all other actions not classified as a promotion, pay equity, or reclassification actions. Since then, HR has developed new action codes to describe other actions such as job study, redirect, discretionary and temporary assignment. There were, however, four actions still classified in the "Other" category. The following table summarizes those actions.

Follow-up to FY98 Non-merit Salary Actions

May 22, 2001

Page 7 of 8

Other	FY98	FY00	Change
Number	44	4	-91%
Annual Salary Impact	\$38,147	-\$603	-102%
Ave. Cost/Action	\$867	-\$151	-117%
Actions > 10%	3 (7%)	-0-	
Highest Annual Cost	\$10,982	\$1,685	
	\$9,318	\$1,643	
	\$6,219		

The annual salary impact of “other” actions for FY00 was a net decrease in cost as opposed to an increase in FY98. In order to gain a full understanding of other actions, the following table is presented that highlights some of the newly defined classifications.

Action Type	Number of Actions	Annual Salary Impact	% Range	Actions > 10%	Dollar Range
Discretionary	2	\$5,533	5%-15%	1	\$2,350 – \$3,182
Job Study	9	\$24,731	2.63%-10.01%	1	\$1,602 – \$6,448
Pump Station Certification	9	\$11,794	(4.74%) – 8.98%	0	\$(1,435) - \$2,808
Salary Reduction	6	\$(27,789)	(4.47)% - 7.65%	0	\$(4,992) - \$7,779
Temporary Assignment	6	\$18,637	3.02% - 13.18%	2	\$1,394 – \$8,278

As can be seen, most of these other actions were insignificant. While most are self-explanatory, two bear further discussion. Discretionary actions are those taken at the discretion of the Executive Director. The Pump Station Certification Program is a cross-training program that instructs field station personnel on how to operate pump stations.

Multiple Non-merit Increases

In our previous report, we noted that in FY98, 23 individuals received two or more separate non-merit adjustments. Multiple non-merit salary actions

Follow-up to FY98 Non-merit Salary Actions

May 22, 2001

Page 8 of 8

decreased 57% from FY98 along with a decrease in their associated costs. For FY00, there were only 10 employees who received more than one non-merit salary action.² Of these ten, no one received more than two (one individual received four in FY98). The highest combined non-merit salary actions resulted in one employee receiving a 27% cumulative increase followed by another employee who received an 18.67% cumulative increase. This is in contrast to FY98 where the highest cumulative salary adjustments were 56.11% and 36.1%. The two highest salary impacts of multiple non-merit salary actions were \$14,872 and \$8,049 in contrast to highs of \$22,339 and \$19,032 in FY98. Based on this, the number and impact of multiple non-merit salary actions has decreased considerably.

Conclusion

District Management has substantially reduced the number of non-merit salary actions taken from 464 in FY98 to 300 in FY00. The largest portion of the decrease (71%) occurred in the area of pay equity actions. Likewise, the annual salary impact of non-merit salary actions has decreased significantly. In FY98, non-merit salary actions resulted in \$1.4 million of additional yearly personnel costs whereas in FY00, the annual personnel costs associated with non-merit salary actions was down to \$919,000. While the average salary increase per action hasn't changed much, individual increases that occurred in FY00 weren't as excessive as previously noted and the incidence of multiple actions for a single employee were reduced considerably.

Human Resources has implemented our recommendation to reduce classifying actions as "Other" by creating nine new action codes for non-merit salary actions, but still need to strive to improve how non-merit salary actions are documented and approved

c: Frank Finch
Jock Merriam
Joe Taylor
Joe Schweigart
Naomi Duerr
Sandra Turnquest

² This is exclusive of employees receiving salary reduction actions that occur on a regularly scheduled basis.