

# REPORT HIGHLIGHTS

## Annual Compensation Study

Performance Audit, May 2017

Department of Personnel & Administration

### CONCERN

The Department of Personnel & Administration (Department) was unable to demonstrate the accuracy and reliability of the 2017 and 2018 Annual Compensation Reports (Annual Reports). The Department could not produce supporting evidence for the labor market data used in either analysis, including the original survey data or underlying analyses used to derive results, and the Department and its contractor employed different methods to calculate their results.

### KEY FINDINGS

- For the 2017 Annual Report, the Department paid its contractor the full amount of the \$300,000 contract without receiving all the deliverables required by the contract, including supporting documentation to demonstrate the reliability of its analysis and work products intended to assist the Department in future studies.
- The 2017 Annual Report included compensation study results that may not have been accurate and reliable. The contractor could not demonstrate that it consistently used a technically sound methodology for collecting and analyzing market data and did not include private sector employers in comparing benefits, as required by statute.
- For the 2018 Annual Report, the Department's conclusion that State salaries fell 5.7 percent below the market is not supported. The Department did not conduct a study to determine market compensation. Rather, it relied on market data previously developed by its contractor for one-third of the classifications analyzed and, for the remaining two-thirds of the classifications studied, it incorporated no market data at all. Instead, it assumed no variance between average State salaries and the labor market.
- Compensation studies require current classification descriptions to ensure State positions are matched to like positions in the labor market. Nearly 20 percent of State classifications were last updated in the 1990s, and nearly 60 percent more were last updated in the 2000s. The Department does not have a plan requiring the periodic evaluation of all classifications to ensure they remain current.

### BACKGROUND

- Statute defines the State's compensation philosophy as providing prevailing total compensation to ensure the recruitment, motivation, and retention of a qualified and competent work force [Section 24-50-104(1), C.R.S.].
- Statute requires the Department to analyze a fair sample of public and private sector jobs to determine any necessary adjustments to salaries, benefits, and merit pay (compensation study), and to submit an Annual Report to the Governor and Joint Budget Committee in August for budget deliberations [Section 24-50-104(4), C.R.S.].
- The Fiscal Year 2017 study, which the Department outsourced, concluded that State salaries fell below the market by 3 percent, and total compensation fell below the labor market by 0.2 percent.
- The Fiscal Year 2018 study, which was conducted in-house, concluded that State salaries fell below the market by 5.7 percent, and total compensation fell below the labor market by 2.4 percent.

### KEY RECOMMENDATIONS

- Ensure contracts for outsourced compensation studies clearly define deliverables and tie compensation to deliverables.
- Implement contract monitoring procedures to ensure delivery of all work products prior to issuing payment.
- When outsourcing the compensation study, seek firms that have sufficient capacity to perform analyses using the most current survey data available.
- When conducting the study in-house, ensure staff has the technical resources necessary to conduct a technically and professionally sound compensation study.
- Review and analyze up-to-date published survey data for selected benchmark positions during the years when a comprehensive study is not conducted.
- Develop a plan to ensure the periodic evaluation of all classifications within the State's classification system.