South Florida Water Management District

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MEMORANDUM

TO: Jim Harvey, Interim Executive Director

FROM: Allen Vann, Inspector General

DATE: May 6, 1999

SUBJECT: Report on FY98 Non-merit Salary Actions - Report # 99-14

On January 8, 1999, we issued a draft memo to then Executive Director, Sam Poole, expressing our concerns about non-merit salary actions taken during Fiscal Year 1998. Upon review of our memo, you requested that the Human Resources Division provide us with a response and explanation for the large number of non-merit salary actions. Their response, dated April 29, 1999, has been incorporated in its entirety in this final report.

Introduction

As you recall the State Legislature, in the past, has expressed their concern about salary levels at the Water Management Districts. The message from the legislature was clear. Their perception was that the Districts over-compensated their workforce. They ordered a review by the Office of Program Policy Analysis and Government Accountability. Fortunately, the report that was issued in February 1998 concluded that the average compensation offered by the Water Management Districts was typical of the external market survey. The report did recommend, however, that the five Water Management Districts review their compensation practices and establish strong performance based pay systems. Certainly, these circumstances should have been heeded as a sign that we need to be conservative in our approach to employee compensation.

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Given this backdrop, we noted a high number of non-merit raises occuring during Fiscal Year 1998 at the District, many of which exceeded 10% per annum. The Office of Inspector General analyzed the Non-merit Salary Actions Report circulated by Human Resources Division for the period 10/1/97–9/30/98 (the "Report") [1] and found a good number of annual salary 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 have not been established.

The Report indicates that in the last fiscal year 464 personnel actions of various types were authorized:

Promotions	197
Pay Equity	135
Reclassifications	80
Other	44
Transfers	6
Demotions	2

These personnel actions cost the District $1.4 million in non-merit salary increases (not including fringe benefits). The four largest categories are discussed in further detail below.

Promotions

For FY98, promotional salary adjustments totaling $685,651 were given. These adjustments ranged from 2.01% of the hourly rate to a high of 39.82%. 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 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.

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[1] We did not test the accuracy of the HR report. The attached non-merit report, dated December 21, 1998, was distributed to each department to ensure accuracy of the data for the Equal Opportunity Report and an immaterial number of changes were subsequently made.

These increases are allowed only after review by the Director of Human Resources and approval by the Executive Director. In all, there were 197 promotions of which 58 (29%) were greater than 10%. Of these 58 promotions, 22 resulted in a pay increase greater than 15%.

It can not be determined from the Non-merit Salary Actions Report whether the promotional adjustments represent in-class or organizational promotions. However, 22 (11%) of the promotional increases exceeded the 15% hourly rate change. The highest promotional increases were 39.82%, 33.08%, 27.29% and 24.29%. The promotional increases that resulted in the highest annual dollar change were $22,110, $12,251, $11,232, and $10,691. Additionally, there were 36 promotions between 10% and 15%.

Recommendation:

1. **The Human Resources Division needs to ensure that all promotional adjustments, whether in-class promotions over 10% or organizational promotions over 15%, are adequately justified and properly approved. Perhaps amounts in excess of these guidelines should be provided to the employee in the subsequent year.**

   Management Response:

   The Salary Administration Rule states that in-class promotions over 10% and organizational promotions over 15% are subject to the approval of the Executive Director or delegatee. These exceptions should be adequately justified and properly approved and submitted to the Director, Human Resources, prior to submission to the Executive Director. With respect to internal equity, the only time an increase should exceed these guidelines is when it is done by a job study or the person requires the additional money to get to the minimum of the new salary grade.

   New reason codes have been developed to be used in the Ross Human Resource Information System (HRIS) to better identify and track the types of pay actions. These include codes for organizational promotions, in-class promotions, and to minimum-of-new-grade promotions. In addition, we will request a line be added to the EM2Z employee salary screen to allow entry of comments regarding the specifics of the situation so that a report can be generated from the database without going back to the employee files. Currently the actions are noted on the personnel action form or in a separate memorandum that may or may not be attached to the personnel action form.

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.

During FY98 there were a total of 135 pay equity adjustments, totaling $415,189, ranging from a low of .92% of the hourly rate to a high of 25.16%. Twenty-nine pay equity adjustments exceeded 10%. Three pay equity increases resulted in annual pay increases of $11,523, $10,857, and $8,653 respectively. It can not be determined from the report if the adjustments were above or below the midpoint of the salary range.

Recommendation:

2. **All pay equity increases should be reviewed to ensure that adequate documentation and approvals are in place, especially for employees whose pay equity adjustments were above their midpoint salary range. The District should consider placing an annual cap on such increases expressed as both a maximum percentage and dollar value for these types of raises.**

   Management Response:

   There should not be pay equity adjustments above the midpoint in the salary range. If there is an unusual case, it will be documented, reviewed by Human Resources and signed off by the Executive Office.

   Some of the reasons for the number of pay equities include the following:

- Difficulty in recruiting new hires from the outside (e.g. Information Technology professionals) internal equity has to be maintained when others are brought in at higher salaries; new hires were initially hired too low and an equity request is submitted for an adjustment.

- Partial implementation of the Science/Engineering study that resulted in some employees not being made whole which exacerbates compression. The cost for full implementation was estimated at a total cost of $3 million dollars. Staff did not obtain management support or Governing Board support to implement this in its totality.

Some of the steps taken to deal consistently with pay equity requests include:

- Development of a Pay Equity Adjustment procedure which is in draft form. The procedures outline steps for supervisors and Department/Office/Service Center Directors to follow when making a pay equity adjustment request. It also includes the establishment of a Salary Administration Review Group made up of Compensation, Employment, and Employee Development professionals. The group meets weekly to review all non-merit salary actions and forwards a recommendation to the Director of Human Resources.

- Consideration of an allocation in the amount of 1% of payroll dollars to the departments for pay equity adjustments. This would have resulted in approximately one half of what was spent in FY98. The departments/offices would be accountable for the dollars spent. This would include promotions and pay equities. We do not recommend capping individual raises if they are justified to get to the minimum of the new salary grade. We do, however, agree with not giving pay equities that would exceed the mid-point of the grade. There are several job groups/classifications that do not have midpoints but rather competitive hiring rates based on market studies

- Recommend that Department's new hires be hired at the appropriate rate. New hires have been hired at "too low" initial pay, which requires a pay equity adjustment later.

- Recommend that the Biennial Reviews be scheduled to be completed in the March/April time frame to be able to budget for their implementation in the coming October. The 1996 Office of the Inspector General's Audit of the Human Resources Division states that, "if job group salary surveys were completed biennially for each job group and all equity adjustments were determined and funded, the need for department initiated pay equity adjustment requests may be greatly diminished or even eliminated."

- Recommend changing the Performance Appraisal cycle to a common review date for all employees (non-management). This will allow the appropriate merit increase distribution of budgeted dollars at the same time. Managers have already been changed to a common review date (November 5th each year).

Reclassifications

Reclassifications are job specific and occur as the 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. During FY98, there were 80 reclassification actions, totaling $229,112, ranging from a decrease of 2.76% of the hourly rate to an increase of 38.27%. Sixty-four of the reclassifications, 80%, were for 10% or less. Of the remaining 16, 12 were between 10.01 and 13.21%. Three of these 12 individuals received annual increases of $7,717, $7,155, and $6,219. The remaining four reclassified District employees received annual salary increases of 18.96%, 21.54%, 35.03% and 38.27%. The increase in annual pay from these four reclassifications was $5,762, $7,093, $14,768, and $10,795, respectively.

Recommendation:

3. **The personnel files for all reclassifications should contain adequate supporting documentation including job evaluation to support the salary adjustments.**

   Management Response:

   To the extent possible, documentation is provided for all reclassifications. We agree that there should be sufficient documentation for any salary adjustment. With the added Ross reason codes, the comment line, the Pay Equity Adjustment procedure, and the review by the Salary Administration Review Group, the files should have adequate supporting documentation for all salary adjustments.

Other

There was a total of 44 other non-merit actions ranging from a decrease of 9.09% to an increase of 15.05%. Included in the value of these actions were increases of $77,893 and decreases of $39,746 for a net increase of $38,147. The policy does not speak to "other" non-merit increases. Three of these "other" increases exceeded 10% and were for 15.05%, 14.99%, and 10.01%. The dollar amount of these three increases were $10,982, $9,318, and $6,219, respectively.

Recommendation:

4. **Without further details concerning these raises we cannot comment on their propriety. HR should provide details on what "other" non-merit actions represent and determine if additional criteria is needed in the HR Policy to address all "other" salary adjustments.**

   Management Response:

   The intent will be to eliminate the use of the "Other" code by developing appropriate codes to specify the actions. The codes identified to date, in addition to the ones identified above for promotion are: Temporary Assignment, End of Temporary

Assignment, Salary Structure Adjustment, Job Study Implementation, and Field/Pumping Operations Compensation.

Multiple Non-merit Increases

In addition to the above findings, we noted 23 individuals who received two or more separate non-merit adjustments last year. Three individuals received 3 non-merit adjustments and one person received 4 separate adjustments. The total aggregate percentage increases for employees who received more than one non-merit action ranged from 15.01% to 56.11%. The top dollar annual increases of the combined annual adjustments were $22,339, $19,032, $14,851, $14,726 and two at $11,211. These are exclusive of any merit pay increases awarded during the year.

The Human Resource Division indicated that:

> We have taken the appropriate steps to implement better pay management practices to ensure fairness and consistency across the District. In addition, meetings have taken place with HR departmental representatives in developing the solutions. Managers and supervisors are invited to the Salary Administration Review Group meetings to explain in detail their proposed changes. Budgeting for biennial reviews and budgeting for pay equities in the departments are outstanding issues that can and should be part of the solution. Making appropriate hires are critical. New codes for better tracking in the Ross HRIS system will assist in the analysis. And, last but not least, revising the performance appraisal system will provide a mechanism where performance can be more clearly evaluated and tied in with an appropriate merit increase within the constraints of the budget.

We recommend that aside from validating the propriety of the increases, and determining whether the number of personnel actions reported is normal for a workforce of our size, the District should consider whether there should be some constraints placed on non-merit pay adjustments.

Attachments

cc Governing Board