

# State of Colorado



ATTACHMENT C

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## DPA

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Senator Jack Taylor  
Chairman, Legislative Audit Committee  
Office of the State Auditor  
200 E. 14<sup>th</sup> Avenue  
Denver, CO 80203

Re: Status Report on 2005 Total Compensation Audit

Dear Senator Taylor:

The department submits the following status of recommendations from the subject report.

### **Recommendation #1:**

Purchase salary surveys that include total cash compensation and use these surveys to assess the competitiveness of state salaries. Implementation Date: July 1, 2007.

May 2006 Status: In Progress.

The Department purchased surveys containing separately identified total cash compensation as they became available for the FY2006-2007 annual compensation survey. The Department started using total cash compensation in its analysis last year and will continue to do so for future surveys. As we have done in the past, the Department will continue to search for additional professionally sound surveys.

### **Recommendation #2:**

a. Set pay range midpoints consistent with market actual average levels and educate employees about how compensation is determined; use base-building increases to reward performance when salaries are below the midpoint and non base-building awards when salaries are at or above the midpoint. Implementation Date: July 1, 2008.

May 2006 Status: In Progress.

We agree with the concept of using base-building and non base-building increases to reward performance. In fact, the Department reported both base building and non-base building performance pay in last year's survey

findings. However, the General Assembly did not fund performance pay for FY 2006-07. We will continue to pursue adequate funding to reward performance during the 2007 session at part of the annual compensation report and recommendations. We believe it is critical for both of these components to be applied throughout the entire range for two reasons. First, this is consistent with industry practices, which use base-building and non base-building awards in tandem to incent performance. Second, given that performance based pay was designed to replace step increases and employees are currently spread across the pay ranges, it is important that all employees are able to obtain base-building awards. All employees should have the opportunity to earn base-building increases up to the top of the range.

Finally, it is difficult to address the application of base and non base-building awards when the overall funding for performance based pay has historically been significantly under funded or not funded at all - FY 03 (0.8%); FY 04 (0.0%); FY 05 (1.0%); FY 06 (0.0%); FY 07 (0.0%) as compared to the 2.2% funding for the old anniversary or step system.

b. Work with the General Assembly on statutory changes to set a single budget amount for pay increases and allocate the entire amount to performance-based increases. Implementation Date: July 1, 2008.

May 2006 Status: Implemented.

The Governor's November 2005 budget request included a single line item for both the salary survey and performance pay funding requests. In addition, the Department actively supported legislation introduced by the Legislative Audit Committee during the 2006 legislative session to permit a single appropriation for salaries but the bill failed. As an interesting side note, it would appear that the Legislative Audit Committee was correct in pursuing this legislation, despite the General Assemblies failure to adopt this policy direction based upon the Supreme Court ruling issued on June 12, 2006 on the Colorado General Assembly v. William Owens, Mike Coffman, and Leslie Shenefelt (Case number 04SC816).

### **Recommendation #3:**

Improve the approach to evaluate benefits. Implementation Date: July 1, 2008.

a. Assess the true value of benefits delivered to employees and use the results to modify benefit plans or recommend higher levels of cash compensation.

b. Integrate analysis of cash and benefits compensation to the degree possible.

May 2006 Status: In Progress

We agree in theory that assessing the total value of employee compensation is important. As such, the integration of cash and benefits remains in the Department's long-term total compensation strategic direction. However, we have not found a clear definition of "value" and a methodology to measure and compare this "value" to the market. In addition, the gap between the State's contribution rate for benefits and the market contribution rate and the historic under-funding of performance-based pay must be addressed before the value of the State's total compensation can be adequately assessed. With the Legislature's support, the State has made significant progress towards achieving 100% of prevailing contributions rates. However, the State remains a couple of years away from this goal. Even so, we have been able to lower co-payments and deductibles in our

plans for FY07. Once the goal is achieved, the focus can shift more towards enriching the plan designs and valuation of state health, life, and dental benefits.

**Recommendation #4:**

Ensure pay range midpoints are aligned with actual market pay rates by analyzing actual pay data to assess the competitiveness of state compensation levels and to recommend salary increase budgets. Implementation Date: July 1, 2007.

May 2006 Status: In Progress.

The Department analyzed actual average market pay in its 2005 and 2006 analyses of individual class adjustments and will continue to include that data in its decisions on which classes will have their pay adjusted. The Department's concern in using actual pay data when setting compensation levels is the inherent instability that results from this methodology. For example, following the Year 2000 Information Technology salaries dropped. The use of actual pay would have resulted in large salary increases followed by a salary decreases. This would take away from the stability that many employees enjoy within the state system. It is a policy decision if compensation should be adjusted with more volatility according to the market or if the fluctuations should be smoothed out. The Department continues to evaluate options on how to best balance actual pay data with pay range structure movement in the budget setting process due to the inherent instability of actual pay measurements alone.

**Recommendation #5:**

Reevaluate the strategy for managing the State's salary structure and consider factors in addition to market averages when setting pay ranges. Implementation Date: July 1, 2008.

May 2006 Status: In Progress.

The Department has established a strategy for managing the State's salary structure and adjustment practices. Ranges will be realigned on July 1, 2006, so they are at or below market range widths. The Department is comprehensively reexamining the salary structure, including pay range widths, in conjunction with developing an alternative method for moving employee salaries through the pay ranges.

**Recommendation #6:**

a. Use published compensation planning surveys to develop recommendations regarding salary structure adjustments. Implementation Date: Ongoing.

May 2006 Status: Implemented.

The Department utilized two planning surveys as sources in last year's (FY 2006-2007) annual compensation survey process. We continue to look for sound planning survey sources to be used as part of the annual survey process.

b. Benchmark 75% of jobs with Colorado and national survey data then survey one third of jobs each year.  
Implementation Date: Ongoing.

May 2006 Status: In Progress.

The Department continues to match as many State jobs as possible to the relevant labor market. We continue to believe annually surveying all matched jobs in this market is important in order to stay competitive. The Department continues to primarily use Colorado data because it is the most relevant source and represents our competitive labor market.

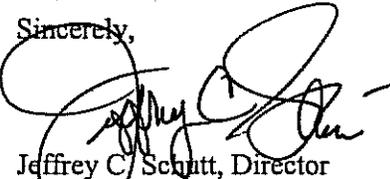
**Recommendation #7:**

Align the State's compensation program more closely with the market by reducing the number of occupational groups. Implementation Date: July 1, 2007.

May 2006 Status: In Progress.

Effective July 1, 2006, the Medical Occupational Group will be combined into the Health Care Services group reducing the number of occupational groups to eight. The Teacher occupational group is scheduled for a system maintenance study in fiscal year 2006-2007 with results to be effective July 2007.

Sincerely,



Jeffrey C. Schutt, Director  
Division of Human Resources

cc: Jeff Wells, Executive Director, Department of Personnel & Administration  
Jennifer Okes, CFO, Department of Personnel & Administration